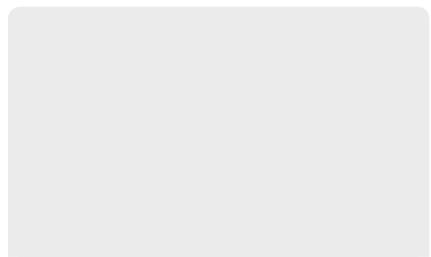
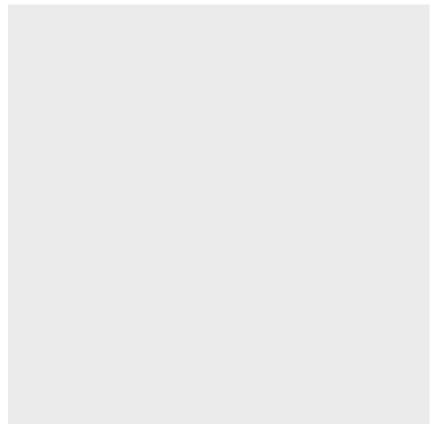


ULTRALIFE[®]
2019 ANNUAL REPORT



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TO OUR STOCKHOLDERS

For 2019, we were pleased to deliver our fifth consecutive year of profitable growth and our second highest year of profitability in our history, with revenues increasing 22%, operating profit increasing 12% and Adjusted EBITDA growing 11%. Our financial performance reflects continued execution of our revenue growth and diversification strategy in our commercial and government/defense end markets and the earnings power of our leveraged business model. We aggressively continued to pursue exciting new revenue opportunities from market and sales-reach expansion, new product development and customer partnerships, while also commencing deliveries on recent Communications Systems large U.S. defense awards. Our May 1, 2019 acquisition of Southwest Electronic Energy Corporation (“SWE”) was an important step in further diversifying our end markets with complementary, highly engineered, mission critical products supported by an experienced technical engineering and new product development team. We ended 2019 with a commercial to government/defense revenue split of 56%/44% compared to 47%/53% for 2018.

Battery & Energy Products (B&EP)

B&EP sales increased 19% to \$84.0 million in 2019, reflecting our acquisition of SWE in May 2019, partially offset by a 22% decline in 9-Volt battery sales, primarily in U.S. markets impacted by the tariffs imposed on China-sourced products, and the timing of large U.S. defense awards for our legacy military batteries. Since 2011, when we launched our commercial sales diversification strategy, our medical revenue has grown at a compounded annual growth rate of 30% when including the acquisition of Accutronics in January 2016. For 2019, our medical sales represented 25% of total segment sales, and we remain well positioned for future growth from solid customer partnerships with global OEM’s. During 2019, we continued to make progress on our initiative to expand our manufacturing capabilities and develop new products to serve Internet of Things applications for wireless, metering, and asset tracking devices as well as next generation 3-Volt smoke alarms. These new products will provide customers with world-class product performance, safety and a competitive price/value proposition as well as the supply chain proximity of U.S. manufactured product. We also made progress in our thionyl chloride upgrade project involving numerous process improvements which will help us expand our total market with newly identified commercial and industrial applications

Communications Systems

Communication Systems sales increased 37% to \$22.8 million primarily reflecting shipments under October 2018 contract awards to supply Vehicle Amplifier-Adaptors (“VAA”s) and Mounted Power Amplifiers to a large global defense contractor to support the U.S. Army’s Network Modernization initiatives, Leader Radio Program and other initiatives. During 2019, we remained embedded with our OEM and channel partners and have multiple ongoing initiatives underway supporting new product development, ongoing product support and new business development in furthering major opportunities serving the U.S. Department of Defense, where our technical expertise is helping to significantly upgrade platform capabilities.

Going Forward

For 2020, we will continue to invest in our growth initiatives supporting our commercial diversification strategy and our government/defense customers. The combination of our strong balance sheet, solid cash flow from operations and disciplined adherence to our business model by our management team affords us the opportunity to simultaneously pursue organic revenue growth through new product development, invest in strategic capital expenditures for competitive advantage, and seek out bolt-on acquisitions.

For Battery and Energy Products, our strategy for market and sales-reach expansion remains to diversify more into the global commercial markets and international government/defense markets, while continuing to build on our heritage serving the U.S. government/defense market. We intend to continue collaborating closely with customers in the development of new products and the evolution of existing products through multi-generational product plans, both of which will help them achieve their product performance goals and expand their competitive advantage. In addition, we are targeting project completion and revenue realization from several multi-year projects currently underway, including new public safety radio battery packs, our new 3-Volt product line, our new Thionyl Chloride product line and several other new thin cell, medical and subsea electrification battery packs. Overall activity levels from the various defense department contracting channels and global OEM primes remain high. We continue to make progress towards completing first article testing and production readiness for the next generation 5390 and 5790 primary batteries so that we are ready to start receiving delivery orders against the approximately \$72 million in multi-year Defense Logistics Agency IDIQ awards in hand.

For Communications Systems, we will continue to make new product development investments in technological advancements to our core amplifier, power supply and other ancillary components to meet the ongoing demands of the state-of-the-art radios being manufactured by our OEM partners. We will also continue to serve as their trusted system solution integrator whether it be in the form of VAA's utilizing several of our components in concert with an OEM's handheld radio, Tactical Operations Centers incorporating our components with an OEM's manpack radio, and/or an integrated mission critical server solution to provide "AI" compute capability for forward deployed troops.

In closing, I would like to thank our employees for their 2019 accomplishments and commitment toward executing our growth plans; our partners and customers for their continued collaboration with us; and our shareholders for their continued support.



Michael D. Popielec
President and Chief Executive Officer

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

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 CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation of organization)

16-1387013

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

2000 Technology Parkway Newark, New York 14513

(Address of principal executive offices) (Zip Code)

(315) 332-7100

(Registrant's telephone number, including area code:)

None

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.10 par value per share

(Title of each class)

ULBI

(Trading Symbol)

NASDAQ

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 every Interactive Data file required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

On June 30, 2019, the aggregate market value of the common stock held by non-affiliates as defined in Rule 405 under the Securities Act of 1933) of the registrant was approximately \$78,106,659 (in whole dollars) based upon the closing price for such common stock as reported on the NASDAQ Global Market on June 30, 2019.

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

As of February 3, 2020, the registrant had 15,870,688 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant’s definitive proxy statement relating to the Annual Meeting of Shareholders are specifically incorporated by reference in Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K, except for the equity plan information required by Item 12 as set forth herein.

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PART I

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; possible future declines in demand for the products that use our batteries or communications systems; the unique risks associated with our China operations; potential costs because of the warranties we supply with our products and services; potential disruptions in our supply of raw materials and components; our efforts to develop new commercial applications for our products; reduced U.S. and foreign military spending including the uncertainty associated with government budget approvals; possible breaches in security and other disruptions; variability in our quarterly and annual results and the price of our common stock; safety risks, including the risk of fire; our entrance into new end-markets which could lead to additional financial exposure; fluctuations in the price of oil and the resulting impact on the level of downhole drilling; our ability to retain top management and key personnel; our resources being overwhelmed by our growth prospects; our inability to comply with changes to the regulations for the shipment of our products; our customers' demand falling short of volume expectations in our supply agreements; possible impairments of our goodwill and other intangible assets; negative publicity of Lithium-ion batteries; our exposure to foreign currency fluctuations; 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; our ability to utilize our net operating loss carryforwards; 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 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.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity and developments in the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained herein. In addition, even if our results of operations, financial condition and liquidity and the development of the industries in which we operate are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statements that we make herein speak only as of the date of those statements, and we undertake no obligation to update those statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data. When used in this report, the words "anticipate", "believe", "estimate", "plan", "intend", "foresee", "may", "could", "will", "likely" or "expect" or words of similar import are intended to identify some, but not all of, such forward-looking statements. For further discussion of certain of the matters described above and other risks and uncertainties, see "Risk Factors" in Item 1A of this Annual Report on Form 10-K.

As used in this Form 10-K Annual Report, unless otherwise indicated, the terms "the Company", "we", "our" and "us" refer to Ultralife Corporation ("Ultralife") and includes our wholly-owned subsidiaries, ABLE New Energy Co., Limited and its wholly-owned subsidiary ABLE New Energy Co., Ltd; Ultralife UK LTD and its wholly-owned subsidiary, Accutronics Ltd; Ultralife Batteries (UK) Ltd.; Southwest Electronic Energy Corporation and its wholly-owned subsidiary, CLB, INC.; and our majority-owned joint venture Ultralife Batteries India Private Limited.

Dollar amounts throughout this Form 10-K Annual Report are presented in thousands of dollars, except for per share amounts.

ITEM 1. BUSINESS

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™, SWE Southwest Electronic Energy Group™, SWE DRILL-DATA™, and SWE SEASAFE™ 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. (See Note 11 in the notes to consolidated financial statements.)

Our website address is www.ultralifecorporation.com. We make available free of charge via a hyperlink on our website (see Investor Relations link on the website) our annual reports on Form 10-K, proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports and statements as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (“SEC”). We will provide copies of these reports upon written request to the attention of Philip A. Fain, CFO, Treasurer and Secretary, Ultralife Corporation, 2000 Technology Parkway, Newark, New York, 14513. Our filings with the SEC are also available through the SEC website at www.sec.gov or at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calling 1-800-SEC-0330.

Battery & Energy Products

We manufacture and/or market a family of Lithium Manganese Dioxide (Li-MnO₂), Lithium Manganese Dioxide Carbon Monofluoride (Li-CFx/MnO₂) hybrid and Lithium Thionyl Chloride (Li-SOCl₂) non-rechargeable batteries including 9-volt, HiRate® cylindrical, ThinCell®, and other form factors. Applications for our 9-volt batteries include: smoke alarms, wireless security systems and intensive care monitors, among many other devices. Our HiRate® and ThinCell® Lithium non-rechargeable batteries are sold primarily to the military and to OEMs in industrial markets for use in a variety of applications including radios, emergency radio beacons, search and rescue transponders, pipeline inspection gauges, portable medical devices and other specialty instruments and applications. Military applications for our non-rechargeable HiRate® batteries include: manpack and survival radios, night vision devices, targeting devices, chemical agent monitors and thermal imaging equipment. Our Lithium Thionyl Chloride batteries, sold under our ABLE and Ultralife brands as well as a private label brand, are used in a variety of applications including utility meters, wireless security devices, electronic meters, automotive electronics and geothermal devices. We believe that the chemistry of Lithium batteries provides significant advantages over other currently available non-rechargeable battery technologies. These advantages include: higher energy density, lighter weight, longer operating time, longer shelf life and a wider operating temperature range. Our non-rechargeable batteries also have relatively flat voltage profiles, which provide stable power. Conventional non-rechargeable batteries, such as alkaline batteries, have sloping voltage profiles that result in decreasing power output during discharge. While the price of our Lithium batteries is generally higher than alkaline batteries, the increased energy per unit of weight and volume of our Lithium batteries allow for longer operating times and less frequent battery replacements for our targeted applications.

We believe that our ability to design and produce lightweight, high-energy Lithium ion and Nickel Metal Hydride (NiMH) rechargeable batteries and charging systems in a variety of custom sizes, shapes, and thicknesses offers substantial benefits to our customers. We market Lithium ion and NiMH rechargeable batteries comprising cells manufactured by qualified cell manufacturers. Our rechargeable products can be used in a wide variety of applications including communications, medical and other portable electronic devices.

Within this segment, we also seek to fund the development of new products that we hope will advance our technologies through contracts with both government agencies and private sector third parties.

We continue to be awarded development contracts resulting in intellectual property that we believe will enhance our efforts to commercialize new products that we develop. Revenues in this segment that pertain to product development may vary widely each year, depending upon the quantity and size of contracts awarded.

Revenues for this segment for the year ended December 31, 2019 were \$83,996 and segment contribution (gross profit) was \$22,813.

Communications Systems

Under our McDowell Research and AMTI brands, we design and manufacture a line of communications systems and accessories to support military communications requirements. These systems include RF amplifiers, power supplies, power cables, connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems and integrated communication systems for fixed or vehicle applications such as vehicle amplifier-adaptors (“VAA”) for multiple programs. These programs include Vehicle Installed Power Enhanced Rifleman Appliqué (“VIPER”) systems, U.S. Army Leader Radio Program, U.S. Army’s Security Force Assistance Brigades (SFABs) and SATCOM systems. All systems are packaged to meet specific customer needs in rugged enclosures to allow for their use in extreme environments. We market these products to all branches of the U.S. military and foreign defense organizations that we are permitted to sell our products to, as well as, U.S. and international prime defense contractors.

Revenues for this segment for the year ended December 31, 2019 were \$22,799 and segment contribution (gross profit) was \$8,352.

Corporate

We allocate revenues and cost of sales between the above operating segments. The balance of income and expense, including but not limited to research and development expenses, and selling, general and administrative expenses, are reported as Corporate operating expenses.

Corporate had no revenues for the year ended December 31, 2019 and our Corporate operating expenses for the year ended December 31, 2019 were \$23,797.

See Management’s Discussion and Analysis of Financial Condition and Results of Operations and the 2019 Consolidated Financial Statements and Notes thereto contained in this Annual Report on Form 10-K for additional information on the expenses referred to above. For information relating to total assets by segment, revenues for the last two years by segment, and contribution by segment for the last two years, see Note 11 in the notes to consolidated financial statements.

History

Ultralife was formed as a Delaware corporation in December 1990. In March 1991, we acquired certain technology and assets from Eastman Kodak Company (“Kodak”) relating to its 9-volt Lithium Manganese Dioxide non-rechargeable battery. In December 1992, we completed our initial public offering and became listed on NASDAQ.

In May 2006, we acquired ABLE New Energy Co., Ltd. (“ABLE”), an established manufacturer of Lithium batteries located in Shenzhen, China, which broadened our product offering, including a wide range of Lithium Thionyl Chloride and Lithium Manganese batteries, and provided additional exposure to new consumer markets.

In July 2006, we finalized the acquisition of substantially all the assets of McDowell Research, Ltd. (“McDowell”), a manufacturer of military communications accessories located originally in Waco, Texas. This acquisition expanded our channels into the military communications area and strengthened our presence in global defense markets. During the second half of 2007, the operations of the Waco, Texas facility were relocated to our Newark, New York facility. In January 2012, we relocated these operations to our Virginia Beach, Virginia facility in order to gain operational efficiencies.

In March 2008, we formed a joint venture, named Ultralife Batteries India Private Limited (“India JV”), with our distributor partner in India. The India JV assembles Ultralife power solution products and manages local sales and marketing activities, serving commercial, government and defense customers throughout India. We have invested cash into the India JV, as consideration for our 51% ownership stake in the India JV.

In March 2009, we acquired the tactical communications products business of Science Applications International Corporation. The tactical communications products business (“AMTI”) designs, develops and manufactures tactical communications products including: amplifiers, man-portable systems, cables, power solutions and ancillary communications equipment, which are sold by Ultralife under the brand name AMTI. The acquisition strengthened our communications systems business and provided us with direct entry into the handheld radio/amplifier market, complementing Ultralife’s communications systems offerings.

In January 2016, we acquired Accutronics Limited (“Accutronics”), a U.K. corporation based in Newcastle-under-Lyme, U.K., a leading independent designer and manufacturer of smart batteries and charger systems for high-performance, feature-laden portable and handheld electronic devices. With a portfolio encompassing custom battery design, development and manufacturing for OEM’s; standard smart batteries, chargers and accessories; and pre-engineered batteries and power solutions for specific applications, Accutronics primarily serves the portable medical device market throughout Europe. Medical applications include digital imaging, ventilators, anesthesia, endoscopy, patient monitoring, cardio pulmonary care, oxygen concentration and aspiration. We acquired Accutronics to advance our strategy of commercial revenue diversification, to expand our geographical penetration, and to achieve revenue growth from new product development. We are experiencing sales synergies between Accutronics and our existing commercial battery business as we cross-sell our existing products and the acquired Accutronics’ products to our respective customer bases.

On May 1, 2019, we acquired Southwest Electronic Energy Corporation, a Texas corporation (“SWE”), and a leading designer and manufacturer of high-performance smart battery systems and battery packs to customer specifications using lithium cells. SWE serves a variety of industrial markets, including oil & gas, remote monitoring, process control and marine, which demand uncompromised safety, service, reliability and quality. We acquired SWE as a bolt-on acquisition to further support our strategy of commercial revenue diversification by providing entry to the oil and gas exploration and production, and subsea electrification markets, which are currently unserved by us. Another key benefit includes obtaining a highly valuable technical team of battery pack and charger system engineers and technicians to add to our new product development-based revenue growth initiatives in our commercial end-markets particularly asset tracking, smart metering and other industrial applications.

Products, Services and Technology

Battery & Energy Products

A non-rechargeable battery is used until discharged and then replaced. The principal competing non-rechargeable battery technologies are Carbon zinc, alkaline and Lithium. We manufacture a range of non-rechargeable battery products based on Lithium Manganese Dioxide, Lithium Manganese Dioxide Carbon Monofluoride hybrid, and Lithium Thionyl Chloride technologies.

Non-Rechargeable Batteries

We believe that the chemistry of Lithium batteries provides significant advantages over currently available non-rechargeable battery technologies, which include: lighter weight, longer operating time, longer shelf life, and a wider operating temperature range. Our non-rechargeable batteries also have relatively flat voltage profiles, which provide stable power. Conventional non-rechargeable batteries, such as alkaline batteries, have sloping voltage profiles that result in decreasing power during discharge. While the prices for our Lithium batteries are generally higher than commercially available alkaline batteries produced by others, we believe that the increased energy per unit of weight and volume of our batteries will allow longer operating time and less frequent battery replacements for our targeted applications. As a result, we believe that our non-rechargeable batteries are priced competitively with other battery technologies on a price per unit of energy or volume basis.

Our non-rechargeable products include the following product configurations:

9-Volt Lithium Battery. Our 9-volt Lithium battery delivers a unique combination of the highest available energy density and stable voltage, which results in a longer operating life for the battery and, accordingly, fewer battery replacements. While our 9-volt battery price is generally higher than conventional 9-volt Carbon zinc and alkaline batteries, we believe the enhanced operating performance and decreased costs associated with battery replacement make our 9-volt battery more cost effective than conventional batteries on a cost per unit of energy or volume basis when used in a variety of applications.

We market our 9-volt Lithium batteries to OEM, distributor and retail markets including industrial electronics, safety and security, and medical. Typical applications include: smoke alarms, wireless alarm systems, bone growth stimulators, telemetry devices, blood analyzers, ambulatory infusion pumps and parking meters. A significant portion of the sales of our 9-volt battery is to major smoke alarm OEMs for use in their long-life smoke alarms. We also manufacture our 9-volt Lithium battery under private labels for a variety of companies. Additionally, we sell our 9-volt battery to the broader consumer market through national and regional retail chains and Internet retailers.

Our current 9-volt battery manufacturing capacity is adequate to meet forecasted customer demand over the next three years.

Cylindrical Batteries. Featuring high energy, wide temperature range, long shelf life and operating life, our cylindrical cells and batteries, based on Lithium Manganese Dioxide, Lithium Manganese Dioxide Carbon Monofluoride hybrid and Lithium Thionyl Chloride technologies, represent some of the most advanced Lithium power sources currently available. We market a wide range of cylindrical non-rechargeable Lithium cells and batteries in various sizes under both the Ultralife HiRate and ABLE brands. These include: D, C, 5/4 C, 1/2 AA, 2/3 A, CR123A and other sizes, which are sold individually as well as packaged into multi-cell battery packs, including our leading BA-5390 military battery, an alternative to the competing Li-SO₂ BA-5590 battery, and one of the most widely used battery types in the U.S. armed forces for portable applications. Our BA-5390 battery provides 50% to 100% more energy (mission time) than the BA-5590, and it is used in approximately 60 military applications. With the introduction of our Lithium Carbon Monofluoride hybrid chemistry, we now offer a D-cell that has 100% more energy than the competing Li-SO₂ D-cell.

We market our line of Lithium cells and batteries to the OEM market for commercial, defense, medical, asset tracking and search and rescue applications, among others. Significant commercial applications include oil & gas, pipeline inspection equipment, automatic re-closers and oceanographic and subsea devices. Asset tracking applications include RFID (Radio Frequency Identification) systems. Among the defense uses are manpack radios, night vision goggles, chemical agent monitors and thermal imaging equipment. Medical applications include: AED's (Automated External Defibrillators), infusion pumps and telemetry systems. Search and rescue applications include ELT's (Emergency Locator Transmitters) for aircraft and EPIRB's (Emergency Position Indicating Radio Beacons) for ships. Oil & gas applications include battery packs for downhole drilling applications such as Measurement While Drilling ("MWD") and Logging While Drilling ("LWD") and pipeline inspection.

Thin Cell Batteries. We manufacture a range of thin Lithium Manganese Dioxide batteries under the Thin Cell® brand. Thin Cell batteries are flat, lightweight batteries providing a unique combination of high energy, long shelf life, wide operating temperature range and very low profile. We are currently marketing these batteries to OEMs for applications such as displays, wearable medical devices, toll passes, theft detection systems, and RFID devices.

Rechargeable Batteries

In contrast to non-rechargeable batteries, after a rechargeable battery is discharged, it can be recharged and reused many times. Generally, discharge and recharge cycles can be repeated hundreds or thousands of times in rechargeable batteries depending on the technology of the battery. The achievable number of cycles (cycle life) varies among technologies and is an important competitive factor. All rechargeable batteries experience a small, but measurable, loss in energy with each cycle. The industry commonly reports cycle life in the number of cycles a battery can achieve until 80% of the battery's initial energy capacity remains. In the rechargeable battery market, the principal competing technologies are Nickel Cadmium, Nickel Metal Hydride and Lithium ion (including Lithium polymer) batteries. Rechargeable batteries are used in many applications, such as military radios, laptop computers, mobile telephones, portable medical devices, wearable devices and many other commercial, defense and consumer products.

Three important performance characteristics of a rechargeable battery are design flexibility, energy density and cycle life. Design flexibility refers to the ability of rechargeable batteries to be designed to fit a variety of shapes and sizes of battery compartments. Thin profile batteries with prismatic geometry provide the design flexibility to fit the battery compartments of today's electronic devices. Energy density refers to the total amount of electrical energy stored in a battery divided by the battery's weight and volume as measured in watt-hours per kilogram and watt-hours per liter, respectively. High energy density batteries generally are longer lasting power sources providing longer operating time and necessitating fewer battery recharges. High energy density and long achievable cycle life are important characteristics for comparing rechargeable battery technologies. Greater energy density will permit the use of batteries of a given weight or volume for a longer time period. Accordingly, greater energy density will enable the use of smaller and lighter batteries with energy comparable to those currently marketed. Lithium ion batteries, by the nature of their electrochemical properties, are capable of providing higher energy density than comparably sized batteries that utilize other chemistries and, therefore, tend to consume less volume and weight for a given energy content. Long achievable cycle life, particularly in combination with high energy density, is suitable for applications requiring frequent battery recharges, such as cellular telephones and laptop computers, and allows the user to charge and recharge many times before noticing a difference in performance. We believe that our lithium ion batteries generally have some of the highest energy density and longest cycle life available.

Lithium Ion Cells and Batteries. We market a variety of Lithium ion cells and rechargeable batteries comprising cells manufactured by qualified cell manufacturers. These products are used in a wide variety of applications including communications, medical and other portable electronic devices.

Battery Charging Systems and Accessories. To provide our customers with complete power system solutions, we offer a wide range of rugged military and commercial battery charging systems and accessories including smart chargers, multi-bay charging systems and a variety of cables.

Multi-Kilowatt Module. Our Multi-Kilowatt Module lithium ion battery system is a large format battery utilizable for energy storage, battery back-up, and remote power applications. This product is a direct replacement of 1.25 kWh and greater lead acid batteries in 24V or 48V applications. It can be connected in multiples to obtain higher-voltages and is capable of over 3,000 cycles while maintaining 80% of its capacity.

Technology Contracts. Our technology contract activities involve the development of new products or the enhancement of existing products through contracts with both government agencies and other private sector third parties.

Communications Systems

Under our McDowell Research and AMTI brands, we design and manufacture a line of communications systems and accessories to support military communications systems, including RF amplifiers, power supplies, power cables, connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems and integrated communication systems for fixed or vehicle applications such as vehicle amplifier-adaptors and SATCOM systems. We package all systems to meet specific customer needs in rugged enclosures to allow their use in extreme environments.

We offer a wide range of military communications systems and accessories designed to enhance and extend the operation of communications equipment such as vehicle-mounted, manpack and handheld transceivers. Our communications products include the following product configurations:

RF Amplifiers. Our RF amplifiers include: 20, 50 and 75-watt amplifiers and 20-watt accessories and kits. These amplifiers are used to extend the range of manpack and handheld tactical transceivers and can be used on mobile or fixed site applications.

Integrated Systems. Our integrated systems include: vehicle mounted systems; SATCOM systems; rugged, deployable case systems; multiband transceiver kits; enroute communications cases; and radio cases. These systems give communications operators everything that is needed to provide reliable links to support C4ISR (Command, Control, Communications, Computers and Information, Surveillance and Reconnaissance).

Power Systems. Our power systems include: universal AC/DC power supplies with battery backup for tactical manpack and handheld transceivers; ROVER™ power supplies; interoperable power adaptors and chargers; portable power systems and AC to DC power supplies, among many others. We can provide power supplies for virtually all tactical communications devices.

Communications and Electronics. Our communications and electronics services include the design, integration, and fielding of portable, mobile and fixed-site communications systems.

Sales and Marketing

We employ a staff of sales and marketing personnel in North America, Europe and Asia. We sell our products and services directly to commercial customers, including OEMs, as well as government and defense agencies in the U.S. and abroad and have contractual arrangements with sales agents who market our products on a commission basis in defined territories. Every effort is made to adjust future prices when and if possible, but the ability to adjust prices is generally based on market conditions.

We also distribute some of our products through domestic and international distributors and retailers. These sales are generated primarily from customer purchase orders. We have several long-term contracts with the U.S. government and other customers. These contracts do not commit the customers to specific purchase volumes, nor to specific timing of purchase order releases, and they include fixed price agreements over various periods of time. In general, we do not believe our sales are seasonal, although we may sometimes experience seasonality for some of our military products based on the timing of government fiscal budget expenditures.

A significant portion of our business comes from sales of products and services to the U.S. and foreign governments through various contracts. These contracts are subject to procurement laws and regulations that specify policies and procedures for acquiring goods and services. The regulations also contain guidelines for managing contracts after they are awarded, including conditions under which contracts may be terminated, in whole or in part, at the government's convenience or for default. Failure to comply with applicable procurement laws or regulations can result in civil, criminal or administrative proceedings involving fines, penalties, suspension of payments, or suspension or debarment from government contracting or subcontracting for a period of time. Even if a contract is awarded there is no guarantee that the government will order product under the contract.

We have two major customers, both large defense primary contractors, which comprised 14% and 12% of our total revenues in 2019, respectively, and 7% and 16% of our total revenues in 2018, respectively. There were no other customers that comprised greater than 10% of our total revenues during these years.

In 2019, sales to U.S. and non-U.S. customers were approximately \$63,375 and \$43,420, respectively. In 2018, sales to U.S. and non-U.S. customers were approximately \$53,054 and \$34,136, respectively.

Battery & Energy Products

We target sales of our non-rechargeable products to manufacturers of security and safety equipment, medical devices, search and rescue equipment, specialty instruments, oil & gas downhole drilling and pipe inspection equipment, point of sale equipment and metering applications, as well as users of military equipment. Our strategy is to develop sales and marketing alliances with OEMs and governmental agencies that utilize our batteries in their products, commit to cooperative research and development or marketing programs, and recommend our products for design-in or replacement use in their products. We are addressing these markets through direct contact by our sales and technical personnel, use of sales agents and stocking distributors, manufacturing under private label, and promotional activities.

We seek to capture a significant market share for our products within our targeted OEM markets, which we believe, if successful will result in increased product awareness and sales at the end-user or consumer level. We are also selling our 9-volt battery to the consumer market through retail distribution channels. Most military procurements are done directly by the specific government organizations requiring products, based on a competitive bidding process. Additionally, we are typically required to successfully meet contractual specifications and to pass various qualifications testing for the products under contract by the military. An inability by us to pass these tests for our new products in a timely fashion could have a material adverse effect on future growth prospects. When a government contract is awarded, there is a government procedure that permits unsuccessful companies to formally protest the award if they believe they were unjustly treated in the government's bid evaluation process. A prolonged delay in the resolution of a protest, or a reversal of an award resulting from such a protest, could have a material adverse effect on our business, financial condition and results of operations.

We market our products to defense organizations in the U.S. and other countries, which has resulted in awards of significant contracts. In March 2017, we were awarded a production contract by the U. S. Government's Defense Logistics Agency for up to five years, with a maximum total potential of \$21,400, to provide an updated BA-5390 non-rechargeable Lithium Manganese Dioxide batteries to the U.S. military. While production deliveries are expected to begin in 2020, we continue to receive orders for our legacy BA-5390 batteries from the Defense Logistics Agency. In December 2019, we received a \$4,869 contract from the Defense Logistics Agency to ship our legacy BA-5390 batteries in 2020. In September 2019, we were awarded a production contract from the Defense Logistics Agency for up to five years, with a maximum value of \$14,422, to provide our BA-5368 batteries. In January 2018, we received a \$3,348 contract from the Defense Logistics Agency to ship our legacy BA-5390 batteries within one hundred ninety days of the contract date. In October 2017, we were awarded a production contract by the Defense Logistics Agency for five years, with a maximum potential of \$49,800, to provide our hybrid lithium manganese dioxide/carbon monofluoride (CFx) non-rechargeable BA-5790 and BA-5795 batteries. Manufacturing and production deliveries under this award are expected to begin in 2020.

We target sales of our Lithium ion rechargeable batteries and charging systems to OEM customers, as well as distributors and resellers focused on our target markets. We respond to RFPs to design products for OEMs, and believe that our design capabilities, product characteristics and solution integration will drive OEMs to incorporate our batteries into their product offerings, resulting in revenue growth opportunities for us.

We continue to expand our marketing activities as part of our strategic plan, a comprehensive forward-looking document which sets forth our strategic growth plans, tactical actions and financial projections over a rolling three-year period, to increase sales of our rechargeable products for commercial, standby, defense and communications applications, as well as hand-held devices,

wearable devices and other electronic portable equipment. A key part of this expansion includes increasing our design and assembly capabilities as well as building our network of distributors and value-added distributors throughout the world.

At December 31, 2019 and 2018, our backlog related to Battery & Energy Products was approximately \$35,700 and \$29,300 respectively. The 22% year-over-year increase in our Battery & Energy Products backlog at December 31, 2019 primarily resulted from the December 2019 legacy BA-5390 delivery contract received from the Defense Logistics Agency and the inclusion of SWE which was acquired on May 1, 2019. The 2019 year-end backlog is related to orders that are expected to ship throughout 2020 and does not include future shipments under the indefinite delivery/indefinite quantity Defense Logistic Awards for our BA-5390 batteries (\$21,400) and BA-5790/BA-5795 batteries (\$49,800).

Communications Systems

We target sales of our communications systems, which include power solutions and accessories to support communications systems such as RF amplifiers, power supplies, power cables, connector assemblies, amplified speakers, equipment mounts, case equipment and integrated communication systems, to military OEMs and U.S. and allied foreign militaries. We sell our products directly and through authorized distributors to OEMs and to defense contractors and U.S. and foreign militaries in the U.S. and internationally. We market our products to defense organizations and OEMs in the U.S. and internationally.

At December 31, 2019 and 2018, our backlog related to Communications Systems orders was approximately \$6,800 and \$21,700, respectively. The 69% decrease in our Communications Systems backlog at December 31, 2019 is primarily a result of 2019 shipments under two October 2018 contract awards totaling \$19,200 to supply our Vehicle Amplifier-Adaptors (“VAA”) and Mounted Power Amplifiers to a large global defense contractor to support the U.S. Army’s Network Modernization initiatives, Leader Radio Program and other opportunities. The 2019 backlog includes the remainder of the shipments under these contracts as well as a purchase order received on an October 2018 indefinite-delivery/indefinite quantity contract for vehicle communication kits for use by the U.S. Department of Defense. The 2019 year-end backlog is related to orders that are expected to ship throughout 2020.

Patents, Trade Secrets and Trademarks

We use our patented and unpatented proprietary information, know-how and trade secrets to maintain and develop our competitive position. Despite our efforts to protect our proprietary information, there can be no assurance that others will neither develop the same or similar information independently nor obtain access to our proprietary information, know-how and trade secrets. In addition, there can be no assurance that we would prevail if we asserted our intellectual property rights against third parties, or that third parties will not successfully assert infringement claims against us in the future. We believe, however, that our success depends more on the knowledge, ability, experience and technological expertise of our employees, than on the legal protection that our patents and other proprietary rights may or will afford.

We hold thirty-five patents issued in the U.S., four patents issued in South Korea, three patents issued in Canada, three patents issued in the European Union member states, two patents issued in the European Union, two patent issued in the United Kingdom, one patent issued in Australia, one patent issued in China, one patent issued in Hong Kong, one patent issued in India, one patent issued in Japan and one patent issued in Taiwan. We believe our patents protect technology that makes automated production more cost-effective and protects important competitive features of our products. However, we do not consider our business to be dependent on patent protection.

As part of our employment commencement process, our employees are required to enter into agreements providing for confidentiality of certain information and the assignment of rights to inventions made by them while employed by us. These agreements also contain certain noncompetition and non-solicitation provisions effective during the employment term and for varying periods thereafter depending on position and location. There can be no assurance that we will be able to enforce these agreements. All of our employees agree to abide by the terms of a Code of Ethics policy that provides for the confidentiality of certain information received during the course of their employment. Nevertheless, the enforceability of such agreements is subject to public policy limitations that vary from state to state and country by country so we cannot assure that they will be enforceable in accordance with their terms, if at all.

Trademarks are an important aspect of our business. We sell our products under a number of trademarks, which we own. The following are registered trademarks of ours: Ultralife®, Ultralife Thin Cell®, Ultralife HiRate®, Ultralife & design®, Ultra®, LithiumPower®, LithiumPower & Design®, SmartCircuit®, Smart Circuit®, Smart Circuit & design®, We Are Power®, AMTI®, ABLE™, ACCUTRONICS®, ACCUPRO®, ENTELLION®, Intelligent Power Vault®, McDowell Research®, RPS®, SWE Southwest Electronic Energy Group®, SWE DRILL-DATA®, and SWE SEASAFE®.

Manufacturing and Raw Materials

We manufacture our products from raw materials and component parts that we purchase. Our manufacturing facilities in Newark, New York are ISO 9001 and ISO 13485 certified. Our manufacturing facilities in Shenzhen, China are ISO 9001, ISO 1401 and ISO 13485 certified. Our manufacturing facility in Missouri City, Texas is ISO 9001 certified. Our manufacturing facilities in Virginia Beach, Virginia are ISO 9001 certified. Our manufacturing facilities in the United Kingdom are ISO 9001 and ISO 13485 certified.

We expect our future raw material purchases to fluctuate based on global demand of our products, our knowledge regarding the timing of customer orders, the related need to build inventory in anticipation of orders and actual shipment dates.

Battery & Energy Products

Our Newark, New York and Shenzhen, China facilities have the capacity to produce cylindrical cells, 9-volt batteries, and thin cells. Capacity, however, is also affected by demand for particular products, and product mix changes can produce bottlenecks in an individual operation, constraining overall capacity. We have acquired new machinery and equipment in areas where production bottlenecks have resulted in the past and we believe that we have sufficient capacity in these areas. We continually evaluate our requirements for additional capital equipment, and we believe that planned increases will be adequate to meet foreseeable customer demand.

Certain materials used in our products, other than rechargeable batteries, are available only from a single source or a limited number of sources. Additionally, we may elect to develop relationships with a single or limited number of sources for materials that are otherwise generally available. Although we believe that alternative sources are available to supply materials that could replace materials we use and that, if necessary, we would be able to redesign our products to make use of an alternative material, any interruption in our supply from any supplier that serves currently as our sole source could delay product shipments and adversely affect our financial performance and relationships with our customers. Although we have experienced interruptions of product deliveries by sole source suppliers, which have not had a material adverse effect on us, we cannot assure that they would not have an adverse effect on us in the future.

We believe that the raw materials and components utilized for our rechargeable batteries are readily available from many sources. Although we believe that alternative sources are available to supply materials and components that could replace materials or components we use, any interruption in our supply from any supplier that serves currently as our sole source could delay product shipments and adversely affect our financial performance and relationships with our customers.

Our Newark, New York facility has the capacity to produce significant volumes of rechargeable batteries. This operation generally assembles battery packs and chargers and is limited only by physical space and is not constrained by manufacturing equipment capacity which can accommodate significant additional volumes of product. Similarly, our China and United Kingdom facilities also have capacity to produce significant quantities of primary (non-rechargeable) and rechargeable batteries beyond current volumes and are not constrained by manufacturing equipment capacity. Our Missouri City, Texas facility has the capacity to produce significant quantities of primary battery packs and is not constrained by manufacturing equipment capacity.

The total carrying value of our Battery & Energy Products inventory, including raw materials, work in process and finished goods, amounted to approximately \$19,990 and \$14,007 as of December 31, 2019 and 2018, respectively. The year-over-year 43% increase primarily reflects our acquisition of SWE in May 2019 and the purchase of battery cells to service our backlog going into 2020. Management continuously monitors inventory levels in an effort to optimize such levels.

Communications Systems

In general, we believe that the raw materials and components utilized by us for our communications accessories and systems, including RF amplifiers, power supplies, cables, repeaters and integration kits, are available from many sources. Although we believe that alternative sources are available to supply materials and components that could replace materials or components we use, any interruption in our supply from any supplier that serves currently as our sole source could delay product shipments and adversely affect our financial performance and relationships with our customers.

Our Virginia Beach, Virginia facility has the capacity to produce communications products and systems. This operation generally assembles products and is limited only by physical space and is not constrained by manufacturing equipment capacity.

The total carrying value of our Communications Systems inventory, including raw materials, work in process and finished goods, amounted to approximately \$9,769 and \$8,836 as of December 31, 2019 and 2018, respectively. The year-over-year 11% increase primarily reflects components received in 2019 which will service our backlog going into 2020. Management continuously monitors inventory levels in an effort to optimize such levels.

Research and Development

We devote significant resources to research and development activities to improve the technological capabilities of our products and to design new products for customers' applications. We conduct our research and development in Newark, New York; Virginia Beach, Virginia; Tallahassee, Florida; Missouri City, Texas; Newcastle-under-Lyme, United Kingdom and Shenzhen, China. During 2019 and 2018, we expended \$8,025 and \$5,230, respectively, on research and development, including \$1,220 and \$722, respectively, on customer sponsored research and development activities, which are included in cost of goods sold. The year-over-year increase primarily reflects our acquisition of SWE in May 2019 and the timing of development and testing costs associated with our new products, including Vehicle Amplifier-Adaptor and power amplifier products for our Communications Systems business and new products for our Battery & Energy Products business. We expect that research and development expenditures in the future could increase by 10% or more over 2019 levels, based on current initiatives underway. These current initiatives include completing the development and testing of new battery and power solutions in our facilities in Newark, New York, Missouri City, Texas and Newcastle-under-Lyme, UK facilities; our Thionyl Chloride battery project in China and our integrated vehicle VAA systems for our Communications Systems business, and our expectation is that new product development will drive our growth. As in the past, we will continue to make funding decisions for our research and development efforts based upon strategic demand for customer applications.

Battery & Energy Products

We continue to internally develop non-rechargeable cells and batteries with the goal of broadening our product offering to our customers.

We continue to internally develop our rechargeable product portfolio, including batteries, battery management systems, cables and charging systems, as our customers' needs for portable power continue to grow and new technologies become available.

The U.S. government sponsors research and development programs, which Ultralife participates in, designed to improve the performance and safety of existing battery systems and to develop new battery systems.

Communications Systems

We continue to internally develop a variety of communications accessories and systems for the global defense market to meet the ever-changing demands of our customers.

Safety; Regulatory Matters; Environmental Considerations

Certain of the materials utilized in our batteries may pose safety problems if improperly used, stored, or handled. We have designed our batteries to minimize safety hazards both in manufacturing and use. Our batteries are subject to the regulations noted below, among others.

The transportation of non-rechargeable and rechargeable Lithium batteries is regulated in the U.S. by the Department of Transportation's Pipeline and Hazardous Materials Safety Administration ("PHMSA"), and internationally by the International Civil Aviation Organization ("ICAO") and corresponding International Air Transport Association ("IATA"), Dangerous Goods Regulations and the International Maritime Dangerous Goods Code ("IMDG"), and other country specific regulations. These regulations are based on the United Nations Recommendations on the Transport of Dangerous Goods Model Regulations and the United Nations Manual of Tests and Criteria. We currently ship our products pursuant to PHMSA, ICAO, IATA, IMDG and other country specific hazardous goods regulations. The regulations require companies to meet certain testing, packaging, labeling, marking and shipping paper specifications for safety reasons. We have not incurred, and do not expect to incur, any significant costs in order to comply with these regulations. We believe we comply with all current U.S. and international regulations for the shipment of our products, and we intend and expect to comply with any new regulations that are imposed. We have established our own testing facilities to ensure that we comply with these regulations. However, if we are unable to comply with any such new regulations, or if regulations are introduced that limit our or our customers' ability to transport our products in a cost-effective manner, this could have a material adverse effect on our business, financial condition and results of operations.

The European Union's Restriction of Hazardous Substances Directive ("the EU RoHS Directive") places restrictions on the use of certain hazardous substances in electrical and electronic equipment. All applicable products sold in the European Union market must pass RoHS compliance. While this directive does not apply to batteries and does not currently affect our defense products, should any changes occur in the directive that would affect our products, we intend and expect to comply with any new regulations that are imposed. However, we cannot assure that the cost of complying with such new regulations would not have a material adverse effect on us. Our commercial chargers are substantially in compliance with the EU RoHS Directive.

The European Union's Battery Directive "on batteries and accumulators and waste batteries and accumulators" (the "EU Battery Directive") is intended to cover all types of batteries regardless of their shape, volume, weight, material composition or use. It is aimed at reducing mercury, cadmium, lead and other metals in the environment by minimizing the use of these substances in batteries and by treating and re-using old batteries. The EU Battery Directive applies to all types of batteries except those used to protect European Member States' security, for military purposes, or sent into space. To achieve these objectives, the EU Battery Directive prohibits the marketing of some batteries containing hazardous substances. It establishes schemes aimed at high level of collection and recycling of batteries with quantified collection and recycling targets. The EU Battery Directive sets out minimum rules for producer responsibility and provisions with regard to labeling of batteries and their removability from equipment. The EU Battery Directive requires product markings for batteries and accumulators to provide information on capacity and to facilitate reuse and safe disposal. We currently ship our products pursuant to the requirements of the EU Battery Directive.

This EU Battery Directive requires that producers or importers of particular classes of electrical goods are financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. This directive assigns levels of responsibility to companies doing business in European Union markets based on their relative market share. This directive calls on each European Union member state to enact enabling legislation to implement the directive. As additional European Union member states pass enabling legislation our compliance system should be sufficient to meet such requirements. Our current estimated costs associated with our compliance with these directives based on our current market share are not significant. However, we continue to evaluate the impact of these directives as European Union member states implement guidance, and actual costs could differ from our current estimates.

China's "Management Methods for Restricted Use of Hazardous Substances in Electrical and Electronic Products" ("China RoHS 2") provides a regulatory framework including hazardous substance restrictions similar to those imposed by the EU RoHS Directive. China RoHS 2 applies to methods for the control and reduction of pollution and other public hazards to the environment caused during the production, sale, and import of electrical and electronic products ("EEP") in China. The regulatory framework of China RoHS 2, also now references the updated marking and labeling requirements under Standard SJ/T 11364-2014 ("Marking Standard"). The methods under China RoHS 2 only apply to EEP placed in the marketplace in China. We believe our compliance system is sufficient to meet our requirements under China RoHS 2. Our current estimated costs associated with our compliance with this regulation based on our current market share are not significant. However, we continue to evaluate the impact of this regulation, and actual costs could differ from our current estimates.

National, state and local laws impose various environmental controls on the manufacture, transportation, storage, use and disposal of batteries and of certain chemicals used in the manufacture of batteries. Although we believe that our operations are in material compliance with current environmental regulations, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities, costs and expenses. There can be no assurance that additional or modified regulations relating to the manufacture, transportation, storage, use and disposal of materials used to manufacture our batteries or restricting disposal of batteries will not be imposed or that such regulations will not have a material adverse effect on our business, financial condition and results of operations. In 2019 and 2018, we spent approximately \$188 and \$266, respectively, on environmental compliance, including costs to properly dispose of potentially hazardous waste.

Since non-rechargeable and rechargeable Lithium battery chemistries react adversely with water and water vapor, certain of our manufacturing processes must be performed in a controlled environment with low relative humidity. Our Newark, New York and Shenzhen, China facilities contain dry rooms or glove box equipment, as well as specialized air-drying equipment.

In addition to the environmental regulations previously described, our products are subject to U.S. and international laws and regulations governing international trade and exports including but not limited to the International Traffic in Arms Regulations (“ITAR”), the Export Administration Regulations (“EAR”) and trade sanctions against embargoed countries.

The ITAR is a set of United States government regulations that control the export and import of defense-related articles and services on the United States Munitions List. These regulations implement the provisions of the Arms Export Control Act, and are described in the Code of Federal Regulations. The Department of State Directorate of Defense Trade Controls interprets and enforces ITAR. Its goal is to safeguard U.S. national security and further U.S. foreign policy objectives.

The related EAR are enforced and interpreted by the Bureau of Industry and Security in the Commerce Department. The Department of Defense is also involved in the review and approval process. Inspections in support of import and export laws are performed at border crossings by Customs and Border Protection, an agency of the Department of Homeland Security.

Products and services developed and manufactured in our foreign locations are subject to the export and import controls of the nation in which the foreign location operates.

We believe we are in material compliance with these domestic and international export regulations. However, failure of compliance could have a material adverse effect on our business through possible fines, denial of export privileges, or loss of customers. Further, while we are not aware of any proposed changes to these regulations, any change in the scope or enforcement of export or import regulations or related legislation could have a material adverse effect on our business through increased costs of compliance or reduction in the international growth prospects available to us.

Based upon our current sales volumes, our future estimated costs associated with our compliance with ITAR, EAR, and the foreign export and import controls are not significant. However, we continue to evaluate the impact of these regulations, and actual costs could differ from our current estimates.

Battery & Energy Products

Our non-rechargeable battery products incorporate Lithium metal, which reacts with water and may cause fires if not handled properly. In the past, we have experienced fires that have temporarily interrupted certain manufacturing operations. We believe that we have adequate fire suppression systems and insurance, including business interruption insurance, to protect against the occurrence of fires and fire losses in our facilities.

Our 9-volt battery, among other sizes, is designed to conform to the dimensional and electrical standards of the American National Standards Institute. Authorized certification bodies such as Underwriters Laboratories, Intertek and SGS recognize several of our products.

Communications Systems

We are not currently aware of any regulatory requirements regarding the disposal of communications products.

Corporate

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 Section 1502 (the “Dodd-Frank Act”) requires public companies to disclose whether tantalum, tin, gold and tungsten, commonly known as “conflict minerals,” are necessary to the functionality or production of a product manufactured by a public company and if those elements originated from armed groups in the Democratic Republic of Congo or adjoining countries. To comply with the Dodd-Frank Act, as implemented by SEC rules, we are required to perform due diligence inquiries of our suppliers to determine whether or not our products contain such minerals and from which countries and source (smelter) the minerals were obtained. Our annual report on Form SD was filed by the statutory due date of June 1, 2019 for the 2018 calendar year and we continue to utilize appropriate measures with our suppliers in order to better ascertain the origin of the conflict minerals in our products.

Competition

Competition in both the battery and communications systems markets is, and is expected to remain, intense. The competition ranges from development stage companies to major domestic and international companies, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours. We compete against companies producing batteries as well as companies producing communications systems. We compete on the basis of design flexibility, performance, price, reliability and customer support. There can be no assurance that our technologies and products will not be rendered obsolete by developments in competing technologies or services that are currently under development or that may be developed in the future or that our competitors will not market competing products and services that obtain market acceptance more rapidly than ours.

Historically, although other entities may attempt to take advantage of the growth of the battery market, the Lithium battery cell industry has certain technological and economic barriers to entry. The development of technology, equipment and manufacturing techniques and the operation of a facility for the automated production of Lithium battery cells require large capital expenditures, which may deter new entrants from commencing production. Through our experience in battery cell manufacturing, we have also developed significant production and design expertise in the non-rechargeable battery market, which we believe would be difficult for new entrants to reproduce without substantial time and expense.

Employees

As of December 31, 2019, we employed a total of 573 permanent and temporary employees: 39 in research and development, 455 in production and 79 in sales and administration. None of our employees are represented by a labor union.

ITEM 1A. RISK FACTORS

Our business faces many risks. As such, prospective investors and shareholders should carefully consider and evaluate all of the risk factors described below as well as other factors discussed in this Annual Report on Form 10-K and in our other filings with the SEC. Any of these factors could adversely affect our business, financial condition and results of operations. Additional risks and uncertainties that are not currently known to us or that are not currently believed by us to be material may also harm our business operations and financial results. These risk factors may change from time to time and may be amended, supplemented, or superseded by updates to the risk factors contained in periodic reports on Form 10-Q and Form 10-K that we file with the SEC in the future.

A significant portion of our revenues is derived from certain key customers.

We have two customers, Thales Defense & Security, Inc. and L3Harris Technologies, both large defense primary contractors, which comprised 14% and 12% of our total revenues in 2019, respectively, and 7% and 16% of our total revenues in 2018, respectively. There were no other customers that comprised greater than 10% of our total revenues during these years. While we consider our relationship with our major customers to be good, the reduction, delay or cancellation of orders from these customers or their insolvency / inability to pay, for any reason, would reduce our revenue and operating income and could materially and adversely affect our business, operating results and financial condition in other ways.

A decline in demand for products using our batteries or communications systems could reduce demand for our products and/or our products could become obsolete resulting in lower revenues and profitability.

A substantial portion of our business depends on the continued demand for products using our batteries and communications systems sold by our customers, including original equipment manufacturers. Our success depends significantly upon the success of those customers' products in the marketplace. We are subject to many risks beyond our control that influence the success or failure of a particular product or service offered by a customer, including:

- competition faced by the customer in its particular industry,
- market acceptance of the customer's product or service,
- the engineering, sales, marketing and management capabilities of the customer,
- technical challenges unrelated to our technology or products faced by the customer in developing its products or services, and
- the financial and other resources of the customer.

The market for our products is characterized by changing technology and evolving industry standards, often resulting in product obsolescence or short product lifecycles. Although we believe that our products utilize state-of-the-art technology, there can be no assurance that competitors will not develop technologies or products that would render our technologies and products obsolete or less marketable. Many of the companies with which we compete with have substantially greater resources than we do, and some have the capacity and volume of business to be able to produce their products more efficiently than we can. In addition, these companies are developing or have developed products using a variety of technologies that are expected to compete with our technologies. Furthermore, we have noted an increase in foreign competition, especially in Asia, over the last several years which tend to compete on price in the battery industry. If these companies successfully market their products in a manner that renders our technologies obsolete, this would reduce our revenue and operating income and could have other material adverse effects on our business, financial condition and results of operations.

Our operations in China are subject to unique risks and uncertainties, including political shifts, tariffs and trade restrictions.

Our operating facility in China presents risks including, but not limited to, changes in local regulatory requirements, changes in labor laws, local wage laws, environmental regulations, taxes and operating licenses, compliance with U.S. regulatory requirements, including the Foreign Corrupt Practices Act, uncertainties as to application and interpretation of local laws and enforcement of contract and intellectual property rights, currency restrictions, currency exchange controls, fluctuations of currency, and currency revaluations, eminent domain claims, civil unrest, power outages, water shortages, labor shortages, labor disputes, increase in labor costs, rapid changes in government, economic and political policies, political or civil unrest, acts of terrorism, or the threat of boycotts, other civil disturbances, the continued impact of the imposition of tariffs by the U.S. Government on 9-Volt batteries that we manufacture in China as well as any retaliating trade policies or restrictions, and an outbreak of a contagious disease which may cause us or our suppliers and/or customers to temporarily suspend operations in the affected city. Any such disruptions could depress our earnings and have other material adverse effects on our business, financial condition and results of operations.

For example, during 2014 the landlord for our China facility informed us that the local village government in Shenzhen was exercising its right of eminent domain and that the lease for our facility would not be extended past its expiration in October 2014 due to zoning changes. Accordingly, we developed and executed a plan which we completed in 2015. Under the plan we found a replacement facility, entered into an initial five-year lease, negotiated compensation from the local government for our forfeited leasehold improvements and moving expenses, refurbished the replacement facility to meet our operational needs and relocated all of our operations and employees to the new facility. While this situation was handled on time, on plan and with no known disruption to our business, there can be no assurances that other situations posing such risks to the business will be successfully remediated to the same extent.

We may incur significant costs or liabilities to satisfy obligations under the terms of the warranties we supply and the contractual terms under which we sell our products and services.

With respect to our battery products, we typically offer warranties against any defects in manufacture or workmanship for a period up to one year from the date of purchase. With respect to our communications systems products, we now offer up to a three-year warranty. We provide for a reserve for these potential warranty expenses, which is based on an analysis of historical warranty issues. There is no assurance that future warranty claims will be consistent with past history, and in the event we experience a significant increase in warranty claims, there is no assurance that our reserves will be sufficient. Excessive warranty claims could have a material adverse effect on our business, financial condition and results of operations.

Our supply of raw materials and components could be disrupted or delayed due to business conditions, weather, or other factors out of our control, or the cost of those raw materials and components may materially increase.

Certain materials and components used in our products are available only from a single or a limited number of suppliers. As such, some materials and components could become in short supply resulting in limited availability and/or increased costs. Additionally, we may elect to develop relationships with a single or limited number of suppliers for materials and components that are otherwise generally available. Due to our supplying defense products to the U.S. government, we could receive a government preference to continue to obtain critical supplies to meet military production needs. However, if the government did not provide us with a government preference in such circumstances, the difficulty in obtaining supplies could have a material adverse effect on our business, financial condition and results of operations. We believe that alternative suppliers are available to supply materials and components that could replace materials and components currently used and that, if necessary, we would be able to redesign our products to make use of such alternatives. However, any interruption in the supply from any supplier that serves as a sole source could delay product shipments and have a material adverse effect on our business, financial condition and results of operations. We have experienced interruptions of product deliveries by sole source suppliers in the past, and we cannot guarantee that we will not experience a material interruption of deliveries from sole source suppliers in the future. Of particular note is the increased demand for Lithium-based cells from the electric vehicle manufacturers. While this has resulted in increased supply of such cells, we continue to monitor our supply chain closely to ensure that any potential supply interruptions are minimized.

With the improvement of the U.S. economy, our lead times for certain critical components from our suppliers could be extended resulting in shipping delays causing us to miss contractual timelines. Our internal purchasing process is focused on the current economic environment, and lead times are considered when placing orders from our vendors, but we cannot control the ability of our vendors or potential vendors to be qualified to meet our deadlines.

Additionally, we could face increasing pricing pressure from our suppliers dependent upon volume due to rising costs by these suppliers that could be passed on to us in higher prices for our raw materials, which could increase our cost of business, lower our margins and have other materially adverse effects on our business, financial condition and results of operations.

Our efforts to develop new products or new commercial applications for our products could be prolonged or could fail.

Although we develop certain products for new commercial applications, we cannot assure that these new products will be accepted due to the highly competitive nature of the industry. There are many new product and technology entrants into the markets into which we sell our products, and we must continually reassess the markets in which our products can be successful and seek to engage customers in those markets that will adopt our products for use in their products. In addition, these customers must be successful with their products in their markets for us to gain increased business. Increased competition, failure to gain customer acceptance of products, the introduction of competitive technologies or failure of our customers in their markets could have a further adverse effect on our business and reduce our revenue and operating income.

Reductions or delays in U.S. and foreign military spending could have a material adverse effect on our business, financial condition and results of operations.

A significant portion of our revenues is derived from contracts with the U.S. and foreign militaries or OEMs that supply the U.S. and foreign militaries. In the years ended December 31, 2019 and 2018, approximately \$47,100 or 44% and \$46,100 or 53%, respectively, of our revenues were comprised of sales made directly or indirectly to the U.S. and foreign militaries.

While significant gains have been made in commercial markets with our Battery & Energy Products business, we are still highly dependent on sales to U.S. Government customers. The amounts and percentages of our net revenue that were derived from sales to U.S. Government customers, including the Department of Defense, whether directly or through prime contractors, was approximately \$41,300 or 39% in 2019 and \$39,900 or 46% in 2018. Therefore, any significant disruption or deterioration of our relationship with the U.S. Government or any prime defense contractor could significantly reduce our revenue. Our competitors continuously engage in efforts to expand their business relationships with the U.S. Government and will continue these efforts in the future, and the U.S. Government may choose to use other contractors or suppliers.

Budget and appropriations decisions made by the U.S. Government, including possible future sequestration periods or other similar formulaic reductions in federal expenditures, are outside of our control and have long-term consequences for our business. A decline in U.S. military expenditures could result in a reduction in the military's demand for our products, which could have a material adverse effect on our business, financial condition and results of operations.

Breaches in security, whether cyber or physical, and other disruptions and/or our inability to prevent or respond to such breaches, could diminish our ability to generate revenues or contain costs, compromise our assets, and negatively impact our business in other ways.

We face certain security threats, including threats to our information technology infrastructure, attempts to gain access to our proprietary or classified information, and threats to physical and cyber security. Our information technology networks and related systems are critical to the operation of our business and essential to our ability to successfully perform day-to-day operations. The risks of a security breach, cyber-attack, cyber intrusion, or disruption, particularly through actions taken by computer hackers, foreign governments and cyber terrorists, have increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Although we have acquired and developed systems and processes designed to protect our proprietary or classified information, they may not be sufficient and the failure to prevent these types of events could disrupt our operations, require significant management attention and resources, and could negatively impact our reputation among our customers and the public, which could have a negative impact on our financial condition, and weaken our results of operations and liquidity. In 2017, we formed a cyber security executive management committee with oversight responsibility to minimize the risk of breaches. In 2018, the Committee with the assistance of outside security consultants completed a comprehensive Systems Security Plan ("SSP") and a Plan of Action Memorandum ("POAM") in compliance with the requirements of National Institute of Standards and Technology ("NIST") Special Publication 800-171, Protecting Controlled Unclassified Information in Nonfederal Information Systems and Organizations. In 2019, the Company made further progress in implementing many of the security measures in our SSP and POAM, including increasing the security awareness across our employee base. The Committee continues to review all key aspects of cyber security utilizing our outside security consultants to ensure a robust plan is in place and provides quarterly updates to our Board.

Our quarterly and annual results and the price of our common stock could fluctuate significantly.

Our future operating results may vary significantly from quarter-to-quarter and from year-to-year depending on factors such as the timing and shipment of significant orders, new product introductions, the transition of new products to higher-volume production, major project wins, U.S. and foreign government demand, delays in customer releases of purchase orders, delays in receiving raw materials from vendors, the mix of distribution channels through which we sell our products and services and general economic conditions. Frequently, a substantial portion of our revenue in each quarter is generated from orders booked and fulfilled during that quarter. As a result, revenue levels are difficult to predict for each quarter. If revenue results are below expectations, operating results will be adversely affected as we have a sizeable base of fixed overhead costs that do not fluctuate much with changes in revenue. Due to such variances in operating results, we have sometimes failed to meet, and in the future may not meet, market expectations regarding our future operating results.

In addition to the uncertainties of quarterly and annual operating results, future announcements concerning us or our competitors, including technological innovations or commercial products, litigation or public concerns as to the safety or commercial value of one or more of our products may cause the market price of our common stock to fluctuate substantially, all of which may be unrelated to our operating results.

Our entrance into new markets could lead to additional exposure to financial risk or increased liability, and our failure to enter into those markets could lead to negative customer perception or loss of business from existing customers.

Our new products supporting our commercial diversification strategy will likely result in the introduction of our products in new end markets that we have not participated in before. These new market opportunities may carry certain risks that we may not have experienced in the past or that we may be fully aware of. While we perform intensive due diligence in the launch of our products in new end markets and mitigate our risks with our contracts and insurance coverage, we may not be fully aware of the risks that may exist until we gain more experience in these markets.

Fluctuations in the price of oil & gas and the resulting volatility in the level of downhole drilling could have a material adverse effect on our business, financial condition and results of operations.

The pricing ups and downs typically encountered in the oil & gas industry, especially over the past few years, have placed financial strain not only on the producers, but also the companies that provide oilfield services and equipment to them. The cyclicity in this industry, whether driven by geopolitical developments; international tensions; supply and demand economics; the introduction of new global, national, and industry-specific regulations; and technology, is an ongoing reality. A significant downturn in the price of oil resulting in a decrease in downhole drilling could have an impact on our financial results. In response, we would expect to mitigate a portion, but not all of this risk, by seeking product/market diversification including subsea electrification.

We are subject to certain safety risks, including the risk of fire, inherent in the manufacture, use and transportation of Lithium batteries.

Due to the high energy inherent in Lithium batteries, our Lithium batteries can pose certain safety risks, including the risk of fire. We incorporate procedures in research, development, product design, manufacturing processes and the transportation of Lithium batteries that are intended to minimize safety risks, but we cannot assure that accidents will not occur or that our products will not be subject to recall for safety concerns. Although we currently carry insurance policies which cover loss of plant and machinery, leasehold improvements, inventory and business interruption, any accident, whether at the manufacturing facilities or from the use of the products, may result in significant production delays or claims for damages resulting from injuries or death. While we maintain what we believe to be sufficient casualty liability coverage to protect against such occurrences, these types of losses could reduce our available cash and our operating and net income and have other material adverse effects on our reputation, business, financial condition and results of operation.

The loss of top management and key personnel could significantly harm our business, and our ability to put in place a succession plan and recruit experienced, competent management is critical to the success of the business.

The continuity of our officers and executive team is vital to the successful implementation of our business model and growth strategy designed to deliver sustainable, consistent profitability. A top management priority has been the development and implementation of a formal written succession plan to mitigate the risks associated with the loss of senior executives. This formal succession plan is updated annually and presented to our Board of Directors. There is no guarantee that we will be successful in our efforts to effectively implement our succession plan.

Because of the specialized, technical nature of our business, we are highly dependent on certain members of our management, sales, engineering and technical staffs. The loss of these employees could have a material adverse effect on our business, financial condition and results of operations. Our ability to effectively pursue our business strategy will depend upon, among other factors, the successful retention of our key personnel, recruitment of additional highly skilled and experienced managerial, sales, engineering and technical personnel, and the integration of such personnel obtained through business acquisitions. We cannot assure that we will be able to retain or recruit this type of personnel. An inability to hire sufficient numbers of people or to find people with the desired skills could result in greater demands being placed on limited management resources which could delay or impede the execution of our business plans and have other material adverse effects on our business, financial condition and results of operations.

Our growth and expansion strategy could strain or overwhelm our resources.

Rapid growth of our business could significantly strain management, operations and technical resources. If we are successful in obtaining rapid market growth of our products, we will likely be required to deliver large volumes of quality products to customers on a timely basis at a reasonable cost. For example, demand for our new or existing products combined with our ability to penetrate new markets and geographies or secure a major project award, could strain the current capacity of our manufacturing facilities and require additional capital resources, equipment and time to meet the required demand. We cannot

assure, however, that our business will grow rapidly or that our efforts to expand manufacturing and quality control activities will be successful or that we will be able to satisfy commercial scale production requirements on a timely and cost-effective basis.

We also may be required to continue to improve our operations, management and financial systems and controls in order to remain competitive. The failure to manage growth and expansion effectively could have an adverse effect on our business, financial condition, and results of operations. We address these risks in the annual update of our three-year Strategic Plan which is presented to our Board of Directors.

Any inability to comply with changes to the regulations for the shipment of our products could limit our ability to transport our products to customers in a cost-effective manner and reduce our operating income and margins.

The transportation of Lithium batteries is regulated by the International Civil Aviation Organization (“ICAO”) and corresponding International Air Transport Association (“IATA”) Dangerous Goods Regulations and the International Maritime Dangerous Goods Code (“IMDG”) and in the U.S. by the Department of Transportation’s Pipeline and Hazardous Materials Safety Administration (“PHMSA”). These regulations are based on the United Nations Recommendations on the Transport of Dangerous Goods Model Regulations and the United Nations Manual of Tests and Criteria. We currently ship our products pursuant to ICAO, IATA and PHMSA hazardous goods regulations. These regulations require companies to meet certain testing, packaging, labeling and shipping specifications for safety reasons. We have not incurred, and do not expect to incur, any significant costs in order to comply with these regulations. We believe we comply with all current U.S. and international regulations for the shipment of our products, and we intend and expect to comply with any new regulations that are imposed. We have established our own testing facilities to ensure that we comply with these regulations. If we are unable to comply with the new regulations, however, or if regulations are introduced that limit our ability to transport our products to customers in a cost-effective manner, this could reduce our operating income and margins, and have other material adverse effects on our business, financial condition and results of operations.

Our customers may not meet the volume expectations in our supply agreements.

We sell most of our products and services through supply agreements and contracts. While supply agreements and contracts contain volume-based pricing based on expected volumes, we cannot assure that adjustments to reflect volume shortfalls will be made under current industry practices because pricing is rarely adjusted retroactively when contract volumes are not achieved. Every effort is made to adjust future prices accordingly, but our ability to adjust prices is generally based on market conditions and we may not be able to adjust prices in various circumstances.

Any impairment of goodwill and indefinite-lived intangible assets, and other intangible assets, could negatively impact our results of operations.

Our goodwill and indefinite-lived intangible assets are subject to an impairment test on an annual basis and are also tested whenever events and circumstances indicate that goodwill and other indefinite-lived intangible assets may be impaired. Any excess goodwill and/or indefinite-lived intangible assets value resulting from the impairment test must be written off in the period of determination. Intangible assets (other than goodwill and indefinite-lived intangible assets) are generally amortized over the useful life of such assets. In addition, from time to time, we may acquire or make an investment in a business which will require us to record goodwill based on the purchase price and the value of the acquired tangible and intangible assets. We may subsequently experience unforeseen issues with an acquisition which may adversely affect the anticipated results of the business or value of the intangible assets and trigger an evaluation of the recoverability of the recorded goodwill and intangible assets for such business. There is a possibility that our goodwill and other intangible assets could be impaired should there be a significant change in our internal forecasts and other assumptions we use in our impairment analysis. Future determinations of significant write-offs of goodwill or intangible assets as a result of an impairment test or accelerated amortization of other intangible assets could have a negative impact, although not affecting cash, on our results of operations.

Negative publicity of Lithium ion batteries may negatively impact the industries or markets we operate in.

We are unable to predict the impact, severity or duration of negative publicity related to fire/mishandling of Lithium ion batteries or the environmental impact of their disposal, and how it may impact the industries or markets we serve. Ongoing negative attention being given to Lithium ion batteries that are used in certain cellular phones or are integrated into the power systems of new commercial aircraft and electric motor vehicles may have an impact on the Lithium ion battery industry as a whole, regardless of the design or usage of those batteries. The residual effects of such events could have an adverse effect on our business, financial condition, and results of operations.

We are subject to foreign currency fluctuations.

We maintain manufacturing operations in North America, Europe and China, and we export products to various countries. We purchase materials and sell our products in foreign currencies, and therefore currency fluctuations may impact our pricing of products sold and materials purchased. Sales to non-U.S. customers make up a significant percentage of our total revenues. For example, the percentage of our business with customers outside of the U.S. slightly increased in 2019 to 41% compared to 39% in 2018. A future strengthening of the U.S. Dollar relative to our customers' currencies could make our products relatively more expensive to them, and may adversely affect our sales levels and reduce profitability. In addition, our United Kingdom and China subsidiaries maintain their books in local currency and the translation of the subsidiary financial statements into U.S. dollars for our consolidated financial statements could have an adverse effect on our consolidated financial results due to changes in local currency value relative to the U.S. dollar. With the rapid pace of geopolitical events, it is difficult at this time to assess any future impact to the Company, despite our proactive efforts to minimize the short-term risks of currency fluctuations. Accordingly, currency fluctuations could have a material adverse effect on our business, financial condition and results of operations by increasing our expenses and reducing our income. Finally, we maintain certain domestic U.S. cash balances denominated in foreign currencies, and the U.S. dollar equivalent of these balances fluctuates with changes in the foreign exchange rates between these currencies and the U.S. dollar.

A finding that our proprietary and intellectual property rights are not enforceable or invalid could allow our competitors and others to produce competing products based on our proprietary and intellectual property or limit our ability to continue to manufacture and market our products.

We believe our success depends more on the knowledge, ability, experience and technological expertise of our employees than on the legal protection of patents and other proprietary rights. However, we claim proprietary rights in various unpatented technologies, know-how, trade secrets and trademarks relating to our products and manufacturing processes. We cannot guarantee the degree of protection these various claims may or will afford, or that competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. We protect our proprietary rights in our products and operations through contractual obligations, including nondisclosure agreements with certain employees, customers, consultants and strategic partners. There can be no assurance as to the degree of protection these contractual measures may or will afford. We have had patents issued and have patent applications pending in the U.S. and elsewhere. We cannot assure (1) that patents will be issued from any of these pending applications, or that the claims allowed under any issued patents will be sufficiently broad to protect our technology, (2) that any patents issued to us will not be challenged, invalidated or circumvented, or (3) as to the degree or adequacy of protection any patents or patent applications may or will afford. Further, if we are found to be infringing third party patents, we cannot assure that we will not be subjected to significant damages or will be able to obtain licenses with respect to such patents on acceptable terms, if at all. The failure to obtain necessary licenses could delay product shipments or the introduction of new products, and costly attempts to design around such patents could foreclose the development, manufacture or sale of products.

We are subject to the contract rules and procedures of the U.S. and foreign governments. These rules and procedures create significant risks and uncertainties for us that are not usually present in contracts with private parties.

We continue to develop battery products and communications systems to meet the needs of the U.S. and foreign governments. We compete in solicitations for awards of contracts. The receipt of an award, however, does not always result in the immediate release of an order and does not guarantee in any way any given volume of orders. Any delay of solicitations or anticipated purchase orders by, or future failure of, the U.S. or foreign governments to purchase products manufactured by us could have a material adverse effect on our business, financial condition and results of operations. In these scenarios we are also typically required to successfully meet contractual specifications and to pass various qualification-testing for the products under contract. Our inability to pass these tests in a timely fashion, as well as meet delivery schedules for orders released under contract, could have a material adverse effect on our business, financial condition and results of operations.

Additionally, when a U.S. government contract is awarded, there is a government procedure that permits unsuccessful companies to formally protest such award if they believe they were unjustly treated in the evaluation process. As a result of these protests, the government is precluded from proceeding under these contracts until the protests are resolved. A prolonged delay in the resolution of a protest, or a reversal of an award resulting from such a protest could have material adverse effects on our business, financial condition and results of operations.

Our ability to use our net operating loss and tax credit carryforwards in the future may be limited, which could increase our tax liabilities and reduce our cash flow and net income.

At December 31, 2019, we had approximately \$58,400 of U.S. net operating loss carryforwards and \$1,907 of U.S. tax credit carryforward available to offset future taxable income, as well as net operating loss carryforwards of \$10,600 in the U.K. We

continually assess the carrying value of these assets based on the relevant accounting standards. At December 31, 2018, the Company recognized the release of the valuation allowance on our net operating loss carryforwards and other U.S. deferred tax assets on the basis of management's assessment. Based on the results of our assessment, management concluded that, due to projected profitability, it is more likely than not that our U.S. deferred tax assets will be fully realized. While we achieved profitable growth in 2019 for the fifth consecutive year, failure to achieve our business targets could result in future charges to our income tax provision if any of the net operating loss or tax credit carryforwards are not utilized. See discussion in Management's Discussion & Analysis on Page 26.

We could be adversely affected by violations of the US Foreign Corrupt Practices Act ("FCPA"), the U.K. Bribery Act or other anti-corruption laws.

The FCPA, U.K. Bribery Act and other anti-corruption laws generally prohibit companies and their intermediaries from making improper payments (to foreign officials and otherwise) and require companies to keep accurate books and records and maintain appropriate internal controls. Our training program and policies mandate compliance with such laws. We operate in some parts of the world that have experienced governmental corruption to some degree, and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. If we are found to be liable for violations of anti-corruption laws (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others, including employees of our third party partners or agents), we could suffer from civil and criminal penalties or other sanctions, incur significant internal investigation costs and suffer reputational harm.

Compliance with government regulations regarding the use of "conflict minerals" may result in increased costs and risks to the Company.

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Act"), the SEC has promulgated disclosure requirements regarding the use of certain minerals, which are mined from the Democratic Republic of Congo and adjoining countries, known as conflict minerals. The disclosure rules were effective in May 2014. We are required to perform due diligence inquiries of our supply chain and publicly disclose whether we manufacture (as defined in the Act) any products that contain conflict minerals and could incur significant costs related to implementing a process that will meet the mandates of the Act. Additionally, customers typically rely on us to provide critical data regarding the parts they purchase, including conflict mineral information. Our material sourcing is broad-based and multi-tiered, and we may not be able to easily verify the origins for conflict minerals used in the products we sell. We have many suppliers and each provides conflict mineral information in a different manner, if at all. Accordingly, because the supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins of conflict minerals used in our products. Additionally, customers may demand that the products they purchase be free of conflict minerals. This may limit the number of suppliers that can provide products in sufficient quantities to meet customer demand or at competitive prices.

The U.S. and foreign governments can audit our contracts with their respective defense and government agencies and, under certain circumstances, can adjust the economic terms, delivery schedule or other terms of those contracts.

A portion of our business comes from sales of products and services to the U.S. and foreign governments through various contracts. These contracts are subject to procurement laws and regulations that lay out policies and procedures for acquiring goods and services. The regulations also contain guidelines for managing contracts after they are awarded, including conditions under which contracts may be terminated, in whole or in part, at the government's convenience or for default. Failure to comply with the procurement laws or regulations can result in civil, criminal or administrative proceedings involving fines, penalties, suspension of payments, or suspension or disbarment from government contracting or subcontracting for a period of time.

We may incur significant costs because of known and unknown environmental matters.

National, state and local laws impose various environmental controls on the manufacture, transportation, storage, use and disposal of batteries and of certain chemicals used in the manufacture of batteries. We use and generate a variety of chemicals and other hazardous by-products in our manufacturing operations. These environmental laws govern, among other things, air emissions, wastewater discharges and the handling, storage and release of wastes and hazardous substances. Such laws and regulations can be complex and are subject to change. Although we believe that our operations are in substantial compliance with current environmental regulations and that, except as noted below, there are no environmental conditions that will require material expenditures for clean up at our present or former facilities or at facilities to which we have sent waste for disposal, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. There can be no assurance that additional or modified regulations relating to the manufacture, transportation, storage, use and disposal of materials used to manufacture our batteries or restricting disposal of batteries will not be imposed, or as to how these regulations will affect our customers or us. Such changes in regulations could

reduce our operating income and margins and have other material adverse effects on our business, financial condition and results of operations. We could incur substantial costs as a result of violations of environmental laws, including clean-up costs, fines and sanctions and third-party property damage or personal injury claims. Failure to comply with environmental requirements could also result in enforcement actions that materially limit or otherwise affect the operations of the facilities involved. Under certain environmental laws, a current or previous owner or operator of an environmentally contaminated site may be held liable for the entire cost of investigation, removal or remediation of hazardous materials at such property. This liability could result whether or not the owner or operator knew of, or was responsible for, the presence of any hazardous materials.

The EU RoHS Directive places restrictions on the use of certain hazardous substances in electrical and electronic equipment. All applicable products sold in the European Union market after July 1, 2006 must comply with EU RoHS Directive. While this directive does not apply to batteries and does not currently affect our defense products, should any changes occur in the directive that would affect our products, we intend and expect to comply with any new regulations that are imposed. Our commercial chargers are in compliance with this directive. Additional European Union directives, entitled the Waste Electrical and Electronic Equipment (“WEEE”) Directive and the Directive "on batteries and accumulators and waste batteries and accumulators", impose regulations affecting our non-defense products. These directives require that producers or importers of particular classes of electrical goods are financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. These directives assign levels of responsibility to companies doing business in European Union markets based on their relative market share. These directives call on each European Union member state to enact enabling legislation to implement the directive. As additional European Union member states pass enabling legislation our compliance system should be sufficient to meet such requirements. Our current estimated costs associated with our compliance with these directives based on our current market share are not significant. However, we continue to evaluate the impact of these directives as European Union member states implement guidance, and actual costs could differ from our current estimates.

The EU Battery Directive is intended to cover all types of batteries regardless of their shape, volume, weight, material composition or use. It is aimed at reducing mercury, cadmium, lead and other metals in the environment by minimizing the use of these substances in batteries and by treating and re-using old batteries. This directive applies to all types of batteries except those used to protect European Member States' security, for military purposes, or sent into space. To achieve these objectives, the EU Battery Directive prohibits the marketing of some batteries containing hazardous substances. It establishes processes aimed at high levels of collection and recycling of batteries with quantified collection and recycling targets. The directive sets out minimum rules for producer responsibility and provisions with regard to labeling of batteries and their removability from equipment. Product markings are required for batteries and accumulators to provide information on capacity and to facilitate reuse and safe disposal. We currently ship our products pursuant to the requirements of the directive. Our current estimated costs associated with our compliance with these directives based on our current market share are not significant. However, we continue to evaluate the impact of these directives as European Union member states implement guidance, and actual costs could differ from our current estimates.

The China RoHS 2 directive provides a regulatory framework, including similar hazardous substance restrictions as are imposed by the EU RoHS Directive, and applies to methods for the control and reduction of pollution and other public hazards to the environment caused during the production, sale, and import of EEP in China affecting a broad range of electronic products and parts. The regulatory framework of China RoHS 2, also now references the updated marking and labeling requirements under Standard SJ/T 11364-2014 (“Marking Standard”). The methods under China RoHS 2 only apply to EEP placed in the marketplace in China. We believe *our compliance system is sufficient to meet our requirements under China RoHS 2. Our current estimated costs associated with our compliance with this regulation based on our current market share are not significant. However, we continue to evaluate the impact of this regulation, and actual costs could differ from our current estimates.*

A number of domestic and international communities are prohibiting the landfill disposal of batteries and requiring companies to make provisions for product recycling. Of particular note are the EU Batteries Directive and the New York State Rechargeable Battery Recycling Law. We are committed to responsible product stewardship and ongoing compliance with these and future statutes and regulations. The compliance costs associated with current recycling statutes and regulations are not expected to be significant at this time. However, we continue to evaluate the impact of these regulations, and actual costs could differ from our current estimates and additional laws could be enacted by these and other states which entail greater costs of compliance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2019, we own two buildings in Newark, New York comprising approximately 250,000 square feet, which serve operations primarily in the Battery & Energy Products operating segment. Our corporate headquarters are located in our Newark, New York facility. We own one building in Missouri City, Texas comprising 69,000 square feet, which houses our recently acquired SWE business. We also lease approximately 97,000 square feet in two buildings on one campus in Shenzhen, China and approximately 25,000 square feet in six buildings in a contiguous area in Newcastle-under-Lyme, United Kingdom, which serve operations in the Battery & Energy Products operating segment. The Shenzhen, China campus location includes a dormitory facility. We lease approximately 32,500 square feet in a facility in Virginia Beach, Virginia, which serves operations in the Communications Systems operating segment. We also lease sales and administrative offices, as well as manufacturing and production facilities, in India, which serve operations in the Battery & Energy Products operating segment. Our research and development efforts for our Battery & Energy Products are conducted at our Newark, New York, Missouri City, Texas, Newcastle-under-Lyme, United Kingdom and Shenzhen, China facilities, while our research and development efforts for our Communications Systems products are conducted in our leased facilities in Tallahassee, Florida and in Virginia Beach, Virginia. We believe that our facilities are adequate and suitable for our current needs. However, we may require additional manufacturing and administrative space if demand for our products and services grows.

ITEM 3. LEGAL PROCEEDINGS

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 any such matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows. However, recognizing that legal matters are subject to inherent uncertainties, there exists the possibility that ultimate resolution of these matters could have a material adverse impact on the Company's financial position, results of operations or cash flows in the period in which any such effects are recorded. We are not aware of any such situations at this time.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Ultralife's common stock is listed on the NASDAQ Global Market under the symbol "ULBI."

Holder

As of February 6, 2020, there were approximately 3,200 registered holders of record of our common stock.

Purchases of Equity Securities by the Issuer

On October 31, 2018, the Company's Board of Directors approved a share repurchase program (the "Share Repurchase Program") which became effective on November 1, 2018 and under which the Company was authorized to repurchase up to 2.5 million shares of its outstanding common stock over a period not to exceed twelve months. The Share Repurchase Program concluded on October 31, 2019.

Share repurchases under this program were made in accordance with SEC Rule 10b-18 using a variety of methods, which included open market purchases and block trades in compliance with applicable insider trading and other securities laws and regulations. With the exception of repurchases made during stock trading black-out periods under 10b5-1 Plans, the timing, manner, price and amount of any repurchases were determined at the Company's discretion.

From the inception of the Share Repurchase Program on November 1, 2018 through its conclusion on October 31, 2019, we repurchased a total of 372,974 shares of our common stock for an aggregate consideration (including fees and commissions) of \$2,699. In 2018, we repurchased a total of 105,674 shares of our common stock for an aggregate consideration of \$742 (including fees and commissions). In 2019, we repurchased a total of 267,300 shares of our common stock for an aggregate consideration (including fees and commissions) of \$1,957.

The following table sets forth information regarding 2018 and 2019 purchases of our common stock under this program:

| | Total Number of Shares Purchased | Weighted Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Program |
|----------------|---|--|---|
| November 2018 | 29,691 | \$7.26 | 29,691 |
| December 2018 | 75,983 | \$6.89 | 75,983 |
| Total for 2018 | 105,674 | \$6.99 | 105,674 |
| January 2019 | 267,100 | \$7.29 | 267,100 |
| February 2019 | 200 | \$7.49 | 200 |
| Total for 2019 | 267,300 | \$7.29 | 267,300 |
| Total | 372,974 | \$7.21 | 372,974 |

Dividends

We have never declared or paid any cash dividends on our capital stock. Pursuant to our current credit facility, we are precluded from paying any dividends. We intend to retain earnings, if any, to finance future operations and expansion and, therefore, do not anticipate paying any cash dividends in the foreseeable future. Any future payment of dividends will depend upon our financial condition, capital requirements and earnings, as well as upon other factors that our Board of Directors may deem relevant.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, we are not required to provide this information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto appearing in Item 8 of this Form 10-K.

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. All figures presented below represent results from continuing operations, unless otherwise specified.

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, manufacture, install and maintain power and communications systems including rechargeable and non-rechargeable batteries, communications and electronics systems and accessories and custom engineered systems. 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 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 various other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories, such as cables. The Communications Systems segment includes RF amplifiers, power supplies, cable and connector assemblies, amplified speakers, equipment mounts, case equipment, 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.

We continually evaluate ways to grow, including opportunities to expand through mergers, acquisitions and joint ventures, which can broaden the scope of our products and services, expand operating and market opportunities and provide the ability to enter new lines of business synergistic with our portfolio of product offerings.

In January 2016, we acquired Accutronics Limited ("Accutronics"), a U.K. corporation based in Newcastle-under-Lyme, U.K., a leading independent designer and manufacturer of smart batteries and charger systems for high-performance, feature-laden portable and handheld electronic devices. We acquired Accutronics to advance our strategy of commercial revenue diversification, to expand our geographic penetration, and to achieve revenue growth from new product development.

On May 1, 2019, we acquired Southwest Electronic Energy Corporation, a Texas corporation ("SWE"), and a leading designer and manufacturer of high-performance smart battery systems and battery packs to customer specifications using lithium cells. SWE serves a variety of industrial markets, including oil & gas, remote monitoring, process control and marine, which demand uncompromised safety, service, reliability and quality. We acquired SWE as a bolt-on acquisition to further support our strategy of commercial revenue diversification by providing entry to the oil and gas exploration and production, and subsea electrification markets, which were previously unserved by us. Another key benefit includes obtaining a highly valuable technical team of battery pack and charger system engineers and technicians to add to our new product development-based revenue growth initiatives in our commercial end-markets particularly asset tracking, smart metering and other industrial applications.

Currently, we do not experience significant seasonal sales trends in any of our operating segments, although sales to the U.S. Defense Department and other international defense organizations can be sporadic based on the needs of those particular customers.

Consolidated revenues increased by \$19,605 or 22.5% to \$106,795 for the year ended December 31, 2019 compared to \$87,190 for the year ended December 31, 2018. During 2019, we experienced revenue growth of 19.1% for our Battery & Energy products business and 36.6% for our Communications Systems business. This 2019 performance reflected a

\$18,638 or 45.4% increase in sales to our commercial customers and a \$967 or 2.1% increase in sales to government and defense customers. The increase in our commercial business was due primarily to the acquisition of SWE in May 2019, partially offset by lower demand for 9-Volt batteries, especially in U.S. markets impacted from the tariffs imposed on China sourced products. The increase in government and defense sales primarily resulted from 2019 shipments under two October 2018 contract awards totaling \$19,200 for our Communications Systems business to supply Vehicle Amplifier-Adaptors (“VAA”) and Mounted Power Amplifiers to a large global defense contractor to support the U.S. Army’s Network Modernization initiatives, Leader Radio Program and other opportunities. This was partially offset by the 2018 fulfillment of a \$3,348 contract received in January 2018 from the U.S. Government’s Defense Logistics Agency to supply our legacy BA-5390 batteries and shipments to fulfill VIPER and SFAB awards in 2018. A follow-up order for \$4,869 of our legacy BA-5390 was received in December 2019 for shipment in 2020.

Gross margin slightly decreased to 29.2% for the year ended December 31, 2019 from 29.3% for the year ended December 31, 2018. The 10-basis point decrease was due primarily to costs incurred for the transition of new products to high volume production in 2019.

Operating expenses increased by \$4,769 or 25.1% to \$23,797 during the year ended December 31, 2019, compared to \$19,028 during the year ended December 31, 2018. This increase was due primarily to our acquisition of SWE in May 2019 and a \$817 or 18.1% increase in new product development spending for our core businesses. Operating expenses as a percentage of revenues increased 50 basis points from 21.8% in 2018 to 22.3% in 2019 due to our higher investment in new product development in 2019.

Income tax provision was \$1,457 for the year ended December 31, 2019 compared to an income tax benefit of \$18,386 for the year ended December 31, 2018. A non-cash tax benefit of \$18,652 was included in our 2018 results reflecting our release of the valuation allowance on our U.S. deferred tax assets as of December 31, 2018 based on management’s assessment of a number of factors including the expectation of future sustained profitability of our business sufficient to utilize our net operating losses and tax credits. The release of the valuation allowance in 2018 resulted in the use of the U.S. statutory tax rate in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) to report the tax provision on domestic generated income in 2019. Accordingly, the 2019 effective tax rate was 21.5%. Excluding the one-time tax benefit in 2018, and including the use of U.S. net operating loss carryforwards, the tax provisions for 2019 and 2018 would have been \$221 or a 3.3% effective rate and \$266 or a 4.0% effective rate, respectively, primarily reflecting income generated by our foreign operations.

Net income attributable to Ultralife was \$5,205 for 2019 and \$24,930 for 2018, which includes the non-cash tax benefit of \$18,652 reflecting the prior year release of the U.S. valuation allowance. Reported earnings per share for 2019 was \$0.33 per basic share (\$0.32 per diluted share), compared to \$1.57 per basic share (\$1.53 per diluted share) which includes \$0.40 from our operating performance plus \$1.17 related to the tax benefit. Recognizing the use of net operating losses and tax credits on U.S. generated income, Adjusted earnings per share for 2019 was \$0.41 per basic share (\$0.40 per diluted share). See the section “Adjusted Earnings Per Share” beginning on page 32 for a reconciliation of Adjusted EPS to EPS and to net income attributable to Ultralife.

Adjusted EBITDA, defined as net income attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, plus/minus expenses/income that we do not consider reflective of our continuing operations, amounted to \$11,007 for the year ended December 31, 2019 compared to \$9,902 for the prior period. See the section “Adjusted EBITDA” beginning on page 31 for a reconciliation of Adjusted EBITDA to Net Income Attributable to Ultralife.

The Company’s liquidity remains solid, with cash on hand of \$7,405, working capital of \$53,183 and a current ratio of 4.1. As of December 31, 2018, prior to the acquisition of SWE, the Company had cash on hand of \$25,934, working capital of \$51,774 and a current ratio of 4.4.

Having invested in engineering resources to support new product development, we are focused on capturing new opportunities and continued end-market diversification in 2020. These new opportunities combined with a Battery & Energy Products backlog that is higher than the beginning of 2019 give us confidence that we will extend our track record of profitable growth.

Results of Operations

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018:

| | Year Ended December 31 | | Increase/ (Decrease) |
|--|-------------------------------|-------------------|---------------------------------|
| | 2019 | 2018 | |
| Revenues: | | | |
| Battery & Energy Products | \$83,996 | \$70,497 | \$13,499 |
| Communications Systems | 22,799 | 16,693 | \$6,106 |
| Total | <u>106,795</u> | <u>87,190</u> | <u>19,605</u> |
| Cost of Products Sold: | | | |
| Battery & Energy Products | 61,183 | 50,923 | 10,260 |
| Communications Systems | 14,447 | 10,684 | 3,763 |
| Total | <u>75,630</u> | <u>61,607</u> | <u>14,023</u> |
| Gross Profit: | | | |
| Battery & Energy Products | 22,813 | 19,574 | 3,239 |
| Communications Systems | 8,352 | 6,009 | 2,343 |
| Total | <u>31,165</u> | <u>25,583</u> | <u>5,582</u> |
| Operating Expenses | <u>23,797</u> | <u>19,028</u> | <u>4,769</u> |
| Operating Income | 7,368 | 6,555 | 813 |
| Other Expense (Income), Net | 597 | (58) | 655 |
| Income Before Taxes | 6,771 | 6,613 | 158 |
| Income Tax Provision (Benefit) | 1,457 | (18,386) | 19,843 |
| Net Income | 5,314 | 24,999 | (19,685) |
| Net Income Attributable to Non-Controlling Interest | 109 | 69 | 40 |
| Net Income Attributable to Ultralife | <u>\$5,205</u> | <u>\$24,930</u> | <u>(\$19,725)</u> |
| Net Income Attributable to Ultralife Common Shares – Basic | <u>\$0.33</u> | <u>\$1.57</u> | <u>(\$1.24)</u> |
| Net Income Attributable to Ultralife Common Shares – Diluted | <u>\$0.32</u> | <u>\$1.53</u> | <u>(\$1.21)</u> |
| Weighted Average Shares Outstanding – Basic | <u>15,782,583</u> | <u>15,881,976</u> | <u>(99,393)</u> |
| Weighted Average Shares Outstanding – Diluted | <u>16,179,119</u> | <u>16,346,980</u> | <u>(167,861)</u> |

Revenues. Total revenues for the year ended December 31, 2019 amounted to \$106,795, an increase of \$19,605, or 22.5% from the \$87,190 reported for the year ended December 31, 2018.

Battery & Energy Products revenues increased \$13,499, or 19.1%, for the year ended December 31, 2019. Commercial revenues of this business increased 45.4% from 2018 and now comprise 71.1% of total segment sales versus 58.2% last year. The year-over-year increase primarily resulted from the acquisition of SWE in May 2019 partially offset by a 22.0% decline in 9-Volt sales, especially in U.S. markets impacted by the tariffs imposed on China sourced products. Government and defense sales of this business decreased 17.4% from 2018 and now comprise 28.9% of total segment sales versus 41.8% last year. The decrease primarily reflects the timing of orders including a \$3,348 contract received in January 2018 from the U.S. Government’s Defense Logistics Agency to supply our legacy BA-5390 batteries in 2018. A follow-up order for \$4,869 of our legacy BA-5390 was received in December 2019 for shipment in 2020.

Communications Systems revenues increased \$6,106 or 36.6% for the year ended December 31, 2019. The increase primarily resulted from 2019 shipments under two October 2018 contract awards totaling \$19,200 to supply Vehicle Amplifier-Adaptors (“VAA”) and Mounted Power Amplifiers to a large global defense contractor to support the U.S. Army’s Network Modernization initiatives, Leader Radio Program and other opportunities. Approximately 71% of the products provided for in these contracts were shipped in 2019, which exceeded shipments to fulfill VIPER and SFAB in 2018, with the remainder to be shipped in 2020.

Our order backlog at December 31, 2019 was \$42,558, a decrease of \$8,386 or 16.5% from the backlog at December 31, 2018, which was \$50,944. For our Battery & Energy Products business, the backlog increased \$6,489 or 22.2% to \$35,744 from \$29,255. The increase primarily resulted from the December 2019 legacy BA-5390 delivery contract received from the Defense Logistics Agency in December 2019 and the inclusion of the SWE backlog, which was acquired on May 1, 2019. The 2019 year-end backlog is related to orders that are expected to ship throughout 2020 and does not include future shipments under the indefinite delivery/indefinite quantity Defense Logistic Awards for our BA-5390 batteries (\$21,400) and BA-5790/BA-5795 batteries (\$49,800). For our Communications Systems business, the backlog decreased \$14,875 or 68.6% to \$6,814 from \$21,689. The decrease is primarily a result of 2019 shipments under two October 2018 contract awards totaling \$19,200 to supply our Vehicle Amplifier-Adaptors (“VAA”) and Mounted Power Amplifiers to a large global defense contractor to support the U.S. Army’s Network Modernization initiatives, Leader Radio Program and other opportunities. The 2019 backlog includes the remainder of the shipments under these contracts as well as a purchase order received on an October 2018 indefinite-delivery/indefinite quantity contract for vehicle communication kits for use by the U.S. Department of Defense. The 2019 year-end backlog is related to orders that are expected to ship throughout 2020.

Cost of Products Sold and Gross Profit. Cost of products sold for the year ended December 31, 2019 increased \$14,023 or 22.8% from the year ended December 31, 2018. Consolidated cost of products sold as a percentage of total revenue slightly increased from 70.7% for the year ended December 31, 2018 to 70.8% for the year ended December 31, 2019. Correspondingly, consolidated gross margin was 29.2% for the year ended December 31, 2019, compared with 29.3% for the year ended December 31, 2018. The 10-basis point decline in gross margin is due primarily to the transition of new products to high-volume production for both businesses.

For our Battery & Energy Products segment, the cost of products sold increased \$10,260 or 20.1%, from the year ended December 31, 2018. Battery & Energy Products’ gross profit for 2019 was \$22,813 or 27.2% of revenues, an increase of \$3,239 or 16.5% from gross profit of \$19,574, or 27.8% of revenues, for 2018. As a result, Battery & Energy Products’ gross margin as a percentage of revenues decreased for the year ended December 31, 2019 by 60 basis points from the prior year to 27.2%, reflecting costs associated with the transition of new products to higher volume production, including recently qualified military batteries and our new CR123A product.

For our Communications Systems segment, the cost of products sold increased by \$3,763 or 35.2% from the year ended December 31, 2018. Communications Systems’ gross profit for the year ended December 31, 2019 was \$8,352 or 36.6% of revenues, an increase of \$2,343 or 39.0% from gross profit of \$6,009 or 36.0% of revenues, for the year ended December 31, 2018. The 60 basis points increase in gross margin as a percentage of revenue during 2019 to 36.6% is primarily due to sales product mix, partially offset by the costs to transition new products to high volume production, including vehicle amplifier-adaptors and mounted power amplifier new products supporting the U.S. Army’s Network Modernization initiatives, Leader Radio Program and other opportunities.

Operating Expenses. Total operating expenses for the year ended December 31, 2019 increased \$4,769 or 25.1% from the year ended December 31, 2018. This increase was due primarily to our acquisition of SWE in May 2019 and a \$817 or 18.1% increase in new product development spending for our core businesses.

Overall, operating expenses as a percentage of revenues were 22.3% for the year ended December 31, 2019 compared to 21.8% for the comparable 2018 period. Amortization expense associated with intangible assets related to our acquisitions increased to \$525 for the year ended December 31, 2019 (\$395 in selling, general and administrative expenses and \$130 in research and development costs) from \$397 for the year ended December 31, 2018 (\$250 in selling, general and administrative expenses and \$147 in research and development costs). This increase was due to our acquisition of SWE in May 2019. Research and development costs were \$6,805 in 2019, an increase of \$2,297 or 51.0%, from \$4,508 reported in 2018. This increase was due primarily to our acquisition of SWE in May 2019 and a \$817 or 18.1% increase in new product development spending for both of our core businesses. Selling, general, and administrative expenses increased \$2,472 or 17.0%, to \$16,992 for the year ended December 31, 2019 from \$14,520 for the year ended December 31, 2018. The increase resulted from our acquisition of SWE. We continued tight control over discretionary spending across the Company.

Other Expense (Income). Other expense (income) totaled \$597 for the year ended December 31, 2019 compared to (\$58) for the year ended December 31, 2018. Interest and financing expense, net of interest income, increased \$476 to \$539 for 2019 from \$63 for 2018 due to interest expense on the financing for our acquisition of SWE in May 2019. Miscellaneous expense (income) amounted to \$58 for 2019 compared with (\$121) for 2018, primarily due to transactions impacted by foreign currency fluctuation between the U. S. Dollar, Pound Sterling and Euro.

Income Taxes. The income tax provision was \$1,457 for the year ended December 31, 2019 compared to an income tax benefit of \$18,386 for the year ended December 31, 2018. A non-cash tax benefit of \$18,652 was included in our 2018 results reflecting our release of the valuation allowance on our U.S. deferred tax assets as of December 31, 2018 based on management's assessment of a number of factors including the expectation of future sustained profitability of our business sufficient to utilize our domestic net operating losses and tax credits. The release of the valuation allowance in 2018 resulted in the use of the U.S. statutory tax rate in accordance with GAAP to report the tax provision on domestic generated income in 2019. Accordingly, the 2019 effective tax rate was 21.5%. Excluding the one-time tax benefit in 2018, and including the use of U.S. net operating loss carryforwards, the tax provisions for 2019 and 2018 would have been \$221 or a 3.3% effective rate and \$266 or a 4.0% effective rate, respectively, primarily reflecting income generated by our foreign operations.

As of December 31, 2018, the Company recognized the release of the valuation allowance on our net operating loss carryforwards and other U.S. deferred tax assets on the basis of management's assessment. In evaluating the realizability of our U.S. deferred tax assets, management considered all available evidence and concluded that positive factors, including further demonstration of sustained profitability in our core business and continued improvement in our ability to achieve internal earnings forecasts, outweighed all negative factors, including our history of operating losses (prior to 2015) and historical operating volatility in our core business. Our assessment also considered our expectation to utilize our domestic net operating loss carryforwards, which expire 2020 thru 2035, and our general business tax credits, which expire 2028 thru 2037. Based on the results of our assessment, management concluded that it is more likely than not that our U.S. deferred tax assets will be fully realized. As anticipated, domestic net operating loss carryforwards due to expire 2019 were fully utilized. As of December 31, 2019, management continues to believe it is more likely than not that our U.S. deferred tax assets will be fully realized, including our domestic net operating loss carryforwards of \$58,400 and general business tax credits of \$1,907. Reversal of the valuation allowance on our U.S. deferred tax assets indicates our positive sentiment about Ultralife's future profitability.

As of December 31, 2019 and 2018, for certain past operations in the U.K., we continue to report a valuation allowance for net operating loss carryforwards of \$10,600, nearly all of which can be carried forward indefinitely. Management has concluded that the realizability of the UK net operating loss carryforwards is not more likely than not, as utilization of the net operating losses may be limited due to the change in the past U.K. operation. These net operating losses in the U.K. cannot currently be used to reduce taxable income at our other U.K. subsidiary, Accutronics Ltd. There are no other deferred tax assets related to the past U.K. operations. As of December 31, 2019 and 2018, 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.

Net Income Attributable to Ultralife. Net income attributable to Ultralife was \$5,205 for 2019 and \$24,930 for 2018, which includes the non-cash tax benefit of \$18,652. Reported earnings per share for 2019 was \$0.33 per basic share (\$0.32 per diluted share), compared to \$1.57 per basic share (\$1.53 per diluted share) which includes \$0.40 from our operating performance plus \$1.17 related to the tax benefit. Recognizing the use of net operating losses and tax credits on U.S. generated income, Adjusted earnings per share for 2019 was \$0.41 per basic share (\$0.40 per diluted share). See the section "Adjusted Earnings Per Share" beginning on page 31 for a reconciliation of Adjusted EPS to EPS and to net income attributable to Ultralife. Average common shares outstanding used to compute diluted earnings per share decreased from 16,346,980 in the 2018 period to 16,179,119 in the 2019 period, due primarily to shares repurchased under the Company's Share Repurchase Program which commenced on November 1, 2018 and concluded on October 31, 2019.

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 attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, and stock-based compensation expense. 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' understanding of operating performance 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 amortization of intangible assets acquired through our business acquisitions (affecting relative amortization expense and provision (benefit) for income taxes), the age and book value of facilities and equipment (affecting relative depreciation expense) and one-time charges/benefits relating to income taxes. 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 attributable to Ultralife, the most comparable financial measure under GAAP.

We use Adjusted EBITDA in our decision-making processes relating to the operation of our business together with GAAP financial measures such as operating income. We believe that Adjusted EBITDA permits a comparative assessment of our operating performance, relative to our performance based on our 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 presenting 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 GAAP, and is not a measure of operating income, operating performance or liquidity presented in accordance with 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 attributable to Ultralife or other consolidated statement of operations data prepared in accordance with GAAP. Some of these limitations include, but are not limited to, the following:

- a. 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;
- b. 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;
- c. 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
- d. 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 GAAP results and using Adjusted EBITDA only on a supplemental basis. Neither current nor potential investors in our securities should rely on Adjusted EBITDA as a substitute for any GAAP measures and we encourage investors to review the following reconciliation of Adjusted EBITDA to net income attributable to Ultralife.

| | Years ended December 31, | |
|--|---------------------------------|----------------|
| | 2019 | 2018 |
| Net income attributable to Ultralife | \$5,205 | \$24,930 |
| Add: | | |
| Interest expense, net | 539 | 63 |
| Income tax provision (benefit) | 1,457 | (18,386) |
| Depreciation | 2,220 | 1,972 |
| Amortization of intangible assets & financing fees | 569 | 433 |
| Stock-based compensation expense | 753 | 890 |
| Non-cash purchase accounting adjustments | 264 | - |
| Adjusted EBIDTA | <u>\$11,007</u> | <u>\$9,902</u> |

Adjusted EPS

In evaluating our business, we consider and use Adjusted EPS, a non-GAAP financial measure, as a supplemental measure of our business performance in addition to GAAP financial measures. We define Adjusted EPS as net income attributable to Ultralife Corporation excluding the provision for deferred taxes divided by our weighted average shares outstanding on both a basic and diluted basis. We believe that this information is useful in providing period-to-period comparisons of our results by reflecting the portion of our tax provision that will be offset by our U.S. net operating loss carryforwards and other tax credits for the foreseeable future. We reconcile Adjusted EPS to EPS, the most comparable financial measure under GAAP. Neither current nor potential investors in our securities should rely on Adjusted EPS as a substitute for any GAAP measures and we encourage investors to review the following reconciliation of Adjusted EPS to EPS and net income attributable to Ultralife.

Adjusted EPS is calculated as follows for the periods presented:

| | Year Ended December 31 | | | | | |
|---|-------------------------------|----------------|---------------|----------------|----------------|--------------|
| | 2019 | | | 2018 | | |
| | Per | Per | | Per | Per | |
| | Basic | Diluted | Amount | Basic | Diluted | |
| | Share | Share | Amount | Share | Share | |
| Net income attributable to Ultralife Corporate | \$5,205 | \$.33 | \$.32 | \$24,930 | \$1.57 | \$1.53 |
| Deferred tax provision | 1,211 | .08 | .08 | (18,643) | (1.17) | (1.15) |
| Adjusted net income attributable to Ultralife Corporation | <u>\$6,416</u> | <u>\$.41</u> | <u>\$.40</u> | <u>\$6,287</u> | <u>\$.40</u> | <u>\$.38</u> |
| Weighted average shares outstanding | | 15,783 | 16,179 | | 15,882 | 16,347 |

Liquidity and Capital Resources

Cash Flows and General Business Matters

As of December 31, 2019, cash totaled \$7,405 (including restricted cash of \$270), a decrease of \$18,529, or 71.4%, from the beginning of the year primarily attributable to the Company's acquisition of SWE, strategic capital expenditures, increase in core inventory to complete shipments on a contract with a large global defense prime and the timing of collecting the accounts receivable relating to that contract. During the year ended December 31, 2019, we used \$2,970 of cash from operating activities as compared to generating \$10,886 of cash for the year ended December 31, 2018, a decrease of \$13,856. In 2019, cash used from operating activities was primarily a result of our net income of \$5,314 plus non-cash expenses of depreciation, amortization, and stock-based compensation totaling \$3,542 and deferred taxes of \$1,211, offset by a \$13,037 increase in working capital. The working capital increase reflects the increase in our core inventory to complete shipments on a contract with a large global defense prime and the timing of collecting the accounts receivable relating to that contract.

Cash used in investing activities increased from \$4,185 in 2018 to \$31,529 in 2019, attributable to our acquisition of SWE and increased capital expenditures. The year-over-year increase in capital expenditures was due primarily to strategic capital expenditures for improving and broadening our thionyl chloride products and automation equipment for cell production for our Battery and Energy Products business, and cyber-security improvements.

We generated \$16,124 in cash from financing activities during 2019, compared to \$1,168 from financing activities during 2018. In 2019, the Company drew down \$8,000 on its Term Loan Facility and \$10,182 under its Revolving Credit Facility primarily for the acquisition of SWE and paid \$866 on the Term Loan Facility and \$157 on debt placement costs (see *Debt Commitments*). In 2019 and 2018, we received \$930 and \$1,568, respectively, in funds from the issuance of common stock in connection with the exercise of stock options by our employees. In 2019 and 2018, we used \$8 and \$55, respectively, for tax withholdings related to stock-based awards. In 2019 and 2018, we spent \$1,957 and \$742 (including fees and commissions), respectively, to repurchase our common stock under the Company's Share Repurchase Program, which commenced on November 1, 2018 and ended on October 31, 2019. We also received \$397 in 2018 for a government grant awarded in the People's Republic of China to fund specified future technological research and development initiatives.

We continue to have significant U.S. net operating loss carryforwards available to utilize as an offset to taxable income. As of December 31, 2019, none of our U.S. net operating loss carryforwards have expired. See Note 7 to the consolidated financial statements for additional information.

As of December 31, 2019, we had made commitments to purchase approximately \$1,185 of production machinery and equipment.

Going forward, we expect positive operating cash flow to be adequate to meet obligations for both financing and investing.

Debt Commitments

On May 1, 2019, in connection with financing the SWE acquisition (see Note 2 to the consolidated financial statements), the Company drew down \$8,000 on its Term Loan Facility and \$6,782 under its Revolving Credit Facility. As of December 31, 2019, we had \$7,134 outstanding principal on the Term Loan Facility, of which \$1,372 is due to be paid over the next twelve months, and \$10,182 outstanding principal on the Revolving Credit Facility. As of December 31, 2019, the Company is in full compliance with its debt covenants under the Credit Facilities. Management believes that cash flow generated from future operations and remaining availability under our Revolving Credit Facility will be sufficient to meet our general funding requirements for the foreseeable future.

Other Matters

With respect to our battery products, we typically offer warranties against any defects due to product manufacture or workmanship for up to one year from the date of purchase. With respect to our communications accessory products, we typically offer a three-year warranty. We provide for a reserve for these potential warranty expenses, which is based on an analysis of historical warranty issues. There is no assurance that future warranty claims will be consistent with past history, and in the event we experience a significant increase in warranty claims, there is no assurance that our reserves would be sufficient. This could have a material adverse effect on our business, financial condition and results of operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The above discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our consolidated financial statements requires the application of accounting policies and the use of estimates. The accounting policies most important to the preparation of the consolidated financial statements and estimates that require management's most difficult, subjective or complex judgments are described below.

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-added 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.

Our contracts with customers generally have an original expected duration of less 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.

Valuation of Inventory:

Inventories are stated at the lower of cost or net realizable value, with cost determined using the first-in, first-out ("FIFO") method. Our inventory includes raw materials, work in process and finished goods. We recognize provisions for excess, obsolete or slow-moving inventory. Inherent in our estimates of net realizable value in determining inventory valuation are assumptions related to expectations of future demand for our products, product lifecycles, product support, technical obsolescence, regulatory requirements, and economic and market conditions. Estimates related to the valuation of inventory are susceptible to changes as the underlying assumptions are continuously evaluated. If our assumptions are adversely different from those estimated by management, inventory adjustments to reduce inventory values would result in an increase in inventory write-offs and a decrease in gross margins.

Impairment of Long-Lived Assets:

We regularly assess all of our long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable. This is accomplished by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. Fair value is estimated either through the assistance of an independent valuation or as the present value of expected discounted future cash flows. The discount rate used by us in our evaluation is an industry-based weighted average cost of capital. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment charge is recognized.

Goodwill and Other Indefinite Lived Intangible Assets:

The purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value. We do not amortize goodwill and intangible assets with indefinite lives, but instead evaluate these assets for impairment at least annually, or when events indicate that impairment exists. We amortize intangible assets that have definite lives so that the economic benefits of the intangible assets are recognized over their estimated useful life.

The quantitative impairment test for goodwill consists of a comparison of the fair value of the reporting unit with the carrying amount of the reporting unit to which it is assigned. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, a second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The impairment test for intangible assets with indefinite lives consists of a comparison of the fair value of the intangible assets with their carrying amounts. If the carrying value of the intangible assets exceeds the fair value, an impairment loss is recognized in an amount equal to that excess.

We conducted our annual impairment test for goodwill and other indefinite-lived intangible assets as of September 30, 2019 (the first day of our fiscal fourth quarter). We identified five goodwill reporting units. We performed a quantitative impairment test of goodwill using a discounted cash flow model and concluded that the fair value of each reporting unit exceeded its respective carrying value. To estimate the fair value of the reporting units, we used significant estimates and judgments, including an assessment of our future revenue prospects, revenue growth rates and profit margins based on past results, internal forecasts, industry and market based terminal growth rates, inputs to the weighted-average cost of capital used to discount future cash flows, excess working capital requirements and earnings multiples. We performed a quantitative impairment test of each of our four trademarks as of September 30, 2019 using the relief from royalty method and concluded that the fair value of each trademark exceeded its carrying value. Significant estimates and judgments included an assessment of our future revenue prospects, industry and market based terminal growth rates, inputs to the weighted-average cost of capital used to discount future cash flows, and royalty rates based on external market data. Based on the results of our quantitative impairment tests, and consideration of qualitative factors, no impairments were identified. Fair value exceeded carrying value for all reporting units and trademarks by more than 10%. There is a possibility that our goodwill and other intangible assets could be impaired in the future should there be a significant change in our internal forecasts and other assumptions we use in our impairment analysis.

Stock-Based Compensation:

We recognize compensation cost relating to share-based payment transactions in our financial statements. The cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award). We calculate implied volatility for stock options based on an average of historical volatility over the expected life of the awards. The computation of expected term is determined based on historical experience of similar awards, giving consideration to the contractual terms of the awards and the vesting period. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield in effect at the time of grant. Our awards are generally valued using the Black-Scholes method. If required, our market based awards are valued using a Monte Carlo simulation.

Income Taxes:

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Pursuant to ASC 740, the realizability of our deferred tax assets is evaluated based on all available evidence, both positive and negative, weighted based on objective verifiability. Our assessment of the realizability of our deferred tax assets is based on a number of factors including but not limited to the sustainability of earnings from our core business, the accuracy of our internal earnings forecasts for future periods, our history of operating losses, our historical operating volatility, and the general business climate. As a significant portion of our deferred tax assets is comprised of net operating loss carryforwards, our ability to utilize our net operating loss carryforwards (before expiration) is also an important factor considered in our assessment. A valuation allowance is recognized when, based on the results of our assessment, the realizability of deferred tax assets is not more likely than not.

As of December 31, 2018, the Company recognized the release of the valuation allowance on our net operating loss carryforwards and other U.S. deferred tax assets on the basis of management's assessment. In evaluating the realizability of our U.S. deferred tax assets, management considered all available evidence and concluded that positive factors, including further demonstration of sustained profitability in our core business and continued improvement in our ability to achieve internal earnings forecasts, outweighed all negative factors, including our history of operating losses (prior to 2015) and historical operating volatility in our core business. Our assessment also considered our expectation to utilize our domestic net operating loss carryforwards, which expire 2020 thru 2035, and our general business tax credits, which expire 2028 thru 2037. Based on the results of our assessment, management concluded that it is more likely than not that our U.S. deferred tax assets will be fully realized. As of December 31, 2019, our domestic net operating loss carryforwards and general business tax credits were \$58,400 and \$1,907, respectively.

As of December 31, 2019 and 2018, for certain past operations in the U.K., we continue to report a valuation allowance for net operating loss carryforwards of \$10,600, nearly all of which can be carried forward indefinitely. Management has concluded that the realizability of the U.K. net operating loss carryforwards is not more likely than not, as utilization of the net operating losses may be limited due to the change in the past U.K. operation. There are no other deferred tax assets related to the past U.K. operations. As of December 31, 2019 and 2018, 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.

Business Combinations:

We account for businesses acquired using the acquisition method of accounting. Under this method, all acquisition-related costs are expensed as incurred. The underlying net assets are recorded at their respective acquisition-date fair values. As part of this process, we identify and attribute values and estimated lives to property and equipment and intangible assets acquired. These determinations involve significant estimates and assumptions, including those with respect to future cash flows, discount rates and asset lives, and therefore require considerable judgment. These determinations affect the amount of depreciation and amortization expense recognized in future periods. The results of operations of acquired businesses are included in the consolidated statements of income and comprehensive income beginning on the respective acquisition date.

Warranties:

We generally offer standard warranties against product defects. We do not offer separate service-type warranties. We estimate future warranty costs to be incurred for product failure rates, material usage and service costs in the development of our warranty obligations. Estimated future costs and related reserves are based on actual past experience and are generally estimated as a percentage of sales over the warranty period.

Environmental Issues:

Environmental expenditures, if any, that relate to current operations, are generally expensed. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide this information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and schedules listed in Item 15(a)(1) are included in this Report beginning on page 40.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Ultralife Corporation

Opinions on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Ultralife Corporation (the Company) and its subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Southwest Electronic Energy Corporation (SWE) from its assessment of internal control over financial reporting as of December 31, 2019, because it was acquired by the Company in a purchase business combination in the second quarter of 2019. We have also excluded SWE from our audit of internal control over financial reporting. SWE is a wholly owned subsidiary whose total assets and revenue represent approximately 12% and 18%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2019.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Freed Maxick CPAs, P.C.

We have served as the Company's auditor since 2016.

Rochester, New York
February 6, 2020

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

ASSETS

| | December 31 | |
|--|--------------------|-------------|
| | 2019 | 2018 |
| Current Assets: | | |
| Cash | \$7,405 | \$25,934 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$324 and \$296, respectively | 30,106 | 16,015 |
| Inventories, net | 29,759 | 22,843 |
| Prepaid expenses and other current assets | 3,103 | 2,368 |
| Total current assets | 70,373 | 67,160 |
| Property, plant and equipment, net | 22,525 | 10,744 |
| Goodwill | 26,753 | 20,109 |
| Other intangible assets, net | 9,721 | 6,504 |
| Deferred income taxes, net | 13,222 | 15,444 |
| Other noncurrent assets | 1,963 | 887 |
| Total assets | \$144,557 | \$120,848 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|-----------|-----------|
| Current Liabilities: | | |
| Accounts payable | \$9,388 | \$9,919 |
| Current portion of long-term debt | 1,372 | - |
| Accrued compensation and related benefits | 1,655 | 1,494 |
| Accrued expenses and other current liabilities | 4,775 | 3,973 |
| Total current liabilities | 17,190 | 15,386 |
| Long-term debt | 15,780 | - |
| Deferred income taxes | 559 | 591 |
| Other noncurrent liabilities | 1,278 | 408 |
| Total liabilities | 34,807 | 16,385 |
| Commitments and contingencies (Note 6) | | |
| 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 – 20,268,050 shares and 20,053,335 shares, respectively; outstanding – 15,866,868 shares and 15,920,585 shares, respectively | 2,026 | 2,005 |
| Capital in excess of par value | 184,292 | 182,630 |
| Accumulated deficit | (52,830) | (58,035) |
| Accumulated other comprehensive loss | (2,531) | (2,786) |
| Treasury stock - at cost; 4,401,182 shares and 4,132,750 shares, respectively | (21,231) | (19,266) |
| Total Ultralife Corporation equity | 109,726 | 104,548 |
| Non-controlling interest | 24 | (85) |
| Total shareholders' equity | 109,750 | 104,463 |
| Total liabilities and shareholders' equity | \$144,557 | \$120,848 |

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

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Dollars in Thousands, Except Per Share Amounts)

| | Year ended December 31 | |
|--|------------------------|----------|
| | 2019 | 2018 |
| Revenues | \$106,795 | \$87,190 |
| Cost of products sold | 75,630 | 61,607 |
| Gross profit | 31,165 | 25,583 |
| Operating expenses: | | |
| Research and development | 6,805 | 4,508 |
| Selling, general and administrative | 16,992 | 14,520 |
| Total operating expenses | 23,797 | 19,028 |
| Operating income | 7,368 | 6,555 |
| Other expense (income): | | |
| Interest and financing expense | 539 | 63 |
| Miscellaneous | 58 | (121) |
| Income before income taxes | 6,771 | 6,613 |
| Income tax provision (benefit) | 1,457 | (18,386) |
| Net income | 5,314 | 24,999 |
| Net income attributable to non-controlling interest | 109 | 69 |
| Net income attributable to Ultralife Corporation | 5,205 | 24,930 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 255 | (1,175) |
| Comprehensive income attributable to Ultralife Corporation | \$5,460 | \$23,755 |
| Net income per share attributable to Ultralife Corporation common shareholders – Basic: | \$.33 | \$1.57 |
| Net income per share attributable to Ultralife Corporation common shareholders – Diluted: | \$.32 | \$1.53 |
| Weighted average shares outstanding – Basic | 15,783 | 15,882 |
| Weighted average shares outstanding – Diluted | 16,179 | 16,347 |

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

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in Thousands)

| | Common stock | | Capital in excess of par value | Accumulated other comprehensive income (loss) | Accumulated deficit | Treasury stock | Non- controlling interest | Total |
|--|---------------------|----------------|---|--|------------------------|-------------------|---------------------------------|------------------|
| | Number of shares | Amount | | | | | | |
| Balance – December 31, 2017 | 19,670,928 | \$1,966 | \$180,211 | \$(1,611) | \$(82,894) | \$(18,469) | \$(154) | \$79,049 |
| Cumulative effect adjustment (1) | | | | | (71) | | | (71) |
| Share repurchases | | | | | | (742) | | (742) |
| Stock option exercises | 382,407 | 39 | 1,529 | | | | | 1,568 |
| Tax withholdings on option exercises | | | | | | (55) | | (55) |
| Stock-based compensation - stock options | | | 817 | | | | | 817 |
| Stock-based compensation - restricted stock | | | 73 | | | | | 73 |
| Foreign currency translation adjustments | | | | (1,175) | | | | (1,175) |
| Net income | | | | | 24,930 | | 69 | 24,999 |
| Balance – December 31, 2018 | 20,053,335 | \$2,005 | \$182,630 | \$(2,786) | \$(58,035) | \$(19,266) | \$(85) | \$104,463 |
| Share repurchases | | | | | | (1,957) | | (1,957) |
| Stock option exercises | 208,881 | 21 | 909 | | | | | 930 |
| Stock-based compensation - stock options | | | 623 | | | | | 623 |
| Stock-based compensation - restricted stock | 5,834 | | 130 | | | | | 130 |
| Tax withholding on restricted shares | | | | | | (8) | | (8) |
| Foreign currency translation adjustments | | | | 255 | | | | 255 |
| Net income | | | | | 5,205 | | 109 | 5,314 |
| Balance – December 31, 2019 | <u>20,268,050</u> | <u>\$2,026</u> | <u>\$184,292</u> | <u>\$(2,531)</u> | <u>\$(52,830)</u> | <u>\$(21,231)</u> | <u>\$24</u> | <u>\$109,750</u> |

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

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

| | Year ended December 31 | |
|---|-------------------------------|--------------|
| | 2019 | 2018 |
| OPERATING ACTIVITIES: | | |
| Net income | \$5,314 | \$24,999 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation | 2,220 | 1,972 |
| Amortization of intangible assets | 525 | 397 |
| Amortization of financing fees | 44 | 36 |
| Stock-based compensation | 753 | 890 |
| Deferred income tax expense | 1,211 | (18,643) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (10,416) | (1,511) |
| Inventories, gross | (3,319) | 2,348 |
| Inventory reserves | 1,123 | 838 |
| Prepaid expenses and other assets | (1,575) | 373 |
| Income taxes receivable and payable | 25 | 9 |
| Accounts payable and other liabilities | 1,125 | (822) |
| Net cash (used in) provided by operating activities | (2,970) | 10,886 |
| INVESTING ACTIVITIES: | | |
| Purchase of SWE, net of cash acquired | (25,248) | - |
| Purchases of property, plant and equipment | (6,281) | (4,185) |
| Net cash used in investing activities | (31,529) | (4,185) |
| FINANCING ACTIVITIES: | | |
| Proceeds from revolving credit facility | 10,182 | - |
| Proceeds from term loan facility | 8,000 | - |
| Payment of term loan facility | (866) | - |
| Repurchase of common stock | (1,957) | (742) |
| Payment of debt issuance costs | (157) | - |
| Proceeds from exercise of stock options | 930 | 1,568 |
| Tax withholdings on stock-based awards | (8) | (55) |
| Proceeds from government grant | - | 397 |
| Net cash provided by financing activities | 16,124 | 1,168 |
| Effect of exchange rate changes on cash | (154) | (265) |
| INCREASE (DECREASE) IN CASH | (18,529) | 7,604 |
| Cash - Beginning of year | 25,934 | 18,330 |
| Cash - End of year | \$7,405 | \$25,934 |
| Supplemental cash flow information: | | |
| Construction in process in accounts payable | \$74 | \$1,616 |
| Income taxes paid | \$266 | \$220 |
| Interest paid | \$576 | \$132 |

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

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

Note 1 - Summary of Operations and Significant Accounting Policies

a. *Description of Business*

As used in this annual report, unless otherwise indicated, the terms “we”, “our” and “us” refer to Ultralife Corporation (“Ultralife”) and includes our wholly-owned subsidiaries, ABLE New Energy Co., Limited and its wholly-owned subsidiary ABLE New Energy Co.; Ltd; Ultralife UK LTD and its wholly-owned subsidiary, Accutronics Ltd; Ultralife Batteries (UK) Ltd.; Southwest Electronic Energy Corporation and its wholly-owned subsidiary, CLB, INC.; and our majority-owned joint venture Ultralife Batteries India Private Limited.

We offer products and services ranging from power solutions to communications and electronics systems. Through our engineering and collaborative approach to problem solving, we serve government, defense and commercial customers across the globe. We design, manufacture, install and maintain power and communications systems including: rechargeable and non-rechargeable batteries, charging systems, communications and electronics systems and accessories, and custom engineered systems. 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.

b. *Principles of Consolidation*

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and include the accounts of Ultralife Corporation, our wholly-owned subsidiaries, Ultralife Batteries (UK) Ltd., Ultralife UK LTD, and its wholly-owned subsidiary Accutronics Ltd, ABLE New Energy Co., Limited and its wholly-owned subsidiary ABLE New Energy Co., Ltd. (“ABLE” collectively), Southwest Electronic Energy Corporation and its wholly-owned subsidiary, CLB, INC. (“SWE” collectively) (Note 2), and our majority-owned subsidiary Ultralife Batteries India Private Limited (“India JV”). Intercompany accounts and transactions have been eliminated in consolidation.

c. *Management's Use of Judgment and Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at year end and the reported amounts of revenues and expenses during the reporting period. Key areas affected by estimates include: (a) carrying value of goodwill and intangible assets; (b) reserves for deferred tax assets, excess and obsolete inventory, warranties, and bad debts; (c) valuation of assets acquired and liabilities assumed in business combinations; (d) various expense accruals; and (e) stock-based compensation. Our actual results could differ from these estimates.

d. *Reclassifications*

Certain items previously reported in specific financial statement captions are reclassified to conform to the current presentation. There were no material reclassifications for the years ended December 31, 2019 and 2018.

e. *Cash*

Our cash balances may at times exceed federally insured limits. We have not experienced any losses in these accounts and believe we are not exposed to any significant risk with respect to cash.

f. *Accounts Receivable and Allowance for Doubtful Accounts*

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.

g. *Inventories*

Inventories are stated at the lower of cost or net realizable value with cost determined under the first-in, first-out (FIFO) method. We record provisions for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments or other economic factors.

h. *Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives. Estimated useful lives are as follows (in years):

| | |
|--------------------------------|-------------------------------------|
| Buildings | 10 – 40 |
| Machinery and Equipment | 5 – 10 |
| Furniture and Fixtures | 3 – 10 |
| Computer Hardware and Software | 3 – 5 |
| Leasehold Improvements | Lesser of useful life or lease term |

Betterments, renewals and extraordinary repairs that extend the life of the assets are capitalized. Other repairs and maintenance costs are expensed when incurred. When disposed, the cost and accumulated depreciation applicable to assets retired are removed from the accounts and the gain or loss on disposition is recognized in operating income.

i. *Long-Lived Assets, Goodwill and Intangibles*

We assess all of our long-lived assets for impairment when events or circumstances indicate that their carrying amounts may not be recoverable. For property, plant and equipment and amortizable intangible assets, this is accomplished by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment is recognized. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. Fair value is estimated as the present value of expected discounted future cash flows. The discount rate used in our evaluation is an industry-based weighted average cost of capital.

The purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value. We do not amortize goodwill and intangible assets with indefinite lives, but instead evaluate these assets for impairment at least annually, or when events indicate that impairment exists. We amortize intangible assets that have definite lives so that the economic benefits of the intangible assets are being recognized over their weighted-average estimated useful life.

The quantitative impairment test for goodwill consists of a comparison of the fair value of the reporting unit with the carrying amount of the reporting unit to which it is assigned. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, a second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The impairment test for intangible assets with indefinite lives consists of a comparison of the fair value of the intangible assets with their carrying amounts. If the carrying value of the intangible assets exceeds the fair value, an impairment loss is recognized in an amount equal to that excess.

j. *Translation of Foreign Currency*

The financial statements of our foreign subsidiaries are translated from the functional currency into U.S. dollar equivalents, with translation adjustments recorded as the sole component of accumulated other comprehensive loss. Exchange gains and losses related to foreign currency transactions and balances denominated in currencies other than the functional currency are recognized in net income.

k. *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-added 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 years ended December 31, 2019 and 2018 were not material.

As of December 31, 2019 and 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 December 31, 2019 and 2018 were not material.

l. *Warranty Reserves*

We generally offer standard warranties against product defects. We do not offer separate service-type warranties. We estimate future warranty costs to be incurred for product failure rates, material usage and service costs in the development of our warranty obligations. Estimated future costs are based on actual past experience and are generally estimated as a percentage of sales over the warranty period. Warranty costs are recorded as costs of products sold. Provision for warranty costs is recorded in other current liabilities and other long-term liabilities on our consolidated balance sheets based on the duration of the warranty. Refer to Note 6.

m. *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.

n. *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 December 31, 2019 and 2018.

o. *Research and Development*

Research and development expenditures are charged to operations as incurred. The majority of research and development expenses pertain to salaries and benefits, developmental supplies, depreciation and other contracted services. For the years ended December 31, 2019 and 2018, we expended \$8,025 and \$5,230, respectively, on research and development, including costs of \$1,220 and \$722, respectively, on customer sponsored research and development activities, which are included in cost of goods sold.

p. *Environmental Costs*

Environmental expenditures that relate to current operations are expensed. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated.

q. *Income Taxes*

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Pursuant to ASC 740, a valuation allowance is recognized when the realizability of deferred tax assets is not more likely than not, on the basis of all available evidence, both positive and negative, weighted based on objective verifiability.

r. *Concentration Related to Customers and Suppliers*

We have two customers, both large defense primary contractors, which comprised 14% and 12% of our total revenues in 2019, respectively, and 7% and 16% of our total revenues in 2018, respectively. 2019 revenues from these two customers represented 64% of our total Communications Systems segment revenues and 15% of our total Battery & Energy Products segment revenues. 2018 revenues from these two customers represented 34% of our total Communications Systems segment revenues and 20% of our total Battery & Energy Products segment revenues. There were no other customers that comprised greater than 10% of our total revenues during these years.

Currently, we do not experience significant seasonal trends in our revenues. Since a significant portion of our revenues are based on purchases from U.S. and allied country defense departments, the timing of our sales could be impacted by delays in the government budget process and the decisions to deploy resources to support military purchases of our products.

We generally do not distribute our products to a concentrated geographical area nor is there a significant concentration of credit risks arising from individuals or groups of customers engaged in similar activities, or who have similar economic characteristics. While direct and indirect sales to the U.S. Department of Defense have been substantial during 2019 and 2018, we do not consider this customer to be a significant credit risk.

Certain materials and components used in our products are available only from a single or a limited number of suppliers. As such, some materials and components could become in short supply resulting in limited availability and/or increased costs. Additionally, we may elect to develop relationships with a single or limited number of suppliers for materials and components that are otherwise generally available. Although we believe that alternative suppliers are available to supply materials and components that could replace materials and components currently used and that, if necessary, we would be able to redesign our products to make use of such alternatives, any interruption in the supply from any supplier that serves as a sole source could delay product shipments and have a material adverse effect on our business, financial condition and results of operations. We have experienced interruptions of product deliveries by sole source suppliers in the past.

s. *Fair Value Measurements and Disclosures*

Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1:** Quoted prices in active markets for identical assets or liabilities.
- Level 2:** Observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or that we corroborate with observable market data for substantially the full term of the related assets or liabilities.
- Level 3:** Unobservable inputs supported by little or no market activity that are significant to the fair value of the assets or liabilities.

The fair value of financial instruments approximated their carrying values at December 31, 2019 and 2018. The fair value of cash, trade accounts receivable, trade accounts payable, accrued liabilities, and the current portion of long-term debt approximates carrying value due to the short-term nature of these instruments. The carrying value of long-term debt approximates fair value, as the variable interest rates approximate current market rates.

t. *Earnings Per Share*

Basic earnings per share (“EPS”) is computed by dividing net income attributable to Ultralife Corporation by the weighted average shares of common stock outstanding for the period. Diluted EPS reflects the assumed exercise and conversion of dilutive outstanding stock options and unvested restricted stock, if any, applying the treasury stock method.

For the year ended December 31, 2019, the calculation of diluted EPS included 899,041 stock options and 31,666 restricted stock awards. Inclusion of these shares resulted in 396,536 additional shares in the calculation of diluted EPS. There were 642,751 outstanding stock options as of December 31, 2019 excluded from the calculation of diluted EPS, as inclusion of these shares would have been anti-dilutive.

For the year ended December 31, 2018, the calculation of diluted EPS included 1,127,837 stock options and 17,500 restricted stock awards. Inclusion of these shares resulted in 465,004 additional shares in the calculation of diluted EPS. There were 448,250 outstanding stock options as of December 31, 2018 excluded from the calculation of diluted EPS, as inclusion of these shares would have been anti-dilutive.

u. *Stock-Based Compensation*

We have various stock-based employee compensation plans that are described more fully in Note 7. The compensation cost relating to share-based payment transactions is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee’s requisite service period (generally the vesting period of the equity award).

v. *Segment Reporting*

We have two operating segments – Battery & Energy Products, and Communications Systems. The basis for determining our operating segments is the manner in which financial information is used in monitoring our operations. Management operates and organizes itself according to business units that comprise unique products and services across geographic locations.

w. *Recent Accounting Pronouncements*

Recently Adopted Accounting Guidance

Leases

Effective January 1, 2019, the Company adopted Accounting Standards Update 2016-02 – *Leases* (Topic 842). Adoption of the new standard did not materially impact the prior year consolidated statements of operations and cash flows. The prior year consolidated balance sheet has been revised for the effects of the new standard. The effects to our consolidated balance sheet as of December 31, 2018 are presented below.

The Company adopted the new standard applying the modified retrospective approach. The Company measured and recognized leases upon adoption which had commenced as of the beginning or during the prior year. The package of practical expedients permitted under the transition guidance of the new standard was elected which allowed us to carry forward the historical lease classification and determination of whether an arrangement is or contains a lease on existing leases. The use-of-hindsight transition practical expedient was applied to determine the lease term for existing leases, which resulted in the lengthening of the lease term at commencement for one of our operating facilities.

At contract inception, the Company determines whether the arrangement is or contains a lease and determines the lease classification. The lease term is determined based on the non-cancellable term of the lease adjusted to the extent optional renewal terms and termination rights are reasonably certain. Lease expense is recognized evenly over the lease term. Variable lease payments are recognized as period costs. The present value of remaining lease payments is recognized as a liability on the balance sheet with a corresponding right-of-use asset adjusted for prepaid or accrued lease payments. The Company uses its incremental borrowing rate for the discount rate, unless the interest rate implicit in the lease contract is readily determinable. The Company has adopted the practical expedients to not separate non-lease components from lease components and to not present short-term leases on the balance sheet.

The impact on the consolidated balance sheet as of December 31, 2018 is shown below.

Impact to Previously Reported Results

Consolidated Balance Sheet as of December 31, 2018:

| | As Previously Reported | Lease Standard Adjustment | As Adjusted |
|--|---------------------------------------|--|------------------------|
| Other noncurrent assets | \$82 | \$805 | \$887 |
| Prepaid expenses and other current assets | 2,429 | (61) | 2,368 |
| Accrued expenses and other current liabilities | 3,534 | 439 | 3,973 |
| Other noncurrent liabilities | 32 | 376 | 408 |
| Accumulated deficit | (57,964) | (71) | (58,035) |

See Note 9 for further disclosure regarding lease accounting.

Recent Accounting Guidance Not Yet Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company is currently assessing the impact that adopting this new accounting standard will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment”, which eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. The annual assessment of goodwill impairment will be determined by using the difference between the carrying amount and the fair value of the reporting unit. The standard is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019 and is to be applied on a prospective basis. The Company is currently assessing the impact that adopting this new accounting standard will have on our consolidated financial statements.

Note 2 – Acquisition

On May 1, 2019, the Company completed the acquisition of 100% of the issued and outstanding shares of Southwest Electronic Energy Corporation, a Texas corporation (“SWE”), for an aggregate purchase price of \$26,190 inclusive of \$942 cash acquired and post-closing adjustments.

SWE is a leading independent designer and manufacturer of high-performance smart battery systems and battery packs to customer specifications using lithium cells. SWE serves a variety of industrial markets, including oil & gas, remote monitoring, process control and marine, which demand uncompromised safety, service, reliability and quality. The Company acquired SWE as a bolt-on acquisition to further support our strategy of commercial revenue diversification by providing entry to the oil and gas exploration and production, and subsea electrification markets, which are currently unserved by Ultralife. Another key benefit includes obtaining a highly valuable technical team of battery pack and charger system engineers and technicians to add to our new product development-based revenue growth initiatives in our commercial end-markets particularly asset tracking, smart metering and other industrial applications.

The acquisition of SWE was completed pursuant to a Stock Purchase Agreement dated May 1, 2019 (the “Stock Purchase Agreement”) by and among Ultralife, SWE, Southwest Electronic Energy Medical Research Institute, a Texas non-profit (the “Seller”), and Claude Leonard Backstein, an individual (the “Shareholder”). The Stock Purchase Agreement contains customary terms and conditions including representations, warranties and indemnification provisions. A portion of the consideration paid to the Seller is being held in escrow for indemnification purposes.

The aggregate purchase price for the acquisition was funded by the Company through a combination of cash on hand and borrowings under the Credit Facilities (Note 3).

The purchase price allocation was determined in accordance with the accounting treatment of a business combination pursuant to FASB ASC Topic 805, Business Combinations (ASC 805). Accordingly, the fair value of the consideration was determined, and the assets acquired and liabilities assumed have been recorded at their fair values at the date of the acquisition. The excess of the purchase price over the estimated fair values has been recorded as goodwill.

The allocation of purchase price to the assets acquired and liabilities assumed at the date of the acquisition is presented in the table below. Management is responsible for determining the fair value of the tangible and intangible assets acquired and liabilities assumed as of the date of acquisition. Management considered several factors, including reference to an analysis performed under ASC 805 solely for the purpose of allocating the purchase price to the assets acquired and liabilities assumed. The Company’s estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management’s assumptions, which would not reflect unanticipated events and circumstances that may occur.

| | |
|-------------------------------|-----------------|
| Cash | \$942 |
| Accounts receivable | 3,621 |
| Inventories | 4,685 |
| Other current assets | 431 |
| Property, plant and equipment | 9,177 |
| Goodwill | 6,534 |
| Customer relationships | 2,522 |
| Trade name | 1,127 |
| Accounts payable | (1,060) |
| Other current liabilities | (778) |
| Deferred tax liability, net | (1,011) |
| Net assets acquired | <u>\$26,190</u> |

The goodwill included in the Company’s purchase price allocation presented above represents the value of SWE’s assembled and trained workforce, the incremental value that SWE engineering and technology will bring to the Company and the revenue growth which is expected to occur over time which is attributable to increased market penetration from future new products and customers. The goodwill acquired in connection with the acquisition is not deductible for income tax purposes.

The operating results and cash flows of SWE are reflected in the Company’s consolidated financial statements from the date of acquisition. SWE is included in the Battery & Energy Products segment.

For the year ended December 31, 2019, SWE contributed revenue of \$18,746 and net income of \$1,238, inclusive of a \$264 increase in cost of products sold for the fair value step-up of acquired inventory sold during the period, non-recurring expenses of \$165 directly related to the acquisition, interest expense of \$453 directly related to the financing of the SWE acquisition, and amortization expense of \$161 on acquired identifiable intangible assets.

During the year ended December 31, 2019, the Company incurred non-recurring transaction costs of \$322 directly attributable to the acquisition. Debt issuance costs of \$157, including placement, renewal and legal fees, are amortized to interest expense over a weighted average life of 4.6 years based on the terms of the related Credit Facilities. Other non-recurring transaction costs of \$165, including one-time accounting, legal and due diligence services, were expensed during the year.

The following supplemental pro forma information presents the combined results of operations, inclusive of the purchase accounting adjustments and one-time acquisition-related expenses described above, as if the acquisition of SWE had been completed on January 1, 2018, the beginning of the comparable prior period.

The supplemental pro forma results do not exclude the agreed upon departure of the Shareholder from SWE and dissolution of the SWE Board of Directors upon consummation of the acquisition or the realization of any expected synergies or other cost reductions following the completion of the business combination. The supplemental pro forma results are presented for informational purposes only and should not be considered indicative of the financial position or results of operations had the acquisition been completed as of the dates indicated and does not purport to indicate the future combined financial position or results of operation.

Set forth below are the unaudited supplemental pro forma results of the Company and SWE for the years ended December 31, 2019 and 2018 as if the acquisition had occurred as of January 1, 2018.

| | Years Ended December 31 | |
|---|-------------------------|-----------|
| | 2019 | 2018 |
| Revenue | \$115,590 | \$115,566 |
| Operating income | 8,008 | 6,278 |
| Net Income attributable to Ultralife Corporation | 5,526 | 24,280 |
| Net income per share attributable to Ultralife Corporation: | | |
| Basic | \$0.35 | \$1.53 |
| Diluted | \$0.34 | \$1.49 |

Note 3 – Debt

Credit Facilities

On May 1, 2019, Ultralife, SWE, and CLB, INC., a Texas corporation and wholly owned subsidiary of SWE (“CLB”), as borrowers, entered into the First Amendment Agreement (the “First Amendment Agreement”) with KeyBank National Association (“KeyBank” or the “Bank”), as lender and administrative agent, to amend the Credit and Security Agreement by and among Ultralife and KeyBank dated May 31, 2017 (the “Credit Agreement”, and together with the First Amendment Agreement, the “Amended Credit Agreement”).

The Amended Credit Agreement, among other things, provides for a five-year, \$8,000 senior secured term loan (the “Term Loan Facility”) and extends the term of the \$30,000 senior secured revolving credit facility (the “Revolving Credit Facility”, and together with the Term Loan Facility, the “Credit Facilities”) through May 31, 2022. Up to six months prior to May 31, 2022, the Revolving Credit Facility may be increased to \$50,000 with the Bank’s concurrence.

Upon closing of the SWE acquisition on May 1, 2019, the Company drew down the full amount of the Term Loan Facility and \$6,782 under the Revolving Credit Facility. As of December 31, 2019, the Company had \$7,134 outstanding principal on the Term Loan Facility, of which \$1,372 is included in current portion of long-term debt on the balance sheet, and \$10,182 outstanding principal on the Revolving Credit Facility. As of December 31, 2019, total unamortized debt issuance costs of \$164 associated with the Amended Credit Agreement are classified as a reduction of long-term debt on the balance sheet.

The Company is required to repay the borrowings under the Term Loan Facility in sixty (60) equal consecutive monthly payments commencing on May 31, 2019, in arrears, together with applicable interest. All unpaid principal and accrued and unpaid interest with respect to the Term Loan Facility is due and payable in full on April 30, 2024. All unpaid principal and accrued and unpaid interest with respect to the Revolving Credit Facility is due and payable in full on May 31, 2022. The Company may voluntarily prepay principal amounts outstanding at any time subject to certain restrictions.

As of December 31, 2019, the aggregate principal amounts of long-term debt are scheduled to mature as follows: \$1,420 in 2021, \$11,650 in 2022, \$1,519 in 2023, and \$1,355 in 2024.

In addition to the customary affirmative and negative covenants, the Company must maintain a consolidated fixed charge coverage ratio of equal to or greater than 1.15 to 1.0, and a consolidated senior leverage ratio of equal to or less than 2.5 to 1.0, each as defined in the Amended Credit Agreement. The Company was in full compliance with its covenants as of December 31, 2019.

Borrowings under the Credit Facilities are secured by substantially all the assets of the Company. Availability under the Revolving Credit Facility is subject to certain borrowing base limits based on receivables and inventories.

Interest will accrue on outstanding indebtedness under the Credit Facilities at the Base Rate or the Overnight LIBOR Rate, as selected by the Company, plus the applicable margin. The Base Rate is the higher of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 50 basis points, and (c) the Overnight LIBOR Rate plus one hundred basis points. The applicable margin ranges from zero to negative 50 basis points for the Base Rate and from 185 to 215 basis points for the Overnight LIBOR Rate and are determined based on the Company's senior leverage ratio. As of December 31, 2019, the variable interest rates were 3.56% for the Revolving Credit Facility and 3.41% for the Term Loan Facility.

The Company must pay a fee of 0.1% to 0.2% based on the average daily unused availability under the Revolving Credit Facility.

Payments must be made by the Company to the extent borrowings exceed the maximum amount then permitted to be drawn on the Credit Facilities and from the proceeds of certain transactions. Upon the occurrence of an event of default, the outstanding obligations may be accelerated and the Bank will have other customary remedies including resort to the security interest the Company provided to the Bank.

Note 4 – Share Repurchase Program

On October 31, 2018, the Company's Board of Directors approved a share repurchase program (the "Share Repurchase Program") which became effective on November 1, 2018, under which the Company is authorized to purchase up to 2.5 million shares of its outstanding common stock over a period not to exceed twelve months.

Under the Share Repurchase Program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. The timing, manner, price and amount of any repurchase will be determined at the Company's discretion and the Share Repurchase Program may be suspended, terminated or modified by the Company's Board of Directors at any time for any reason and does not obligate the Company to purchase any specific number of shares. Under the Program, all purchases will be made in accordance with Securities Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases.

During 2019, we repurchased a total of 267,300 shares of our common stock for an aggregate consideration (including fees and commissions) of \$1,957.

From the inception of the Share Repurchase Program on November 1, 2018, we repurchased a total of 372,974 shares of our common stock for an aggregate consideration (including fees and commissions) of \$2,699.

Note 5 - Supplemental Balance Sheet Information

a. *Cash and Restricted Cash*

The Company had cash and restricted cash totaling \$7,405 and \$25,934 as of December 31, 2019 and 2018, respectively.

| | December 31 | |
|-----------------|--------------------|-------------|
| | 2019 | 2018 |
| Cash | \$7,135 | \$25,583 |
| Restricted cash | 270 | 351 |
| Total | \$7,405 | \$25,934 |

As of December 31, 2019 and December 31, 2018, restricted cash included \$188 and \$266, respectively, relating to a government grant awarded in the People's Republic of China to fund specified technological research and development initiatives. The grant proceeds are realized to income as a direct offset to expense as the related expenditures are incurred. For the year ended December 31, 2019, grant proceeds of \$78 were realized to income. As of December 31, 2019 and December 31, 2018, restricted cash included euro-denominated deposits of \$82 and \$85, respectively, 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 consolidated statements of cash flows.

b. *Inventory, Net*

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

| | December 31 | |
|-------------------|--------------------|-------------|
| | 2019 | 2018 |
| Raw materials | \$18,485 | \$13,274 |
| Work in process | 2,548 | 2,016 |
| Finished products | 8,726 | 7,553 |
| Total | \$29,759 | \$22,843 |

c. *Property, Plant and Equipment*

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

| | December 31 | |
|--------------------------------------|--------------------|-----------------|
| | 2019 | 2018 |
| Land | \$1,273 | \$123 |
| Buildings and leasehold improvements | 8,148 | 8,267 |
| Machinery and equipment | 62,562 | 51,261 |
| Furniture and fixtures | 2,112 | 2,058 |
| Computer hardware and software | 6,528 | 5,590 |
| Construction in progress | 4,730 | 4,302 |
| | <u>85,353</u> | <u>71,601</u> |
| Less – Accumulated depreciation | <u>(62,828)</u> | <u>(60,857)</u> |
| Total | <u>\$22,525</u> | <u>\$10,744</u> |

Depreciation expense was \$2,220 and \$1,972 for the years ended December 31, 2019 and 2018, respectively.

d. *Goodwill and Other Intangible Assets*

The Company performed its annual impairment tests of goodwill and other indefinite-lived intangible assets as of the first day of the fiscal fourth quarter of 2019 and 2018.

The Company performed a quantitative impairment test as of September 30, 2019 of its five identified goodwill reporting units including a reporting unit for SWE (Note 2) which is a component of the Battery & Energy Products segment. The fair value for the reporting units could not be determined using readily available quoted Level 1 inputs or Level 2 inputs that were observable in active markets. Therefore, we used a discounted cash flow model to estimate the fair value of the reporting units, using Level 3 inputs. To estimate the fair value of the reporting units, we used significant estimates and judgments, including an assessment of our future revenue prospects, revenue growth rates and profit margins based on internal forecasts, industry and market based terminal growth rates, inputs to the weighted-average cost of capital used to discount future cash flows, and earnings multiples.

The Company performed a quantitative impairment test of its four other indefinite-lived intangible assets (trademarks). The fair value of our trademarks could not be determined using readily available quoted Level 1 inputs or Level 2 inputs that were observable in active markets. Therefore, we used a relief from royalty approach to estimate the fair value of our trademarks, using Level 3 inputs. Significant estimates and judgments included an assessment of our future revenue prospects, industry and market based terminal growth rates, inputs to the weighted-average cost of capital used to discount future cash flows, and royalty rates based on external market data.

As a result of the impairment tests performed for 2019 and 2018, we determined that no impairments existed. Fair value exceeded carrying value for all reporting units and trademarks by more than 10%, except for the goodwill test as of September 30, 2019 for SWE which was acquired five months prior.

There is a possibility that our goodwill and other intangible assets could be impaired in the future should there be a significant change in our internal forecasts and other assumptions used in our impairment analysis.

The following table summarizes the goodwill activity by segment for the years ended December 31, 2019 and 2018:

| | Battery & Energy Products | Communications Systems | Total |
|--|--|-----------------------------------|-----------------|
| Balance – January 1, 2018 | \$8,965 | \$11,493 | \$20,458 |
| Effect of foreign currency translation | (349) | - | (349) |
| Balance – December 31, 2018 | 8,616 | 11,493 | 20,109 |
| Acquisition of SWE | 6,534 | - | 6,534 |
| Effect of foreign currency translation | 110 | - | 110 |
| Balance – December 31, 2019 | <u>\$15,260</u> | <u>\$11,493</u> | <u>\$26,753</u> |

The composition of intangible assets was:

| | December 31, 2019 | | |
|-------------------------------|--------------------------|-------------------------------------|----------------|
| | Cost | Accumulated amortization | Net |
| Trademarks | \$3,403 | \$- | \$3,403 |
| Customer relationships | 9,080 | 4,721 | 4,359 |
| Patents and technology | 5,521 | 4,869 | 652 |
| Distributor relationships | 377 | 377 | - |
| Trade name | 1,511 | 204 | 1,307 |
| Total other intangible assets | <u>\$19,892</u> | <u>\$10,171</u> | <u>\$9,721</u> |

| | December 31, 2018 | | |
|-------------------------------|--------------------------|-------------------------------------|----------------|
| | Cost | Accumulated amortization | Net |
| Trademarks | \$3,405 | \$- | \$3,405 |
| Customer relationships | 6,471 | 4,392 | 2,079 |
| Patents and technology | 5,486 | 4,725 | 761 |
| Distributor relationships | 377 | 377 | - |
| Trade name | 370 | 111 | 259 |
| Total other intangible assets | <u>\$16,109</u> | <u>\$9,605</u> | <u>\$6,504</u> |

The change in the cost value of other intangible assets is a result of the SWE acquisition (Note 2) and the effect of foreign currency translations.

Amortization of other intangible assets was included in the following financial statement captions:

| | Year ended December 31 | |
|---|-------------------------------|--------------|
| | 2019 | 2018 |
| Research and development expense | \$130 | \$147 |
| Selling, general and administrative expense | 395 | 250 |
| Total | <u>\$525</u> | <u>\$397</u> |

Future amortization expense of amortizable intangible assets will be approximately \$360, \$341, \$326, \$323 and \$313 for the five fiscal years ending December 31, 2020 through 2024, respectively.

Note 6 - Commitments and Contingencies

a. *Indemnity*

Our organizational documents provide that our directors or officers will be reimbursed for all expenses, to the fullest extent permitted by law arising out of their performance.

b. *Purchase Commitments*

As of December 31, 2019, we have made commitments to purchase approximately \$1,185 of production machinery and equipment.

c. *China*

Our operating facility in China presents risks including, but not limited to, changes in local regulatory requirements, changes in labor laws, local wage laws, environmental regulations, taxes and operating licenses, compliance with U.S. regulatory requirements, including the Foreign Corrupt Practices Act, uncertainties as to application and interpretation of local laws and enforcement of contract and intellectual property rights, currency restrictions, currency exchange controls, fluctuations of currency, and currency revaluations, eminent domain claims, civil unrest, power outages, water shortages, labor shortages, labor disputes, increase in labor costs, rapid changes in government, economic and political policies, political or civil unrest, acts of terrorism, or the threat of boycotts, other civil disturbances and the possible impact of the imposition of tariffs by the U.S. Government on 9 Volt batteries that we manufacture in China as well as any retaliating trade policies or restrictions. Any such disruptions could depress our earnings and have other material adverse effects on our business, financial condition and results of operations.

d. *Employment Contracts*

We have an employment contract with Michael D. Popielec, our President and Chief Executive Officer, which remains in effect until terminated by either party. This agreement provides for a base salary, as adjusted for increases at the discretion of our Board of Directors, and includes incentive bonuses based upon attainment of specified quantitative and qualitative performance goals. This agreement also provides for severance payments in the event of specified events of termination of employment. In addition, this agreement provides for a lump sum payment in the event of termination of employment in connection with a change in control.

As part of our employment commencement process, employees are required to enter into agreements providing for confidentiality of certain information and the assignment of rights to inventions made by them while employed by us. These agreements also contain certain non-competition and non-solicitation provisions effective during the employment term and for varying periods thereafter depending on position and location. There can be no assurance that we will be able to enforce these agreements. All of our employees agree to abide by the terms of a Code of Ethics policy that provides for the confidentiality of certain information received during the course of their employment.

e. *Product Warranties*

We estimate future warranty costs to be incurred for product failure rates, material usage and service costs in the development of our warranty obligations. Estimated future costs are based on actual past experience and are generally estimated as a percentage of sales over the warranty period. Changes in our product warranty liability during the years ended December 31, 2019 and 2018 were as follows:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|--------------|-------------|
| Balance, January 1 | \$95 | \$149 |
| Assumed warranty obligations – SWE | 145 | - |
| Provision for warranties issued | 114 | 7 |
| Settlements made | <u>(159)</u> | <u>(61)</u> |
| Balance, December 31 | <u>\$195</u> | <u>\$95</u> |

f. *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 any such matters will not have a material adverse effect on the Company’s financial position, results of operations or cash flows. However, recognizing that legal matters are subject to inherent uncertainties, there exists the possibility that ultimate resolution of these matters could have a material adverse impact on the Company’s financial position, results of operations or cash flows in the period in which any such effects are recorded. We are not aware of any such situations at this time.

Note 7 - Shareholders' Equity

a. *Stock-Based Compensation Expense*

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

| | Year ended December 31 | |
|-------------------------|-------------------------------|--------------|
| | 2019 | 2018 |
| Stock options | \$623 | \$817 |
| Restricted stock grants | 130 | 73 |
| Total | <u>\$753</u> | <u>\$890</u> |

These are more fully discussed as follows:

b. *Stock Options*

We have various stock-based employee compensation plans, for which compensation cost is recognized in the financial statements. The cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense over the employee’s requisite service period (generally the vesting period of the equity award).

Our shareholders have approved various equity-based plans that permit the grant of stock options, restricted stock and other equity-based awards. In addition, our shareholders have approved the grant of stock options outside of these plans.

In June 2004, our shareholders adopted the 2004 Long-Term Incentive Plan (“2004 LTIP”) pursuant to which we were authorized to issue up to 750,000 shares of common stock and grant stock options, restricted stock awards, stock appreciation rights and other stock-based awards. Through shareholder approved amendments to the LTIP in 2006, 2008, 2011, and 2013, the total number of shares authorized under the 2004 LTIP was increased to 2,900,000.

In June 2014, our shareholders approved the 2014 Long-Term Incentive Plan (“2014 LTIP”) as the successor plan to the 2004 LTIP that expired on June 10, 2014. Under the 2014 LTIP, a total of 1,750,000 shares of common stock will be available for grant of awards. Of the total number of shares of common stock available for awards under the 2014 LTIP, no more than 800,000 shares of common stock may be used for awards other than stock options and stock appreciation rights. Grants under the 2014 LTIP may be awarded through June 2, 2024.

Stock options granted under the LTIPs are either Incentive Stock Options (“ISOs”) or Non-Qualified Stock Options (“NQSOS”). Key employees are eligible to receive ISOs and NQSOS; however, directors and consultants are eligible to receive only NQSOS. Most ISOs vest over a three-year period and expire on the seventh anniversary of the grant date. As of December 31, 2019, there were 610,628 stock options outstanding under the 2004 LTIP and 931,164 stock options outstanding under the 2014 LTIP.

On December 30, 2010, pursuant to the terms of his employment agreement, we granted our President and Chief Executive Officer, Michael D. Popielec, options to purchase shares of common stock under the 2004 LTIP as follows: (i) 50,000 shares at \$6.42, vesting in annual increments of 12,500 shares over a four-year period commencing December 30, 2011; (ii) 250,000 shares at \$6.42, vesting in annual increments of 62,500 shares over a four-year period commencing December 30, 2011; (iii) 200,000 shares at \$10.00, with vesting to begin on the date the stock reaches a closing price of \$10.00 per share for 15 trading days within a 30-day trading period, with such vesting in annual increments of 50,000 shares over the four anniversary dates of that date; and (iv) 200,000 shares at \$15.00, with vesting to begin on the date the stock reaches a closing price of \$15.00 per share for 15 trading days within a 30-day trading period, with such vesting in annual increments of 50,000 shares over the four anniversary dates of that date. The options set forth in items (ii), (iii) and (iv) were subject to shareholder approval of an amendment to the 2004 LTIP, which approval was obtained on June 7, 2011.

All such options in items (i) and (ii) were due to expire on December 30, 2017. On April 19, 2017, the Company's Board of Directors extended the expiration date to December 30, 2020.

All such options in items (iii) and (iv) were due to expire as of the later of December 30, 2017 and five years after the initial vesting commences, but in no event later than December 30, 2020. On July 25, 2018, the Company's Board of Directors modified the option in item (iii) 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 became fully vested during the third quarter of 2018 and expires December 30, 2020. The transaction has been accounted for as an equity award modification pursuant to Accounting Standards Codification Topic 718, Compensation – Stock Compensation. During the third quarter 2018, the Company recognized compensation cost of \$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. The market-based conditions for the option in item (iv) had not been met as of December 31, 2019.

As of December 31, 2019, there was \$737 of total unrecognized compensation costs related to outstanding stock options, which we expect to recognize over a weighted average period of 1.2 years.

We use the Black-Scholes option-pricing model to estimate fair value of stock-based awards. The following weighted average assumptions were used to value options granted during the years ended December 31, 2019 and 2018:

| | Year ended December 31 | |
|--|-------------------------------|-------------|
| | 2019 | 2018 |
| Risk-free interest rate | 1.8% | 2.6% |
| Volatility factor | 48.3% | 46.8% |
| Weighted average expected life (years) | 5.3 | 5.0 |
| Forfeiture rate | 10.0% | 10.0% |
| Dividends | 0.0% | 0.0% |

We used a Monte Carlo simulation option-pricing model to estimate the fair value of market performance stock-based awards, of which there were no new awards for the years ended December 31, 2019 and 2018.

We calculate expected volatility for stock options by taking an average of historical volatility over the expected term. The computation of expected term was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield in effect at the time of grant. Forfeiture rates are calculated by dividing unvested shares forfeited by beginning shares outstanding. The pre-vesting forfeiture rate is calculated yearly and is determined using a historical twelve-quarter rolling average of the forfeiture rates.

The following tables summarize data for the stock options issued by us:

| Year ended December 31, 2019 | | | | |
|--|-----------------------------|--|--|--|
| | Number of shares | Weighted average exercise price per share | Weighted average remaining contractual term | Aggregate intrinsic value |
| Shares under option – January 1 | 1,576,087 | \$6.58 | | |
| Options granted | 282,500 | 8.27 | | |
| Options exercised | (208,881) | 4.45 | | |
| Options forfeited or expired | (107,914) | 10.93 | | |
| Shares under option – December 31 | <u>1,541,792</u> | <u>\$6.88</u> | <u>3.21</u> | <u>\$1,991</u> |
| Vested and expected to vest - December 31 | <u>1,445,563</u> | <u>\$6.79</u> | <u>3.04</u> | <u>\$1,959</u> |
| Options exercisable – December 31 | <u>1,083,581</u> | <u>\$6.28</u> | <u>2.09</u> | <u>\$1,872</u> |

| Year ended December 31, 2018 | | | | |
|-------------------------------------|-----------------------------|--|--|--|
| | Number of shares | Weighted average exercise price per share | | Weighted average exercise price per share |
| Shares under option – January 1 | 1,860,211 | \$5.96 | | |
| Options granted | 217,500 | 9.68 | | |
| Options exercised | (422,793) | 4.49 | | |
| Options forfeited or expired | (78,831) | 11.75 | | |
| Shares under option – December 31 | <u>1,576,087</u> | <u>\$6.58</u> | | |
| Options exercisable – December 31 | <u>1,064,127</u> | <u>\$5.89</u> | | |

The following table represents additional information about stock options outstanding at December 31, 2019:

| Range of exercise prices | Option outstanding | | | Options exercisable | |
|-----------------------------|-------------------------------------|--|---|-------------------------------------|---|
| | Number of outstanding options | Weighted- average remaining contractual life | Weighted- average exercise price | Number of options exercisable | Weighted- average exercise price |
| \$3.22 - \$3.99 | 244,377 | 1.70 | \$3.82 | 244,377 | \$3.82 |
| \$4.00 - \$5.99 | 336,331 | 3.81 | 4.95 | 269,601 | 4.79 |
| \$6.00 - \$9.99 | 761,084 | 4.02 | 7.89 | 369,603 | 6.99 |
| \$10.00 | 200,000 | 1.00 | 10.00 | 200,000 | 10.00 |
| \$3.22 - \$10.00 | <u>1,541,792</u> | <u>3.21</u> | <u>\$6.88</u> | <u>1,083,581</u> | <u>\$6.28</u> |

The weighted average fair value of options granted during the years ended December 31, 2019 and 2018 was \$3.77 and \$4.22, respectively. The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the years ended December 31, 2019 and 2018 was \$931 and \$1,722, respectively.

Cash received from option exercises under our stock-based compensation plans for the years ended December 31, 2019 and 2018 was \$930 and \$1,568, respectively.

c. *Restricted Stock Awards*

In April 2019, 20,000 shares of restricted stock were awarded to certain of our employees at a weighted-average grant date fair value of \$11.12 per share. In January 2018, 17,500 shares of restricted stock were awarded to certain of our employees at a weighted-average grant date fair value of \$7.16 per share. All outstanding restricted shares vest in equal annual installments over three years. Unrecognized compensation cost related to these restricted shares was \$145 at December 31, 2019.

d. *Reserved Shares*

There were 486,272 shares of common stock available for future issuance under equity compensation plans as of December 31, 2019.

Note 8 - Income Taxes

For the years ended December 31, 2019 and 2018, we recognized income tax expense (benefit) of \$1,457 and (\$18,386), respectively.

| | Year ended December 31 | |
|----------------------------|-------------------------------|-------------------|
| | 2019 | 2018 |
| Current: | | |
| Federal | \$- | \$- |
| State | 43 | - |
| Foreign | 203 | 257 |
| | <u>246</u> | <u>257</u> |
| Deferred: | | |
| Federal | 1,236 | (18,514) |
| State | - | - |
| Foreign | (25) | (129) |
| | <u>1,211</u> | <u>(18,643)</u> |
| Total income tax provision | <u>\$1,457</u> | <u>\$(18,386)</u> |

The income tax benefit for 2018 primarily represents a non-cash benefit of \$18,652 upon recognizing the release of the valuation allowance on our U.S. deferred tax assets as of December 31, 2018.

As of December 31, 2018, the Company recognized the release of the valuation allowance on our net operating loss carryforwards and other U.S. deferred tax assets on the basis of management's assessment. In evaluating the realizability of our U.S. deferred tax assets, management considered all available evidence and concluded that positive factors, including further demonstration of sustained profitability in our core business and continued improvement in our ability to achieve internal earnings forecasts, outweighed all negative factors, including our history of operating losses (prior to 2015) and historical operating volatility in our core business. Our assessment also considered our expectation to utilize our domestic net operating loss carryforwards, which expire 2020 thru 2035, and our general business tax credits, which expire 2028 thru 2037. Based on the results of our assessment, management concluded that it is more likely than not that our U.S. deferred tax assets will be fully realized. As of December 31, 2019, our domestic net operating loss carryforwards and general business tax credits were \$58,400 and \$1,907, respectively.

As of December 31, 2019 and 2018, for certain past operations in the U.K., we continue to report a valuation allowance for net operating loss carryforwards of approximately \$10,600, nearly all of which can be carried forward indefinitely. Management has concluded that the realizability of the U.K. net operating loss carryforwards is not more likely than not, as utilization of the net operating losses may be limited due to the change in the past U.K. operation. These net operating losses in the U.K. cannot currently be used to reduce taxable income at our other U.K. subsidiary, Accutronics Ltd. There are no other deferred tax assets related to the past U.K. operations. As of December 31, 2019 and 2018, 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.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows:

| | December 31 | |
|---|--------------------|-----------------|
| | 2019 | 2018 |
| Deferred tax assets: | | |
| Property, plant and equipment | \$- | \$168 |
| Net operating loss carryforwards | 14,579 | 15,622 |
| Tax credit carryforwards | 1,907 | 1,817 |
| Intangible assets | 1,283 | 1,231 |
| Accrued expenses, reserves and other | 2,265 | 1,838 |
| Total deferred tax assets | <u>20,034</u> | <u>20,676</u> |
| Valuation allowance for deferred tax assets | <u>(1,942)</u> | <u>(1,942)</u> |
| Net deferred tax assets | <u>18,092</u> | <u>18,734</u> |
| Deferred tax liabilities: | | |
| Other | - | (25) |
| Property, plant and equipment | (342) | - |
| Intangible assets | <u>(5,087)</u> | <u>(3,856)</u> |
| Total deferred tax liabilities | <u>(5,429)</u> | <u>(3,881)</u> |
| Net deferred tax assets | <u>\$12,663</u> | <u>\$14,853</u> |

Net deferred tax assets (liabilities) are comprised of the following balance sheet amounts:

| | December 31 | |
|--------------------------|--------------------|-----------------|
| | 2019 | 2018 |
| Deferred tax assets | \$13,222 | \$15,444 |
| Deferred tax liabilities | <u>(559)</u> | <u>(591)</u> |
| | <u>\$12,663</u> | <u>\$14,853</u> |

At December 31, 2019, the Company maintains its assertion that all foreign earnings will be indefinitely reinvested in those operations.

For financial reporting purposes, income from continuing operations before income taxes is as follows:

| | Year ended December 31 | |
|---------------|-------------------------------|----------------|
| | 2019 | 2018 |
| United States | \$5,992 | \$6,226 |
| Foreign | 779 | 387 |
| | <u>\$6,771</u> | <u>\$6,613</u> |

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to income from continuing operations before income taxes as follows:

| | Year ended December 31 | |
|--|-------------------------------|-----------------|
| | 2019 | 2018 |
| Statutory income tax rate | 21% | 21% |
| (Increase) decrease in tax provision resulting from: | | |
| Equity compensation | (0.4) | (2.9) |
| Income tax credits | (0.4) | (1.0) |
| Foreign tax rates | (0.5) | 0.3 |
| Valuation allowance | - | (297.3) |
| Other | 1.8 | 2.0 |
| Effective income tax rate | <u>21.5%</u> | <u>(277.9)%</u> |

Accounting for Uncertainty in Income Taxes

There were no unrecognized tax benefits related to uncertain tax positions at December 31, 2019 and 2018.

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 2000 through 2019 remain subject to examination by the Internal Revenue Service (“IRS”) due to our net operating loss carryforwards. Our U.S. tax matters for the years 2000 through 2019 remain subject to examination by various state and local tax jurisdictions due to our net operating loss carryforwards. Our tax matters for the years 2010 through 2019 remain subject to examination by the respective foreign tax jurisdiction authorities.

Note 9 – Operating Leases

The Company has operating leases predominantly for operating facilities. As of December 31, 2019, the remaining lease terms on our operating leases range from less than one year to approximately 5 years. Renewal options to extend our leases have been exercised. Termination options are not reasonably certain of exercise by the Company. There is no transfer of title or option to purchase the leased assets upon expiration. There are no residual value guarantees or material restrictive covenants. In July 2019, the Company entered into a five-year agreement to extend the operating lease term of its Shenzhen facility.

The components of lease expense for the current and prior-year comparative periods were as follows:

| | Year ended December 31 | |
|----------------------|-------------------------------|--------------|
| | 2019 | 2018 |
| Operating lease cost | \$628 | \$590 |
| Variable lease cost | 84 | 89 |
| Total lease cost | <u>\$712</u> | <u>\$679</u> |

Supplemental cash flow information related to leases was as follows:

| | Year ended December 31 | |
|---|-------------------------------|-------------|
| | 2019 | 2018 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$611 | \$592 |
| Right-of-use assets obtained in exchange for lease liabilities: | \$1,586 | \$ - |

Supplemental balance sheet information related to leases was as follows:

| | <u>Balance Sheet Classification</u> | <u>December 31</u> | |
|---|--|--------------------|--------------|
| | | <u>2019</u> | <u>2018</u> |
| Assets: | | | |
| Operating lease right-of-use asset | Other noncurrent assets | \$1,866 | \$805 |
| Liabilities: | | | |
| Current operating lease liability | Accrued expenses and other current liabilities | \$620 | \$439 |
| Operating lease liability, net of current portion | Other noncurrent liabilities | 1,247 | 376 |
| Total operating lease liability | | <u>\$1,867</u> | <u>\$815</u> |
| Weighted-average remaining lease term (years) | | 3.7 | 2.1 |
| Weighted-average discount rate | | 4.5% | 4.5% |

Future minimum lease payments as of December 31, 2019 are as follows:

| <u>Maturity of Operating Lease Liabilities</u> | |
|--|----------------|
| 2020 | 685 |
| 2021 | 470 |
| 2022 | 355 |
| 2023 | 364 |
| 2024 | 182 |
| Thereafter | 0 |
| Total lease payments | <u>2,056</u> |
| Less: Imputed interest | <u>(189)</u> |
| Present value of remaining lease payments | <u>\$1,867</u> |

Note 10 - 401(k) Retirement Benefit Plan

We maintain a defined contribution 401(k) plan covering substantially all employees. Employees can contribute a portion of their salary or wages as prescribed under Section 401(k) of the Internal Revenue Code and, subject to certain limitations, we may, at the discretion of our Board of Directors, authorize an employer contribution based on a portion of the employees' contributions. For the year ended December 31, 2019, the Company matched 50% on the first 6% contributed by an employee, or a maximum of 3% of the employee's income. For the year ended December 31, 2018, the Company matched 50% on the first 4% contributed by an employee. For 2019 and 2018, we contributed \$319 and \$204, respectively, to the 401(k) plan.

Note 11 - 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 various 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.

2019:

| | Battery & Energy Products | Communications Systems | Corporate | Total |
|---|--|-----------------------------------|------------------|----------------|
| Revenue | \$83,996 | \$22,799 | \$- | \$106,795 |
| Segment contribution | 22,813 | 8,352 | (23,797) | 7,368 |
| Other expense | | | 597 | 597 |
| Income tax expense | | | 1,457 | 1,457 |
| Non-controlling interest | | | 109 | 109 |
| Net income attributable to Ultralife | | | | <u>\$5,205</u> |
| | | | | |
| Total assets | \$79,413 | \$40,458 | \$24,686 | \$144,557 |
| Capital expenditures | \$5,805 | \$44 | \$432 | \$6,281 |
| Goodwill | \$15,260 | \$11,493 | - | \$26,753 |
| Depreciation and amortization of intangible assets | \$2,104 | \$364 | \$277 | \$2,745 |
| Stock-based compensation | \$355 | \$119 | \$279 | \$753 |

2018:

| | Battery & Energy Products | Communications Systems | Corporate | Total |
|---|--|-----------------------------------|------------------|-----------------|
| Revenue | \$70,497 | \$16,693 | \$- | \$87,190 |
| Segment contribution | 19,574 | 6,009 | (19,028) | 6,555 |
| Other income | | | (58) | (58) |
| Income tax benefit | | | (18,386) | (18,386) |
| Non-controlling interest | | | 69 | 69 |
| Net income attributable to Ultralife | | | | <u>\$24,930</u> |
| | | | | |
| Total assets | \$50,648 | \$27,482 | \$42,718 | \$120,848 |
| Capital expenditures | \$2,948 | \$614 | \$623 | \$4,185 |
| Goodwill | \$8,616 | \$11,493 | - | \$20,109 |
| Depreciation and amortization of intangible assets | \$1,611 | \$375 | \$383 | \$2,369 |
| Stock-based compensation | \$333 | \$106 | \$451 | \$890 |

Long-lived assets (including goodwill and intangible assets) held outside the U.S., principally in the United Kingdom and China, were \$12,414 and \$11,502 at December 31, 2019 and 2018, respectively.

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

| 2019: | Total Revenue | United States | Non-United States |
|---------------------------|--------------------------|--------------------------|------------------------------|
| Battery & Energy Products | \$83,996 | \$42,224 | \$41,772 |
| Communications Systems | 22,799 | 21,151 | 1,648 |
| Total | <u>\$106,795</u> | <u>\$63,375</u> | <u>\$43,420</u> |
| | | 59% | 41% |

| 2018: | Total Revenue | United States | Non-United States |
|---------------------------|--------------------------|--------------------------|------------------------------|
| Battery & Energy Products | \$70,497 | \$37,898 | \$32,599 |
| Communications Systems | 16,693 | 15,156 | 1,537 |
| Total | <u>\$87,190</u> | <u>\$53,054</u> | <u>\$34,136</u> |
| | | 61% | 39% |

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

Commercial and Government/Defense Revenue Information:

| 2019: | Total Revenue | Commercial | Government/ Defense |
|---------------------------|--------------------------|-------------------|--------------------------------|
| Battery & Energy Products | \$83,996 | \$59,682 | \$24,314 |
| Communications Systems | 22,799 | - | 22,799 |
| Total | <u>\$106,795</u> | <u>\$59,682</u> | <u>\$47,113</u> |
| | | 56% | 44% |

| 2018: | Total Revenue | Commercial | Government/ Defense |
|---------------------------|--------------------------|-------------------|--------------------------------|
| Battery & Energy Products | \$70,497 | \$41,044 | \$29,453 |
| Communications Systems | 16,693 | - | 16,693 |
| Total | <u>\$87,190</u> | <u>\$41,044</u> | <u>\$46,146</u> |
| | | 47% | 53% |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Rule 13a-15(e)) as of the end of the period covered by this annual 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 Controls 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 fourth quarter of the fiscal year covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting – Our management team is responsible for establishing and maintaining adequate internal control over our financial reporting. Our internal control over financial reporting is a process designed 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. Because of the inherent limitations of internal control systems, our internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework (2013). Based on our assessment, we concluded that, as of December 31, 2019, our internal control over financial reporting was effective based on those criteria.

In accordance with guidance issued by the SEC, registrants are permitted to exclude acquisitions from the final assessment of internal control over financial reporting for the first fiscal year in which the acquisition occurred while integrating the acquired operations. Our management’s evaluation of internal control over financial reporting excluded SWE, which we acquired on May 1, 2019, as discussed in Note 2 to the consolidated financial statements. Total revenue of SWE from the date of acquisition included in our consolidated results represented 18% of our consolidated revenues for the year ended December 31, 2019. Total assets of SWE (excluding acquired goodwill and other intangible assets which were included in management’s evaluation) represented 12% of our consolidated total assets as of December 31, 2019.

Freed Maxick CPAs, P.C., an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Annual Report on Form 10-K, has audited the effectiveness of the Company’s internal control over financial reporting as stated in their report, which is included in Part II, Item 8.

ITEM 9B. OTHER INFORMATION

None.

PART III

The information required by Part III, other than as set forth in Item 12, and each of the following items is omitted from this report and will be presented in our definitive proxy statement ("Proxy Statement") to be filed pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report, in connection with our 2020 Annual Meeting of Shareholders, which information included therein is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The sections entitled "Election of Directors", "Executive Officers", "Delinquent Section 16(a) Reports Compliance" and "Corporate Governance" in the Proxy Statement are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The sections entitled "Executive Compensation", "Directors Compensation", "Employment Arrangements" and "Compensation and Management Committee" in the Proxy Statement are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The section entitled "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" in the Proxy Statement is incorporated herein by reference.

Equity Compensation Plan Information

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|--|--|--|
| Equity compensation plans approved by security holders | 1,541,792 | \$6.88 | 486,272 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | <u>1,541,792</u> | <u>\$6.88</u> | <u>486,272</u> |

See Note 7 in the notes to consolidated financial statements for additional information.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The section entitled "Corporate Governance - General" in the Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The section entitled "Proposal to Ratify the Selection of Independent Registered Accounting Firm - Principal Accountant Fees and Services" in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. Financial Statements

The financial statements and schedules required by this Item 15 are set forth in Part II, Item 8 of this report.

(b) Exhibits. The following exhibits are filed as a part of this report:

| Exhibit Index | Description of Document | Incorporated By Reference from: |
|---------------|---|--|
| 2.1 | Stock Purchase Agreement, dated May 1, 2019, by and among Ultralife Corporation, Southwest Electronic Energy Corporation, Southwest Electronic Energy Medical Research Institute, and Claude Leonard Benckenstein | Exhibit 10.1 of the Form 8-K filed on May 2, 2019 |
| 2.2 | Stock Purchase Agreement Relating to Accutronics Limited by and between Robert Andrew Phillips and Others and Ultralife Corporation | Exhibit 2.2 of the Form 10-K for the year ended December 31, 2015, filed March 2, 2016 |
| 3.1 | Restated Certificate of Incorporation | Exhibit 3.1 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009 |
| 3.2 | Amended and Restated By-laws | Exhibit 3.2 of the Form 8-K filed December 9, 2011 |
| 4.1 | Specimen Stock Certificate | Exhibit 4.1 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009 |
| 10.1* | Amendment to the Agreement relating to rechargeable batteries | Exhibit 10.24 of our Form 10-K for the fiscal year ended June 30, 1996 (this Exhibit may be found in SEC File No. 0-20852) |
| 10.2† | Ultralife Corporation 2014 Long-Term Incentive Plan | Appendix A to our Definitive Proxy Statement filed on April 21, 2014 |
| 10.3† | Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 99.2 of our Registration Statement on Form S-8 filed on July 26, 2004, File No. 333-117662 |
| 10.4† | Amendment No. 1 to Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 99.3 of our Registration Statement on Form S-8 filed August 18, 2006, File No. 333-136737 |
| 10.5† | Amendment No. 2 to Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 99.4 of our Registration Statement on Form S-8 filed November 13, 2008, File No. 333-155349 |
| 10.6† | Amendment No. 3 to Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 99.5 of our Registration Statement on Form S-8 filed November 13, 2008, File No. 333-155349 |
| 10.7† | Employment Agreement between the Registrant and Michael D. Popielec dated December 6, 2010 | Exhibit 10.40 of the Form 10-K for the year ended December 31, 2010, filed March 15, 2011 |
| 10.8† | Amendment No. 4 to Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 4.5 of the Registration Statement on Form S-8 filed on January 30, 2012, File No. 333-179235 |

| | | |
|---------|--|---|
| 10.9† | Amendment No. 5 to Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 10.1 of the Form 8-K filed on May 26, 2011 |
| 10.10† | Restricted Stock Unit Agreement between Ultralife Corporation and Michael D. Popielec. Dated June 4, 2013 | Exhibit 10.1 of the Form 10-Q for the quarter ended June 30, 2013, filed August 9, 2013 |
| 10.11† | Amendment No. 6. to Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan | Appendix A of Form DEF 14A filed on April 22, 2013 |
| 10.12 | Credit and Security Agreement between Ultralife Corporation and KeyBank National Association dated May 31, 2017 | Exhibit 10.1 of the Form 8-K filed on June 6, 2017 |
| 10.13 | First Amendment Agreement, dated May 1, 2019, by and among Ultralife Corporation, Southwest Electronic Energy Corporation, CLB, INC., and KeyBank National Association | Exhibit 10.1 of the Form 8-K filed on May 2, 2019 |
| 21 | Subsidiaries | Filed herewith |
| 23.1 | Consent of Freed Maxick CPAs, P.C. | Filed herewith |
| 31.1 | CEO 302 Certifications | Filed herewith |
| 31.2 | CFO 302 Certifications | Filed herewith |
| 32 | 906 Certifications | Filed herewith |
| 100.INS | XBRL Instance Document | Filed herewith |
| 100.SCH | XBRL Taxonomy Extension Schema Document | Filed herewith |
| 100.CAL | XBRL Taxonomy Calculation Linkbase Document | Filed herewith |
| 100.LAB | XBRL Taxonomy Label Linkbase Document | Filed herewith |
| 100.PRE | XBRL Taxonomy Presentation Linkbase Document | Filed herewith |
| 100.DEF | XBRL Taxonomy Definition Document | Filed herewith |

* Confidential treatment has been granted as to certain portions of this exhibit.

† Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ULTRALIFE CORPORATION

Date: February 6, 2020

/s/ Michael D. Popielec
Michael D. Popielec
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: February 6, 2020

/s/ Michael D. Popielec
Michael D. Popielec
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: February 6, 2020

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

Date: February 6, 2020

/s/ Thomas L. Saeli
Thomas L. Saeli (Director)

Date: February 6, 2020

/s/ Robert W. Shaw II
Robert W. Shaw II (Director)

Date: February 6, 2020

/s/ Ranjit C. Singh
Ranjit C. Singh (Director)

Date: February 6, 2020

/s/ Bradford T. Whitmore
Bradford T. Whitmore (Director)

INDEX TO EXHIBITS

| | |
|---------|--|
| 21 | Subsidiaries |
| 23.1 | Consent of Freed Maxick CPAs, P.C. |
| 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 |

SUBSIDIARIES

We have a 100% ownership interest in Ultralife Batteries (UK) LTD, incorporated in the United Kingdom.

We have a 100% ownership interest in ABLE New Energy Co., Limited, incorporated in Hong Kong, which has a 100% ownership interest in ABLE New Energy Co., Ltd, incorporated in the People's Republic of China.

We have a 100% ownership interest in Ultralife Energy Services Corporation, incorporated in Florida.

We have a 51% ownership interest in Ultralife Batteries India Private Limited, incorporated in India.

Through our ownership interest in Ultralife UK LTD, we have a 100% controlling interest in Accutronics, Ltd., also incorporated in the United Kingdom.

We have 100% ownership interest in Southwest Electronic Energy Corporation and its wholly-owned subsidiary, CLB, Inc. (collectively "SWE"), both incorporated in Texas.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-117662, 333-136737, 333-155349, 333-179235 and 333-203037) of our report dated February 6, 2020, relating to the consolidated financial statements and effectiveness of internal control over financial reporting of Ultralife Corporation appearing in this Annual Report on Form 10-K for the year ended December 31, 2019.

/s/ Freed Maxick CPAs, P.C.

Rochester, New York
February 6, 2020

I, Michael D. Popielec, certify that:

1. I have reviewed this annual report on Form 10-K 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 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: February 6, 2020

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

I, Philip A. Fain, certify that:

1. I have reviewed this annual report on Form 10-K 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 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: February 6, 2020

/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 Annual Report on Form 10-K for the year ended December 31, 2019 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: February 6, 2020

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

Date: February 6, 2020

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

This certification is being furnished as required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate this certification by reference.

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

**FORM 10-K/A
(Amendment No. 1)**

(Mark One)

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

For the fiscal year ended December 31, 2019

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 CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation of organization)

16-1387013

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

2000 Technology Parkway Newark, New York 14513

(Address of principal executive offices) (Zip Code)

(315) 332-7100

(Registrant's telephone number, including area code:)

None

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.10 par value per share

(Title of each class)

ULBI

(Trading Symbol)

NASDAQ

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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 by Rule 12b-2 of the Exchange Act). Yes
No

On June 30, 2019, the aggregate market value of the common stock held by non-affiliates as defined in Rule 405 under the Securities Act of 1933) of the registrant was approximately \$78,106,659 (in whole dollars) based upon the closing price for such common stock as reported on the NASDAQ Global Market on June 30, 2019.

As of April 24, 2020 the registrant had 15,879,284 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K of Ultralife Corporation (the “Company”) for the year ended December 31, 2019 as originally filed with the Securities and Exchange Commission on February 6, 2020 (the “Original Form 10-K”) is being filed solely to include the information required by Items 10 through 14 of Part III and to amend Item 15 of Part IV and the Index of Exhibits of Form 10-K. This information from Part III of Form 10-K was previously omitted from the Original Form 10-K in reliance on General Instruction G(3) to Form 10-K, which permits the information in the above referenced items to be incorporated in the Form 10-K by reference from our definitive proxy statement if such statement is filed no later than 120 days after our fiscal year-end. We are including this Part III information in this Amendment No. 1 to our Form 10-K because we will not file a definitive proxy statement containing such information within 120 days after the end of the fiscal year covered by the Original Form 10-K. We plan on filing our definitive proxy statement on or about June 1, 2020 as we are holding our 2020 Annual Stockholders’ Meeting (the “Meeting”) on July 22, 2020.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended (“Exchange Act”), Part III, Items 10 through 14, and Part IV, Item 15 of the Original Form 10-K are hereby amended and restated in their entirety. The reference on the cover of the Original Form 10-K to the incorporation by reference to portions of our definitive proxy statement into Part III of the Original Form 10-K is hereby deleted. Pursuant to Rule 12b-15 under the Exchange Act, this Amendment No. 1 contains new certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, which are attached hereto.

Except as set forth in the first paragraph of this Explanatory Note, this Amendment No. 1 does not amend, modify, or otherwise update any other information in and on exhibits filed with the Original Form 10-K. Accordingly, this Amendment No.1 should be read in conjunction with the Original Form 10-K. In addition, this Amendment No. 1 does not reflect events that may have occurred subsequent to the filing date of the Original Form 10-K.

Unless expressly indicated or the context requires otherwise, the terms “the Company”, “we”, “our”, and “us” in this document refer to Ultralife Corporation (“Ultralife”), a Delaware corporation, and, where appropriate, its subsidiaries.

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PART IV

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

Our directors are elected to serve until the next annual meeting of stockholders and until his or her successor shall have been duly elected and qualified. Except for Mr. Popielec, none of the individuals nominated for re-election to our Board, is or has been employed by a parent, subsidiary or other affiliate of the Company. Certain information with respect to our directors is presented below.

| <u>Name</u> | <u>Age</u> | <u>Present Principal Occupation, Employment History and Expertise</u> |
|----------------------------|------------|--|
| Michael D. Popielec | 58 | Mr. Popielec has served as our President and Chief Executive Officer and as a director of the Company since December 30, 2010. Mr. Popielec has over 30 years' experience in growing domestic and international industrial businesses. Prior to joining us, Mr. Popielec operated his own management consulting business in 2009 to 2010 and was Group President, Applied Technologies in 2008 and 2009 and Group President, Diversified Components from 2005 to 2007 at Carlisle Companies, Inc., a \$2.5 billion diversified global manufacturer. Prior to that, from 2003 to 2005, he held various positions, including Chief Operating Officer, Americas, for Danka Business Systems, PLC. From 1985 to 2002, Mr. Popielec held positions of increasing responsibility at General Electric Company, culminating in his serving as a GE corporate officer and as President and Chief Executive Officer of GE Power Controls, the European arm of GE Industrial Systems. Mr. Popielec has a B.S. in Mechanical Engineering from Michigan State University. Mr. Popielec has been nominated for re-election to our Board of Directors because of his operations expertise and his experience in growing domestic and international industrial businesses. |
| Thomas L. Saeli | 63 | Mr. Saeli has been a director of the Company since March 5, 2010. Since 2011, Mr. Saeli has served as the Chief Executive Officer and a director of John R. Burt Enterprises, a diversified manufacturer of primarily commercial low slope roofing systems. From 2009 to 2011, Mr. Saeli was a consultant to international corporate clients on matters involving business development strategies, acquisitions and operations. He previously served as Chief Executive Officer and a member of the board of directors of Noble International, Ltd., an international automotive supplier. Prior to that, Mr. Saeli was Vice President of Corporate Development for Lear Corporation, an international automotive supplier. Over the past five years, Mr. Saeli has served on various boards of privately held businesses and nonprofit organizations. Mr. Saeli has a BA in Economics from Hamilton College, and an MBA in Finance and Accounting from Columbia University's Graduate School of Business. Mr. Saeli has been nominated for re-election to our Board of Directors because of his manufacturing, corporate development, mergers and acquisitions and finance experience. Mr. Saeli qualifies as an audit committee financial expert under applicable SEC rules. |

| | | |
|-----------------------------|----|---|
| Robert W. Shaw II | 63 | Mr. Shaw has been a director of the Company since June 8, 2010. Currently he is on the board of directors for Pratt Miller, Inc., a large engineering company for automotive racing and defense businesses. Additionally, he is a senior advisor to HMS Global Maritime, a marine operator of domestic ferry companies and the US government, the American Queen Steamboat Company, a \$100 million operator of overnight cruise ships, and for Hornblower Group, an operator of a large fleet of excursion vessels. Mr. Shaw has served as the president of the largest dining and excursion boat operator in the United States, with over 100 vessels. He has been president of a large mechanical contracting company specializing in the federal government and healthcare markets. Mr. Shaw served in the US Marine Corps as an infantry Captain, has an MBA degree from Harvard University and an engineering degree from Cornell University. Mr. Shaw has been nominated for re-election to our Board of Directors because of his management expertise and experience as an executive officer. |
| Ranjit C. Singh | 67 | Mr. Singh has been a director of the Company since August 2000 and served as Chair of our Board of Directors from December 2001 to June 2007. Mr. Singh is currently the Chief Executive Officer of CSR Consulting Group, which provides business and technology consulting services, a position that he has held since 2008. He previously served as President and Chief Executive Officer of Aptara, a content outsourcing services company, from February 2003 until July 2008. Prior to that, he was President and Chief Operating Officer of ContentGuard, which develops and markets digital property rights software. Before joining ContentGuard, Mr. Singh worked for Xerox as a corporate Senior Vice President responsible for the software and services businesses. Mr. Singh has a BS and MS in Electrical Engineering from University of Bath, England and MBA from WPI. Mr. Singh has been nominated for re-election to our Board of Directors because of his experience as an executive of growing technology-based companies, his familiarity with international operations and his expertise in mergers and acquisitions. |
| Bradford T. Whitmore | 62 | Mr. Whitmore has been a director of the Company since June 2007 and Chair of our Board of Directors since March 2010. Since 1985, he has been the Managing Partner of Grace Brothers LP, an investment firm that holds approximately 3% of the outstanding shares of our common stock. Mr. Whitmore and Grace Brothers LP collectively hold or claim beneficial ownership of 34.7% of the outstanding shares of our common stock. Mr. Whitmore has a BS in Mechanical Engineering from Purdue University and an MBA from Northwestern University's J.L. Kellogg Graduate School of Management. Over the past five years, Mr. Whitmore has served as a director of several privately held companies in which Grace Brothers LP and its affiliates held investments as well as not-for-profit organizations. Mr. Whitmore has been nominated for re-election to our Board of Directors because of his corporate development expertise and significant expertise in corporate financial matters. |

Executive Officers

Our executive officers are appointed annually by our Board of Directors. Our executive officers for fiscal 2019 were:

- Michael D. Popielec, President and Chief Executive Officer
- Philip A. Fain, Chief Financial Officer, Treasurer and Secretary

Other than for Mr. Popielec, whose information is set forth with the other directors standing for election, certain information with respect to Philip A. Fain, our other executive officer, is presented below.

| <u>Name</u> | <u>Age</u> | <u>Present Principal Occupation and Employment History</u> |
|----------------|------------|---|
| Philip A. Fain | 65 | Mr. Fain was named our Chief Financial Officer in November 2009, Treasurer in December 2009 and Corporate Secretary in April 2013. He previously served as Vice President of Business Development, having joined us in February 2008. Prior to joining us, he was Managing Partner of CXO on the GO, LLC, a management-consulting firm, which he co-founded in November 2003 and which we retained in connection with our acquisition activity. Prior to founding CXO on the GO, LLC, Mr. Fain served as Vice President of Finance - RayBan Sunoptics for Luxottica, SpA. Prior to the acquisition of Bausch & Lomb's global eyewear business by Luxottica, Mr. Fain served as Bausch & Lomb's Senior Vice President Finance - Global Eyewear from 1997 to 1999 and as Vice President and Controller for the US Sunglass business from 1993 to 1996. In these roles, he led the process to acquire some of the World's most sought after sunglass companies and brands for Bausch & Lomb. From 1983 to 1993, Mr. Fain served in various positions with Bausch & Lomb including executive positions in corporate accounting, finance and audit. Mr. Fain began his career as a CPA and consultant with Arthur Andersen & Co. in 1977. He received his B.A. in Economics from the University of Rochester and an MBA from the William E. Simon Graduate School of Business Administration of the University of Rochester. |

Corporate Governance

General

Pursuant to the General Corporation Law of the State of Delaware and our By-laws, our business, property and affairs are managed under the direction of our Board of Directors. Members of our Board of Directors are kept informed of Company business through regular discussions with our President and Chief Executive Officer and our Chief Financial Officer, Treasurer and Secretary, by reviewing materials provided to them by the Company's management and by participating in meetings of the Board and its committees.

On September 23, 2019, General (Ret.) Steven M. Anderson notified the Company of his resignation as a member of the Company's Board, which resignation was effective upon receipt. General (Ret.) Anderson's resignation was not the result of any disagreement with the Company on any matter relating to the operations, policies or practices of the Company.

Our Board of Directors has determined that all but one of our directors, Michael D. Popielec, who serves as our President and Chief Executive Officer, are "independent" for purposes of NASDAQ listing standards applicable to the Corporate Development and Governance Committee and the Compensation and Management Committee. In addition, our Board of Directors has determined that all but two of our Directors, Michael D. Popielec and Bradford T. Whitmore, our Board Chair, are independent for purposes of NASDAQ listing standards applicable to the Audit and Finance Committee. We believe that the segregation of the roles of Board Chair from that of the President and Chief Executive Officer ensures better overall governance of our Company and provides meaningful checks and balances regarding our overall performance. This structure allows our President and Chief Executive Officer to focus on our business while the Board Chair leads our Board of Directors in establishing corporate policy and enhancing our governance structure and practices.

Our Board of Directors has three standing committees: an Audit and Finance Committee, a Corporate Development and Governance Committee, and a Compensation and Management Committee. During 2019, our Board of Directors held five meetings and the committees of our Board of Directors held a total of thirteen meetings. During 2019, Bradford T. Whitmore served as our Board Chair. As Board Chair, Mr. Whitmore served as a non-voting ex-officio member of all of our Board committees. Each director attended at least 75% of the aggregate of: (1) the total number of meetings of the Board; and (2) the total number of meetings held by all committees of the Board on which he or she served.

Our Board of Directors has adopted a charter for each of the three standing committees that addresses the composition and function of each committee and has also adopted Corporate Governance Principles that address the composition and function of the Board of Directors. These charters and Corporate Governance Principles are available on our website at

<http://investor.ultralifecorporation.com> under the subheading “Corporate Governance.” Pursuant to our Corporate Governance Principles, it is our policy that directors retire from service at the annual meeting following their 70th birthday.

Our Board of Directors has determined that all of the directors who serve on these committees are “independent” for purposes of NASDAQ listing standards, and that the members of the Audit and Finance Committee are also “independent” for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended, which we refer to in this proxy statement as the Exchange Act. Our Board of Directors based these determinations primarily on a review of the responses of the directors to questions regarding employment, compensation history, affiliations and family and other relationships, and on follow-up discussions with directors.

Committees of the Board of Directors

The composition and the functions of our three standing committees of our Board of Directors are set forth below. Our Board of Directors will appoint members of the committees and designate Chairs of those committees from among those individuals elected at the Meeting to serve on our Board of Directors until the 2021 Annual Meeting of Stockholders.

Audit and Finance Committee

The current members of the Audit and Finance Committee are Thomas L. Saeli (Chair), Robert W. Shaw II and Ranjit C. Singh. This committee selects our independent registered public accounting firm and has oversight responsibility for reviewing the scope and results of the independent registered public accounting firm’s annual audit of our financial statements and the quality and integrity of those financial statements. Further, the committee reviews the qualifications and independence of the independent registered public accounting firm, and meets with our Chief Financial Officer and Treasurer, our Corporate Controller and the independent registered public accounting firm to review matters relating to internal accounting controls, our accounting practices and procedures and other matters relating to our financial condition, and has the power to engage outside counsel and other outside experts. The committee also reviews and monitors areas of financial and cybersecurity risk that could have a material impact on our Company. The Audit and Finance Committee met five times during 2019.

Our Board of Directors has determined that each of the members of the Audit and Finance Committee is “financially literate” in accordance with NASDAQ listing standards. In addition, our Board of Directors has determined that Mr. Saeli qualifies as an “audit committee financial expert” as defined in Item 407(d)(5) of Regulation S-K.

Corporate Development and Governance Committee

The current members of the Corporate Development and Governance Committee are Ranjit C. Singh (Chair) and Robert W. Shaw II. This committee works with management to develop corporate strategy and to identify and evaluate acquisition opportunities, reviews the performance and compensation of our directors annually, makes recommendations to our Board of Directors for membership and committee assignments and for the compensation of our directors, and manages the annual evaluation of the performance of our President and Chief Executive Officer and our Board Chair. The Corporate Development and Governance Committee met four times during 2019.

The Corporate Development and Governance Committee identifies potential nominees for director based on its own research for appropriate candidates as well as on recommendations received by directors or from stockholders as described below. The Corporate Development and Governance Committee has the authority to retain an executive search firm to assist in the identification of potential director nominees. The evaluation process and the factors considered in undertaking that evaluation are set forth under the caption “Stockholder Recommendations and Standards for Director Nominations” below.

The Corporate Development and Governance Committee also has overall responsibility for assessing and managing our exposure to risks associated with the conduct of our business.

Compensation and Management Committee

The current members of the Compensation and Management Committee are Robert W. Shaw II (Chair) and Thomas L. Saeli. The Compensation and Management Committee has ultimate responsibility for determining the compensation of officers elected by our Board of Directors, granting stock options and other equity awards and otherwise administering our equity compensation plans, and approving and administering any other compensation plans or agreements. The Compensation and Management Committee has the authority to retain outside experts in making compensation determinations. Our 2014 Long-Term Incentive Plan (“2014 LTIP”) is administered by the Compensation and Management Committee. The Compensation and Management Committee met four times during 2019.

Stockholder Recommendations and Standards for Director Nominations

As noted above, the Corporate Development and Governance Committee considers and establishes procedures regarding recommendations for nomination to our Board of Directors, including nominations submitted by stockholders. Such recommendations, if any, should be sent to Corporate Secretary, Attn: Philip A. Fain, Ultralife Corporation, 2000 Technology Parkway, Newark, New York 14513. Any recommendations submitted to the Corporate Secretary should be in writing and should include any material the stockholder considers appropriate in support of that recommendation, but must include the information that would be required under the rules of the SEC in a proxy statement soliciting proxies for the election of such candidate and a signed consent of the candidate to serve as a director, should he or she be elected. The Corporate Development and Governance Committee evaluates all potential candidates in the same manner, regardless of the source of the recommendation.

Based on the information provided to the Corporate Development and Governance Committee with respect to director candidates, the Corporate Development and Governance Committee will make an initial determination whether to conduct a full evaluation of a candidate. The Corporate Development and Governance Committee considers the composition and size of the existing Board of Directors, along with other factors, in making its determination to conduct a full evaluation of a candidate. As part of the full evaluation process, the Corporate Development and Governance Committee may conduct interviews, obtain additional background information and conduct reference checks of candidates. The Corporate Development and Governance Committee may also ask the candidate to meet with management and other members of our Board of Directors. In evaluating a candidate, our Board of Directors, with the assistance of the Corporate Development and Governance Committee, takes into account a variety of factors as described in our Corporate Governance Principles, including the particular experience, attributes and skills that would qualify the candidate to serve as a director. The criteria for selection to our Board of Directors include character and leadership skills; general business acumen and executive experience; knowledge of strategy, finance and relations between business and government; and internal business operations – all to ensure an active Board of Directors whose members work well together and possess the collective knowledge and expertise required to meaningfully contribute as directors. Our Corporate Development and Governance Committee reviews the qualifications of director candidates with those of our current directors to augment and complement the skill sets of our current Board members. We believe that it is important for our Board of Directors to be comprised of individuals with diverse backgrounds, skills and experiences. Although we do not have a formal diversity policy and identify qualified potential candidates without regard to any particular classification, we believe that possessing a breadth of experience and qualifications, as our Board does, promotes Board diversity.

Annual Meeting Attendance

Our policy is that all of the directors, absent special circumstances, should participate in our Annual Meeting of Stockholders, either in person or telephonically. All directors participated in last year's Annual Meeting of Stockholders.

Executive Sessions

Our Corporate Governance Principles require our independent directors to meet in executive session regularly by requiring them to have at least four regularly scheduled meetings per year without management present. Our independent directors met in executive session four times during 2019. In addition, our standing committees meet in executive session on a regular basis.

Communicating with the Board of Directors

Stockholders interested in communicating directly with our Board of Directors as a group or individually may do so in writing to our Corporate Secretary, Attn. Philip A. Fain, Ultralife Corporation, 2000 Technology Parkway, Newark, New York 14513. The Corporate Secretary will review all such correspondence and forward to our Board of Directors a summary of that correspondence and copies of any correspondence that, in his opinion, deals with the functions of the Board of Directors or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by us that are addressed to members of the Board of Directors and request copies of any such correspondence. Any concerns relating to accounting, internal controls or auditing matters will be brought to the attention of the Audit and Finance Committee and handled in accordance with the procedures established by the Audit and Finance Committee with respect to such matters.

Risk Management

Our management team is responsible for assisting the Corporate Development and Governance Committee in its assessment of our exposure to risks associated with the conduct of business. We have an enterprise risk management process to identify, assess and manage the most significant risks facing our Company. Our Corporate Development and Governance Committee

has overall responsibility to review management's risk management process, including the policies and guidelines used by management to identify, assess and manage our exposure to risk. Our Audit and Finance Committee has oversight responsibility for financial risks and other risks that could have a material impact on our Company. Our management reviews these financial risks with our Audit and Finance Committee regularly and reviews the risk management process, as it affects financial risks, with our Audit and Finance Committee on an on-going basis.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who own more than 10% of our common stock to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of our common stock and our other equity securities. To our knowledge, based solely on the written representations of our directors and executive officers and the copies of such reports filed with the SEC during 2019, all Section 16(a) filings applicable to our officers, directors and more than 10% beneficial owners were filed in a timely manner.

Code of Ethics

We have a Code of Ethics applicable to all employees, including our executive officers and all members of our Board of Directors. Our Code of Ethics incorporates the elements of a code of ethics specified in Item 406 of Regulation S-K and also complies with NASDAQ requirements for a code of conduct. Stockholders can find a link to this Code of Ethics on our website at <http://investor.ultralifecorporation.com> under the subheading "Corporate Governance."

Our Code of Ethics emphasizes our commitment to conducting business in a legal and ethical manner and encourages prompt and confidential reporting of any suspected violations of law or the Code of Ethics. As part of our Code of Ethics, directors and employees are expected to make business decisions and to take actions based upon the best interests of our Company and not based upon personal relationships or benefits. In conjunction with our Code of Ethics, our General Counsel conducts an annual training session with our Board of Directors with emphasis on all facets of compliance with new and existing regulations and best practices. Any potential conflict of interest, and any transaction or relationship involving our officers or directors that could give rise to a conflict of interest, must be reviewed and resolved by our Corporate Development and Governance Committee.

Employee, Officer and Director Hedging

Pursuant to our Insider Trading Compliance Policy, the Company's directors, officers and employees are prohibited from engaging in short sales of Ultralife securities or from buying or selling put options, call options or other derivatives of Ultralife securities.

ITEM 11. EXECUTIVE COMPENSATION

Director Compensation

We presently use cash compensation to attract and retain qualified candidates to serve on our Board of Directors. Our practice is to survey our peer group companies periodically to ascertain whether our overall director compensation is appropriate and balanced. If we perceive that there has been a major change in our Company or the market, we may alter the time between surveys. In setting director compensation, we consider the amount of time that directors spend fulfilling their duties to us, the skill-level required by members of our Board of Directors, and, based on publicly available data, the compensation paid to directors in similar sized organizations in our industry. Our program is designed to deliver annual director compensation at the median levels of director compensation for companies in similar industries and of similar size. Our annual director compensation period runs from July 1 to June 30.

Annual Retainers

Each non-employee director will receive an annual cash retainer of \$70,040, except for the Board Chair, who will receive an annual cash retainer of \$103,000 for the period July 1, 2019 through June 30, 2020. Each non-employee director received an annual cash retainer of \$68,000, except for the Board Chair, who received an annual cash retainer of \$100,000 for the period July 1, 2018 through June 30, 2019. These retainers are paid quarterly in cash. In addition, each director who is a member of a Board committee receives an additional cash retainer for such committee service.

Annual retainers for Board committee service for the period July 1, 2019 to June 30, 2020:

| | <u>Annual Retainer for Committee Members</u> | <u>Annual Retainer for Committee Chair</u> |
|---|--|--|
| Audit and Finance Committee | \$6,950 | \$17,250 |
| Compensation and Management Committee | \$5,410 | \$13,650 |
| Corporate Development and Governance Committee | \$6,950 | \$17,250 |

Annual retainers for Board committee service for the period July 1, 2018 to June 30, 2019:

| | <u>Annual Retainer for Committee Members</u> | <u>Annual Retainer for Committee Chair</u> |
|---|--|--|
| Audit and Finance Committee | \$6,750 | \$16,750 |
| Compensation and Management Committee | \$5,250 | \$13,250 |
| Corporate Development and Governance Committee | \$6,750 | \$16,750 |

Annual retainers for both committee members and committee chairs are paid quarterly in cash. For Board and committee service during the fiscal year ended December 31, 2019, we paid our non-employee directors an aggregate \$442,500.

Our non-employee directors have stock ownership guidelines that require them to maintain ownership of at least \$40,000 of our common stock. Newly elected directors have two years from their election to the Board to achieve the stock ownership requirement. Currently, all of our non-employee directors meet the stock ownership guidelines. Refer to the Executive Officer Compensation section contained herein for stock ownership guidelines for our executive officers.

Director Compensation Table

The table below summarizes the compensation paid by us to our non-employee directors for their service for the fiscal year ended December 31, 2019.

| <u>Name</u> | <u>Fees Paid in Cash (\$)</u> | <u>Stock Awards (\$)</u> | <u>Option Awards (\$)</u> | <u>Non- Equity Incentive Plan Compensation</u> | <u>Nonqualified Deferred Compensation Earnings</u> | <u>All Other Compensation (\$)</u> | <u>Total (\$)</u> |
|----------------------|---------------------------------------|------------------------------|-------------------------------|--|--|--|-------------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | |
| Steven M. Anderson | 65,716 | - | - | - | - | - | 65,716 |
| Thomas L. Saeli | 91,352 | - | - | - | - | - | 91,352 |
| Robert W. Shaw II | 91,060 | - | - | - | - | - | 91,060 |
| Ranjit C. Singh | 92,872 | - | - | - | - | - | 92,872 |
| Bradford T. Whitmore | 101,500 | - | - | - | - | - | 101,500 |
| | <u>442,500</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>442,500</u> |

- (1) On September 23, 2019, General (Ret.) Steven M. Anderson notified Ultralife Corporation (the “Company”) of his resignation as a member of the Company’s Board of Directors (the “Board”), which resignation was effective upon receipt. General (Ret.) Anderson’s resignation was not the result of any disagreement with the Company on any matter relating to the operations, policies or practices of the Company.
- (2) Amounts shown represent cash compensation earned during for 2019. Amounts may differ from amounts paid in 2019 due to timing of payments.
- (3) There were no stock awards granted to our non-employee directors during 2019 or outstanding at December 31, 2019.
- (4) There were no option awards granted to our non-employee directors during 2019 or outstanding at December 31, 2019.
- (5) There was no non-equity incentive plan compensation paid to our non-employee directors for the fiscal year ended December 31, 2019.

- (6) There were no deferred compensation earnings for our non-employee directors for the fiscal year ended December 31, 2019.
- (7) There was no other compensation paid to our non-employee directors for the fiscal year ended December 31, 2019.

Michael D. Popielec, our President and Chief Executive Officer, is ineligible to receive compensation for his service as a director because he is also an employee. Refer to the Summary Compensation Table for the compensation of our executive officers.

Executive Officer Compensation

This Amendment No. 1 provides certain information relating to the compensation of our named executive officers. We have determined that Messrs. Popielec and Fain were our only named executive officers for 2019.

As a smaller reporting company under the Securities Exchange Act of 1934, as amended, we are providing executive compensation information in accordance with the scaled disclosure requirements of Regulation S-K. As a result, Compensation Disclosure and Analysis (“CD&A”) and certain other disclosures are not included.

Summary Compensation Table

The following table sets forth information concerning the compensation earned by or awarded to our executive officers for their services in all capacities to us during 2019 and 2018:

| Name and Principal Position | Year | Salary | Bonus (\$) | Stock | Option | All Other | Total (\$) |
|--|------|---------|------------|-------------|-------------|-------------------|------------|
| | | (1) | (2) | Awards (\$) | Awards (\$) | Compensation (\$) | |
| Michael D. Popielec, President and Chief Executive Officer | 2019 | 526,579 | 93,255 | - | 169,895 | 21,058 | 810,786 |
| | 2018 | 513,080 | 70,350 | - | 353,841 | 18,446 | 955,717 |
| Philip A. Fain, Chief Financial Officer, Treasurer and Secretary | 2019 | 335,433 | 46,861 | - | 94,386 | 13,342 | 490,021 |
| | 2018 | 326,814 | 29,874 | - | 85,733 | 10,179 | 452,600 |

- (1) Amounts shown represent base salary cash compensation paid during the respective years. Amounts may differ from amounts earned due to timing of payroll periods. Refer to the “Narrative to Summary Compensation Table” below for further information.
- (2) Amounts shown represent short-term incentive plan (“STIP”) cash awards earned during the respective years and paid in the subsequent year. Refer to the “Narrative to Summary Compensation Table” for further information.
- (3) There were no stock awards other than stock options granted during fiscal years 2019 and 2018.
- (4) 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 (“2004 LTIP”), modified the option previously granted to Mr. Popielec to purchase 200,000 shares of our common stock at \$10.00 per share, such that the option will fully vest immediately upon our common stock first reaching a closing price of \$10.00 per share for 15 trading days in a 30 trading-day period. The option as previously granted provided for vesting in annual increments of 50,000 shares on each of the four anniversaries of the date our common stock first reached a closing price of \$10.00 per share for 15 trading days in a 30 trading-day period. The option became fully vested during the third quarter 2018 subsequent to modification and expires December 30, 2020. Pursuant to Accounting Standards Codification Topic 718, Compensation – Stock Compensation (ASC 718), the transaction was accounted for as an equity award modification. The amount shown for 2018 for Mr. Popielec includes \$182,375 which represents 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.

All other amounts shown represent the aggregate grant date fair value of stock options awarded during the respective years computed in accordance with ASC 718. See the notes to our audited consolidated financial statements included in our Annual Reports on Form 10-K for the fiscal years ended December 31, 2019 and December 31, 2018,

respectively, for the assumptions used in valuing these stock option awards in accordance with ASC 718. Refer to the “Narrative to Summary Compensation Table” below for further information.

(5) Amounts shown as “All Other Compensation” consist of the following:

| | | 401(k) Plan Employer Match (\$) | Other Benefits ^(a) (\$) | Total (\$) |
|----------------------------|-------------|--|---|-----------------------|
| Michael D. Popielec | 2019 | 8,400 | 12,658 | 21,058 |
| | 2018 | 5,500 | 12,946 | 18,446 |
| Philip A. Fain | 2019 | 8,400 | 4,942 | 13,342 |
| | 2018 | 5,500 | 4,679 | 10,179 |

The “Other Benefits” column of the above table includes premiums paid for group medical and dental coverage and long-term care insurance, reimbursement for tax preparation and certain financial planning expenses.

Narrative to Summary Compensation Table

Compensation Overview

Our executive compensation program is evaluated and approved each year by our Compensation and Management Committee. Annual total compensation for our executive officers is comprised of the following key components:

- Base salary;
- Short-term incentive plan (“STIP”);
- Long-term incentive plan (“LTIP”); and
- Limited perquisites and other benefits.

Our executive compensation program is structured to align the interests of our executive officers with those of our stockholders by rewarding performance that achieves successful execution of our business strategy, grows our business and increases stockholder value. Our executive compensation program is designed to incentivize our executive officers to achieve strong financial, operational and strategic performance and to provide a link between the compensation earned by our executives and the creation of long-term sustainable value. The Compensation and Management Committee establishes specific annual, long-term and strategic goals and seeks to reward our executive officers for performance that meets or exceeds those goals. In addition, we expect our executive officers to work toward achievement of these goals while maintaining the highest ethical standards.

Base Salary

The Compensation and Management Committee evaluates the performance of Mr. Popielec, our President and Chief Executive Officer, and presents its evaluation and recommendation for base salary adjustment, if any, to the Board of Directors for approval. Mr. Popielec evaluates the performance of Mr. Fain, our Chief Financial Officer, Treasurer and Secretary, and presents his evaluation and recommendation for a base salary adjustment, if any, to the Compensation and Management Committee, which, in turn, may recommend acceptance of or adjustment to such base salary recommendation to the Board of Directors. If adjustments to base salaries are recommended and approved, the adjustments are made to be effective for a period ranging from twelve to fifteen months from the date of the last salary adjustment.

In April 2019, the Board of Directors, at the recommendation of the Compensation and Management Committee, approved a base salary increase of 3.0% for Mr. Popielec (\$516,273 to \$531,761) and 3.0% for Mr. Fain (\$328,848 to \$338,713). The salary increases were approved by the Committee based on a number of factors including individual and Company performance.

In April 2018, the Board of Directors, at the recommendation of the Compensation and Management Committee, approved a base salary increase of 2.0% for Mr. Popielec (\$506,150 to \$516,273) and 2.0% for Mr. Fain (\$322,405 to

\$328,848). The salary increases were approved by the Committee based on a number of factors including individual and Company performance.

Short-Term Incentive Plan

Our Compensation Committee establishes a STIP each fiscal year to provide our executive officers an opportunity to earn an annual cash award in addition to their base salaries. The STIP is designed to place “at risk” a significant portion of the annual total cash compensation of our executive officers to incentivize them to achieve our short-term financial objectives while making progress toward our longer-term goals. Generally, the STIP target levels are set such that, assuming achievement of pre-established performance metrics, the combined annual base salary and STIP award for our executive officers will be at or near the 50th percentile for executive officers at the companies in our peer group.

For 2019, the STIP target bonus levels for Messrs. Popielec and Fain were 75% and 50% of their respective base salaries. The performance goals to be achieved to be awarded the STIP targeted bonus for 2019 were consolidated operating profit and revenue goals of \$9.7 million and \$102.0 million, respectively, as measured pursuant to generally accepted accounting principles. The STIP award was structured with a 70% weighting on the consolidated operating profit goal and a 30% weighting on the consolidated revenue goal. Achievement of less than 75% of the operating profit goal or less than 85% of the revenue goal would result in no award being earned with respect to that metric. Achievement of 75% to 100% of the operating profit goal and achievement of 85% to 100% of the revenue goal would result in an award ranging from 50% to 100% of the target award with respect to the metric for which such performance levels had been achieved. Achievement of over 100% to 125% of the operating profit goal and over 100% to 125% of the revenue goal would result in an award ranging from 101% to 150% of the target award with respect to the metric for which such performance levels had been achieved. Our executive officers were eligible for a partial award if one of the two metrics was achieved.

Based on our 2019 financial performance, Messrs. Popielec and Fain earned STIP awards for 2019 of \$63,255 and \$26,861, respectively, which were paid in February 2020. In addition, at the recommendation of the Compensation Committee, the Board of Directors approved discretionary bonuses of \$30,000 and \$20,000 for Mr. Popielec and Mr. Fain, respectively, which were paid in February 2020 for their roles in the 2019 acquisition and integration of Southwest Electronic Energy Corporation.

For 2018, the STIP target bonus levels for Messrs. Popielec and Fain were 75% and 50% of their respective base salaries. The performance goals to be achieved to be awarded the STIP targeted bonus for 2018 were consolidated operating profit and revenue goals of \$8.4 million and \$93.5 million, respectively, as measured pursuant to generally accepted accounting principles. The STIP award was structured with a 70% weighting on the consolidated operating profit goal and a 30% weighting on the consolidated revenue goal. Achievement of less than 75% of the operating profit goal or less than 89% of the revenue goal would result in no award being earned with respect to that metric. Achievement of 75% to 100% of the operating profit goal and achievement of 89% to 100% of the revenue goal would result in an award ranging from 50% to 100% of the target award with respect to the metric for which such performance levels had been achieved. Achievement of over 100% to 125% of the operating profit goal and over 100% to 125% of the revenue goal would result in an award ranging from 101% to 150% of the target award with respect to the metric for which such performance levels had been achieved. Our executive officers were eligible for a partial award if one of the two metrics was achieved.

Based on our 2018 financial performance, Messrs. Popielec and Fain earned STIP awards for 2018 of \$70,350 and \$29,874, respectively, which were paid in February 2019.

Long-Term Incentive Plan

Stock options and other equity awards are used to align the interests of our executive officers with those of our stockholders by incentivizing our executive officers to achieve long-term growth and sustainable stockholder value.

Refer to “Outstanding Equity Awards” below for stock options granted during 2019 and 2018. There were no other equity-based awards granted to our executive officers during 2019 and 2018.

Retirement Benefits

We provide a tax-qualified 401(k) plan to all active employees that provides for both employer and employee contributions. Under this plan, employees may contribute a portion of their eligible cash compensation to the plan. For 2019, the Company matched 50% on the first 6% of an employee's eligible contributions. For 2018, the Company matched 50% on the first 4% of an employee's eligible contributions.

Perquisites and Other Personal Benefits

We provide our executive officers with certain perquisites and other personal benefits which are consistent with the objectives of our overall compensation program to better enable us to attract and retain superior employees for key positions. The Compensation and Management Committee periodically reviews the levels of such perquisites and other personal benefits to ensure they remain at appropriate levels. The aggregate incremental costs of the perquisites and other personal benefits provided to our executive officers are included in the "All Other Compensation" column of the Summary Compensation Table with components detailed in an accompanying note.

Outstanding Equity Awards

The following table sets forth information concerning the number of shares underlying exercisable and non-exercisable stock option awards outstanding at December 31, 2019 for our executive officers.

| Name | Equity Incentive Plan Awards: | | | | |
|---------------------|--|--|---|----------------------------------|------------------------------|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Number of Securities Underlying Unexercised Options (#) Unearned | Option Exercise Price (\$) | Option Expiration Date |
| Michael D. Popielec | 50,000 | - | - | 6.4218 | 12/30/2020 |
| | 250,000 | - | - | 6.4218 | 12/30/2020 |
| | 200,000 | - | - | 10.0000 | 12/30/2020 |
| | 40,000 | - | - | 3.7103 | 3/3/2022 |
| | 20,000 | - | - | 3.7876 | 3/5/2022 |
| | 40,000 | - | - | 4.2902 | 6/1/2023 |
| | 13,334 | 26,666 (1) | - | 9.8514 | 4/18/2025 |
| | - | 45,000 (2) | - | 8.2523 | 7/23/2026 |
| Philip A. Fain | 70,000 | - | - | 3.9384 | 3/4/2021 |
| | 30,000 | - | - | 3.7103 | 3/3/2022 |
| | 20,000 | - | - | 4.2902 | 6/1/2023 |
| | 13,334 | 6,666 (3) | - | 5.7075 | 4/19/2024 |
| | 6,667 | 13,333 (4) | - | 9.8514 | 4/18/2025 |
| | - | 25,000 (5) | - | 8.2523 | 7/23/2026 |

- (1) On April 18, 2018, our Board of Directors, on recommendation of the Compensation and Management Committee, granted to Mr. Popielec the option to purchase 40,000 shares of our common stock. This option vested with respect to 13,334 shares on April 18, 2019 and 13,333 shares on April 18, 2020, and will vest with respect to 13,333 shares on April 18, 2021.
- (2) On July 23, 2019, our Board of Directors, on recommendation of the Compensation and Management Committee, granted to Mr. Popielec the option to purchase 45,000 shares of our common stock. This option will vest with respect to 15,000 shares on July 23, 2020, 15,000 shares on July 23, 2021 and 15,000 shares on July 23, 2022.

- (3) On April 19, 2017, our Board of Directors, on recommendation of the Compensation and Management Committee, granted to Mr. Fain the option to purchase 20,000 shares of our common stock. This option vested with respect to 6,667 shares on April 19, 2018, 6,667 shares on April 19, 2019, and 6,666 shares on April 19, 2020.
- (4) On April 18, 2018, our Board of Directors, on recommendation of the Compensation and Management Committee, granted to Mr. Fain the option to purchase 20,000 shares of our common stock. This option vested with respect to 6,667 shares on April 18, 2019 and 6,667 shares on April 18, 2020, and will vest with respect to 6,666 shares on April 18, 2021.
- (5) On July 23, 2019, our Board of Directors, on recommendation of the Compensation and Management Committee, granted to Mr. Fain the option to purchase 25,000 shares of our common stock. This option will vest with respect to 8,334 shares on July 23, 2020, 8,333 shares on July 23, 2021 and 8,333 shares on July 23, 2022.

There were no other equity awards outstanding at December 31, 2019 for our executive officers.

Employment Arrangements

On December 6, 2010, the Company entered into an employment agreement with Mr. Popielec, providing that Mr. Popielec would become our President and Chief Executive Officer effective December 30, 2010. Mr. Popielec's annual base salary was set at \$450,000 subject to adjustment. Mr. Popielec is also eligible to receive an annual cash bonus under our short-term incentive plan if we meet or exceed certain quantitative and qualitative performance metrics to be agreed upon and approved by the Compensation Committee no later than January 31 of the year for which the bonus applies. The bonus goals and payout ranges for 2018 and 2019 are set forth above beginning on Page 13.

Pursuant to the terms of his employment agreement, Mr. Popielec was granted options to purchase shares of our common stock. Certain of the options granted were conditional and subject to stockholder approval to increase the number of shares available under our 2004 LTIP. Stockholder approval of this increase was obtained in June 2011. All unexpired options awarded to Mr. Popielec pursuant to the terms of his employee agreement were outstanding as of December 31, 2019. Refer to the Outstanding Equity Awards section above beginning on Page 14.

Mr. Popielec is also entitled to receive the retirement benefits, perquisites and other personal benefits described in this proxy statement under the sections entitled "Retirement Benefits" and "Perquisites and Other Personal Benefits".

The employment agreement provides that Mr. Popielec's employment is "at will." Mr. Popielec is entitled to certain severance benefits if we terminate his employment without Business Reasons or a Constructive Termination occurs (as those terms are defined in the employment agreement), including (i) salary continuation for a period of 12 months following the termination date; (ii) a pro rata amount (calculated on a per diem basis) of the full-year bonus which Mr. Popielec would have earned for the calendar year in which the termination of employment occurs; (iii) acceleration of vesting of all outstanding stock options and other equity awards to the extent that the outstanding options and other equity awards would otherwise have vested no more than 18 months after the date of termination, and all such options and other equity awards shall remain exercisable for one year following the termination date or through the original expiration date, if earlier; (iv) continuation of health benefits for Mr. Popielec, his spouse and any dependent children for a period of 12 months after the termination date followed by 18 months of executive-paid COBRA eligibility. In addition, if we terminate the employment of Mr. Popielec within 12 months following the occurrence of a Change in Control, without Business Reasons or if a Constructive Termination occurs (as those terms are defined in the employment agreement), then Mr. Popielec shall be entitled to receive (i) any earned but unpaid salary, any unpaid bonus from the prior year plus an amount equal to 18 months of his base salary as then in effect, payable immediately upon the termination date; (ii) one and one-half times his target bonus for the calendar year in which the termination date occurs; (iii) acceleration of vesting of all outstanding stock options and other equity awards, which are to remain exercisable for 18 months following the termination date, or through the original expiration date, if earlier; (iv) continuation of health benefits for Mr. Popielec, his spouse and any dependent children for a period of 24 months after the termination date. To the extent the vesting and/or accelerated payment of outstanding stock options would subject Mr. Popielec to the imposition of tax and/or penalties under Section 409A of the Internal Revenue Code (the "Code"), the vesting and/or payment of such stock options and other equity shall be delayed to the extent necessary to avoid the imposition of such tax and/or penalties. The employment agreement also provides for the continuation of certain benefits in the event Mr. Popielec's employment is terminated for Disability (as defined in the employment agreement) or by his death. Mr. Popielec has also executed an Employee Confidentiality Non-Disclosure, Non-Compete, Non-Disparagement and Assignment Agreement in our standard form.

We do not have an employment agreement with Mr. Fain. Mr. Fain has executed an Employee Confidentiality Non-Disclosure, Non-Compete, Non-Disparagement and Assignment Agreement in our standard form.

Retirement Benefits and Potential Payments upon Termination or Change in Control

The only arrangement that we maintain that provides for retirement benefits is our tax-qualified defined contribution 401(k) plan. The material terms of our tax-qualified defined contribution 401(k) plan are summarized above under the heading “Retirement Benefits.”

All of the potential payments and benefits payable by us to those of our executive officers in the event of various circumstances involving either a termination of employment or change in control are determined pursuant to the employment agreement with Mr. Popielec or the Restated 2004 LTIP and 2014 LTIP. The employment agreement with Mr. Popielec is summarized above under the heading “Employment Arrangements”. We do not have an employment agreement with Mr. Fain. On June 18, 2018, the Committee unanimously approved a resolution for full vesting of all outstanding unvested stock options and other equity awards upon the occurrence of a “Change in Control” (as defined by the 2004 LTIP and 2014 LTIP).

Stock Ownership Guidelines

In order to better align the interests of our executive officers and stockholders, the Compensation Committee implemented stock ownership requirements for our executive officers. The stock ownership requirements for our executive officers are as follows:

| | |
|-------------------------|-------------------|
| President & CEO | 1.00 times salary |
| Chief Financial Officer | 0.50 times salary |

For 2019, the Compensation Committee established the presumed share price to be used for purposes of determining the minimum number of shares to be owned by the executive officers. This presumed price was \$7.43 per share, which was based on the volume weighted average price (“VWAP”), calculated as an amount equal to the sum of the dollar value of every transaction in our common stock for the two-year period ended December 31, 2019 divided by the total shares traded for such two-year period. Each year the Compensation Committee will establish a new price per share to be used to determine the minimum number of shares required to be held which will be based on the VWAP of our common stock for the preceding two-year period. Executive officers have three years from the date of hire to achieve the required holdings, which are based on the price per share as calculated above. Additionally, our stock ownership policy requires that until the share ownership guidelines are met, executive officers are prohibited from disposing of more than 50% of vested shares received from restricted share grants (on an after tax basis) and 50% of shares received on exercise of stock options. Shares owned by an executive, as well as shares underlying awards of stock options and restricted stock are treated as owned by the executive for purposes of determining whether required ownership has been achieved. Our executive officers have met their respective stock ownership requirement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners

The table below shows certain information regarding the beneficial ownership of shares of our common stock by each person known by us to beneficially own more than five percent of the outstanding shares of our common stock, with percentages based on 15,879,284 shares issued and outstanding.

| <u>Name and Address of Beneficial Owner</u> | <u>Number of Shares Beneficially Owned</u> | <u>Percent of Class Beneficially Owned</u> |
|--|--|--|
| Bradford T. Whitmore (1) 1603 Orrington Avenue, Suite 900 Evanston, IL 60201 | 5,513,073 | 34.7% |
| Dimensional Fund Advisors LP (2) Building One 6300 Bee Cave Road Austin, TX 78746 | 1,122,776 | 7.1% |
| Visionary Wealth Advisors (3) 1405 North Green Mount Rd., Suite 500 O'Fallon, IL 62208 | 823,611 | 5.2% |

- (1) Based on information contained in a Form 4 dated March 17, 2020 as filed by Bradford T. Whitmore with the SEC on that same date to report changes in beneficial ownership of shares of the Company's common stock, Mr. Whitmore individually and as sole manager of Sunray I, LLC, a Delaware limited liability company, and as sole owner of an entity which is a general partner of Grace Brothers LP, a Delaware limited partnership, beneficially owns 5,513,073 shares of our common stock. Mr. Whitmore has sole voting and dispositive power with respect to 4,994,457 of such shares, of which 4,452,283 shares are held in the name of Sunray I, LLC. Grace Brothers LP, Mr. Whitmore, and Spurgeon Corporation, a general partner of Grace Brothers LP, have shared voting and dispositive power with respect to 518,616 of such shares.
- (2) Based on information contained in a Schedule 13 G/A dated February 12, 2020 as filed by Dimensional Fund Advisors LP, a registered investment adviser, with the SEC on that same date to report beneficial ownership of shares of the Company's common stock as of December 31, 2019, and, consequently, the beneficial ownership of Dimensional Fund Advisors LP may have subsequently changed. The Schedule 13G/A reported that Dimensional Fund Advisors LP had sole voting power as to 1,092,237 shares of common stock and sole dispositive power as to 1,122,776 shares of common stock, all of which shares of common stock were held in portfolios of four registered investment companies to which Dimensional Fund Advisors LP or one of its subsidiaries furnishes investment advice and of certain other commingled funds, group trusts and separate accounts for which Dimensional Fund Advisors LP or one of its subsidiaries serves as investment manager or sub-adviser. The shares of common stock reported were owned by the investment companies, commingled funds, group trusts and separate accounts and Dimensional Fund Advisors LP disclaimed beneficial ownership of the reported shares of common stock.
- (3) Based on information contained in a Schedule 13 G/A dated February 14, 2020 as filed by Visionary Wealth Advisors, a registered investment adviser, with the SEC on February 18, 2020 to report beneficial ownership of shares of the Company's common stock as of December 31, 2019, and, consequently, the beneficial ownership of Visionary Wealth Advisors may have subsequently changed. The Schedule 13G/A reported that Visionary Wealth Advisors had sole voting power as to 5,000 shares of common stock and shared dispositive power as to 823,611 shares of common stock.

Security Ownership of Management

The table below shows certain information regarding the beneficial ownership of shares of our common stock as of April 24, 2020 by (1) each of our directors, (2) each of our executive officers, and (3) all of our directors and executive officers as a group.

| Name of Beneficial Owner (1) | Number of Shares Beneficially Owned (1) | Percent of Class Beneficially Owned (2) |
|--|--|--|
| Michael D. Popielec | 911,955 (3) | 1.7% |
| Thomas L. Saeli | 60,446 | * |
| Robert W. Shaw II | 53,500 | * |
| Ranjit C. Singh | 79,801 | * |
| Bradford T. Whitmore | 5,513,073 (4) | 34.7% |
| Philip A. Fain | 256,668 (5) | * |
| All Directors and Executive Officers as a group (6 persons) | 6,875,443 | 38.2% |

*Less than 1%

- (1) Except as otherwise indicated, the stockholders named in this table have sole voting and investment power with respect to the shares of our common stock beneficially owned by them. The information provided in this table is based upon information provided to us by such stockholders. The table reports beneficial ownership for our directors and executive officers in accordance with Rule 13d-3 under the Exchange Act. This means all our securities over which directors and executive officers directly or indirectly have or share voting or investment power are listed as beneficially owned. The amounts also include shares that may be acquired by exercise of stock options prior to July 25, 2020 (sixty days from May 26, 2020 date of record), which shares are referred to in the footnotes to this table as “shares subject to options that may be exercised.”
- (2) Based on 15,879,284 shares issued and outstanding.
- (3) The amount shown includes 641,667 shares subject to options that may be exercised by Mr. Popielec prior to July 25, 2020.
- (4) See “Security Ownership of Certain Beneficial Owners” above.
- (5) The amount shown includes 161,668 shares subject to options that may be exercised by Mr. Fain prior to July 25, 2020.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes compensation plans under which our equity securities are authorized for issuance as of December 31, 2019.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|---|---|--|
| Equity compensation plans approved by security holders | 1,541,792 | \$6.88 | 486,272 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 1,541,792 | \$6.88 | 486,272 |

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Related Party Transactions

We have adopted written policies and procedures for the review and approval or ratification of any “related party transaction,” as defined by Regulation S-K, Item 404. The policy provides that each related party transaction must be reviewed by our Audit and Finance Committee. The Audit and Finance Committee reviews the relevant facts and circumstances of the transaction, including if the transaction is on terms comparable to those that could be obtained in arms-length dealings with an unrelated third party and the extent of the related party’s interest in the transaction, taking into account the conflicts of interest and corporate opportunity provisions of our Code of Ethics, and either recommends that the Board of Directors approve or disapprove the related party transaction. We will disclose all related party transactions, as required, in our filings with the SEC. No reportable transactions occurred during 2019 and 2018, and there are currently no such proposed transactions.

Director Independence

Refer to the Corporate Governance section of Part III, Item 10 of this report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The firm of Freed Maxick CPAs P.C. served as our independent registered public accounting firm for the years ended December 31, 2019 and 2018.

Principal Accountant Fees and Services

Aggregate fees for professional services rendered for us for 2019 and 2018 were:

| | <u>2019</u> | <u>2018</u> |
|----------------------|------------------|------------------|
| Audit Fees | \$389,785 | \$387,489 |
| Audit - Related Fees | 8,000 | 8,000 |
| Tax Fees | 14,000 | 12,000 |
| Total Fees | <u>\$411,785</u> | <u>\$407,489</u> |

Audit Fees

Audit fees were for professional services rendered for the audits of our consolidated financial statements and reviews of our quarterly consolidated financial statements. Audit fees for 2019 reflect a year-over-year increase attributable to the Company’s acquisition of Southwest Electronic Energy Corporation (“SWE”) in May 2019, which was largely offset by a reduction in fees attributable to internal controls over financial reporting following the first year attestation in 2018 upon the Company achieving accelerated filer status.

Audit-Related Fees

Audit-related fees were for the annual audits of our 401(k) defined contribution plan.

Tax Fees

Tax fees primarily attributable to due diligence performed in connection with the Company’s acquisition of SWE.

Our Audit and Finance Committee has not adopted pre-approval policies and procedures for audit and non-audit services. Nevertheless, all audit, audit-related and permitted non-audit services for which our independent registered public accounting firm was engaged were reviewed and approved prior to the commencement of the services by our Audit and Finance Committee in compliance with applicable SEC requirements.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements:

Previously filed with Form 10-K for the year ended December 31, 2019, as filed on February 6, 2020.

3. Exhibits:

See the Exhibit Index below.

EXHIBIT INDEX

| Exhibit Index | Exhibit Description | Incorporated By Reference from: |
|---------------|---|--|
| 2.1 | Stock Purchase Agreement, dated May 1, 2019, by and among Ultralife Corporation, Southwest Electronic Energy Corporation, Southwest Electronic Energy Medical Research Institute, and Claude Leonard Benckenstein | Exhibit 10.1 of the Form 8-K filed on May 2, 2019 |
| 2.2 | Stock Purchase Agreement Relating to Accutronics Limited by and between Robert Andrew Phillips and Others and Ultralife Corporation | Exhibit 2.2 of the Form 10-K for the year ended December 31, 2015, filed March 2, 2016 |
| 3.1 | Restated Certificate of Incorporation | Exhibit 3.1 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009 |
| 3.2 | Amended and Restated By-laws | Exhibit 3(ii) of the Form 8-K filed June 4, 2014 |
| 4.1 | Specimen Stock Certificate | Exhibit 4.1 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009 |
| 4.2 | Description of Registrants Securities | Filed herewith |
| 10.1* | Amendment to the Agreement relating to rechargeable batteries | Exhibit 10.24 of our Form 10-K for the fiscal year ended June 30, 1996 (this Exhibit may be found in SEC File No. 0-20852) |
| 10.2† | Ultralife Corporation 2014 Long-Term Incentive Plan | Appendix A to our Definitive Proxy Statement filed on April 21, 2014 |
| 10.3† | Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 99.2 of our Registration Statement on Form S-8 filed on July 26, 2004, File No. 333-117662 |
| 10.4† | Amendment No. 1 to Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 99.3 of our Registration Statement on Form S-8 filed August 18, 2006, File No. 333-136737 |
| 10.5† | Amendment No. 2 to Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 99.4 of our Registration Statement on Form S-8 filed November 13, 2008, File No. 333-155349 |
| 10.6† | Amendment No. 3 to Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 99.5 of our Registration Statement on Form S-8 filed November 13, 2008, File No. 333-155349 |
| 10.7† | Employment Agreement between the Registrant and Michael D. Popielec dated December 6, 2010 | Exhibit 10.40 of the Form 10-K for the year ended December 31, 2010, filed March 15, 2011 |
| 10.8† | Amendment No. 4 to Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 4.5 of the Registration Statement on Form S-8 filed on January 30, 2012, File No. 333-179235 |
| 10.9† | Amendment No. 5 to Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan | Exhibit 10.1 of the Form 8-K filed on May 26, 2011 |
| 10.10† | Restricted Stock Unit Agreement between Ultralife Corporation and Michael D. Popielec. Dated June 4, 2013 | Exhibit 10.1 of the Form 10-Q for the quarter ended June 30, 2013, filed August 9, 2013 |
| 10.11† | Amendment No. 6. to Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan | Appendix A of Form DEF 14A filed on April 22, 2013 |
| 10.12 | Credit and Security Agreement between Ultralife Corporation and KeyBank National Association dated May 31, 2017 | Exhibit 10.1 of the Form 8-K filed on June 6, 2017 |
| 10.13 | First Amendment Agreement, dated May 1, 2019, by and among Ultralife Corporation, Southwest Electronic | Exhibit 10.1 of the Form 8-K filed on May 2, 2019 |

| | | |
|---------|--|--|
| | Energy Corporation, CLB, INC., and KeyBank National Association Subsidiaries | |
| 21 | Subsidiaries | Filed with Form 10-K for the year ended December 31, 2019, filed February 6, 2020 |
| 23.1 | Consent of Freed Maxick CPAs, P.C. | Filed with Form 10-K for the year ended December 31, 2019, filed February 6, 2020 |
| 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 | Filed herewith |
| 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 | Filed herewith |
| 32 | 906 Certifications | Furnished with Form 10-K for the year ended December 31, 2019, filed February 6, 2020 |
| 101.INS | XBRL Instance Document | Filed with Form 10-K for the year ended December 31, 2019, filed February 6, 2020 |
| 101.SCH | XBRL Taxonomy Extension Schema Document | Filed with Form 10-K for the year ended December 31, 2019, filed February 6, 2020 |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document | Filed with Form 10-K for the year ended December 31, 2019, filed February 6, 2020 |
| 101.LAB | XBRL Taxonomy Label Linkbase Document | Filed with Form 10-K for the year ended December 31, 2019, filed February 6, 2020 |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document | Filed with Form 10-K for the year ended December 31, 2019, filed February 6, 2020 |
| 101.DEF | XBRL Taxonomy Definition Document | Filed with Form 10-K for the year ended December 31, 2019, filed February 6, 2020 |

* Confidential treatment has been granted as to certain portions of this exhibit.

† Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ULTRALIFE CORPORATION

Date: April 24, 2020

/s/ Michael D. Popielec
Michael D. Popielec
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: April 24, 2020

/s/ Michael D. Popielec
Michael D. Popielec
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: April 24, 2020

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

Date: April 24, 2020

/s/ Thomas L. Saeli
Thomas L. Saeli (Director)

Date: April 24, 2020

/s/ Robert W. Shaw II
Robert W. Shaw II (Director)

Date: April 24, 2020

/s/ Ranjit C. Singh
Ranjit C. Singh (Director)

Date: April 24, 2020

/s/ Bradford T. Whitmore
Bradford T. Whitmore (Director)

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

Ultralife Corporation (the "Company") has two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (1) our Common Stock and (2) our Preferred Stock.

DESCRIPTION OF CAPITAL STOCK

The following is a description of our capital stock and related provisions of the Company's Certificate of Incorporation, as amended (the "Certificate"), our Amended and Restated Bylaws (the "Bylaws") and applicable Delaware law. This description does not purport to be complete and is qualified in its entirety by, and should be read in conjunction with, the Certificate, Bylaws and applicable Delaware law.

Authorized Capital Stock

The Company's authorized capital stock consists of 40,000,000 shares of common stock, \$0.10 par value per share ("Common Stock") and 1,000,000 shares of preferred stock, \$0.10 par value per share ("Preferred Stock"). The Company's Common Stock is listed on The Nasdaq Stock Market LLC under the trading symbol "ULBI". There are no shares of Preferred Stock outstanding.

Common Stock

Fully Paid and Nonassessable

All outstanding shares of Common Stock are fully paid and nonassessable.

Voting Rights

The holders of shares of Common Stock are entitled to one vote per share, in person or by proxy, on all matters to be voted on by such holders. Holders of shares of Common Stock are not entitled to cumulative voting rights.

Alienability

Our Common Stock is not subject to any general restriction on transfer under our Certificate or our Bylaws.

Dividends

The holders of shares of Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Company's Board of Directors, as and when the Board of Directors shall deem expedient, from funds legally available therefor.

Right to Receive Liquidation Distributions

Upon liquidation, dissolution or winding-up, the holders of shares of Common Stock are entitled to receive pro rata all assets remaining available for distribution to holders of such shares after payment of our outstanding obligations and liabilities, including any sums that may be payable to holders of any Preferred Stock that might be issued in the future.

No Preemptive, Conversion, Redemption, Subscription or Similar Rights

The Common Stock has no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such shares of Common Stock.

No Classification of Directors

We do not have staggered terms or classes of directors.

Preferred Stock

We may issue shares of our preferred stock from time to time, in one or more series. Our Board of Directors will determine the rights, preferences and privileges of the shares of each wholly unissued series, and any qualifications, limitations or restrictions thereon, including dividend rights, conversion rights, preemptive rights, voting rights, terms of redemption or repurchase, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of any series. Conversion may be mandatory or at the holder's option and would be at prescribed conversion rates.

If we designate any series of preferred stock, we will fix the rights, preferences and privileges of the preferred stock of such series, as well as any qualifications, limitations or restrictions thereon, in the certification of designation we file relating to that series, without submitting the same to any vote of the holders of Common Stock for approval.

Anti-Takeover Provisions of the Certificate, Bylaws and Delaware Law

Provisions of the Certificate and Bylaws may delay or discourage transactions involving an actual or potential change in control of the Company or change in its management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that its stockholders might otherwise deem to be in their best interests. Among other things, the Certificate and Bylaws:

- provide that, any vacancy on the Company's Board of Directors or any Committee of the Board of Directors, the remaining directors in office, though less than a quorum, by majority may appoint any qualified person to fill such vacancy, and;
- provide that special stockholder meetings may be called at any time, for any purpose, unless otherwise prescribed by statute or by the Certificate by the President; provided, however that special stockholder meetings also shall be called by the President or by the Secretary upon the written request of a majority of directors or stockholders entitled to vote.

As a Delaware corporation, the Company is subject to the provisions of Section 203 of the Delaware General Corporation Law, which restricts certain transactions between a corporation and a person owning 15 percent or more of the corporation's outstanding voting stock. Section 203 refers to a 15 percent or more stockholder as an "interested stockholder." Section 203 restricts these transactions for a period of three years from the date the stockholder acquires 15 percent or more of our outstanding voting stock. With some exceptions, unless the transaction is approved by the board of directors and the holders of at least two-thirds of our outstanding voting stock, Section 203 prohibits significant business transactions such as:

- a merger with, disposition of significant assets to or receipt of disproportionate financial benefits by the interested stockholder, and;
- any other transaction that would increase the interested stockholder's proportionate ownership of any class or series of our capital stock.

The shares held by the interested stockholder are not counted as outstanding when calculating the two-thirds of the outstanding voting stock needed for approval.

The prohibition against these transactions does not apply if:

- prior to the time that any stockholder became an interested stockholder, the board of directors approved either the business combination or the transaction in which such stockholder acquired 15 percent or more of our outstanding voting stock, or;
- the interested stockholder owns at least 85 percent of our outstanding voting stock as a result of a transaction in which such stockholder acquired 15 percent or more of our outstanding voting stock. Shares held by persons who are both directors and officers or by some types of employee stock plans are not counted as outstanding when making this calculation.

Directors' Liability

Our Certificate provides that to the fullest extent permitted by the Delaware General Corporation Law a director shall not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director.

Our Certificate provides that we shall indemnify our directors to the fullest extent authorized by the Delaware General Corporation Law and any other applicable law for service as a director of the Company, or at the request of the Company as a director of another corporation, partnership, joint venture trust, employee benefit plan or other enterprise.

I, Michael D. Popielec, certify that:

1. I have reviewed this Amendment No. 1 to annual report on Form 10-K of Ultralife Corporation; and
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.

Date: April 24, 2020

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

I, Philip A. Fain, certify that:

1. I have reviewed this Amendment No. 1 to annual report on Form 10-K of Ultralife Corporation; and
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.

Date: April 24, 2020

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

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CORPORATE & SHAREHOLDER INFORMATION

Board of Directors

| | |
|----------------------|---|
| Bradford T. Whitmore | Board Chair; Managing Partner, Grace Brothers, Ltd. |
| Michael D. Popielec | President and Chief Executive Officer, Ultralife Corporation |
| Thomas L. Saeli | Chief Executive Officer, JRB Enterprises, Inc. |
| Robert W. Shaw II | Consultant for Large Maritime Operating and Electronics Companies |
| Ranjit C. Singh | Chief Executive Officer, CSR Consulting Group |

Corporate Officers

| | |
|---------------------|--|
| Michael D. Popielec | President and Chief Executive Officer |
| Philip A. Fain | Chief Financial Officer, Treasurer and Secretary |

Stock Exchange Listing

NASDAQ

Stock Symbol

ULBI

Stock Transfer Agent

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219

Annual Meeting

July 22, 2020
9:00 A.M. Local Time
The Westin Crystal City
1800 Jefferson Davis Highway
Arlington, VA 22202

Form 10-K

Shareholders may obtain a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 by going to the Investor Info page at www.ultralifecorporation.com or by calling us at 1-315-210-6110. This information is also available at no charge by sending a request to Shareholder Services at the following address:

Ultralife Corporation
Attn: Philip A. Fain
2000 Technology Parkway
Newark, NY 14513



Ultralife Corporation • 2000 Technology Parkway • Newark, NY 14513 • 315-332-7100
www.ultralifecorp.com

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