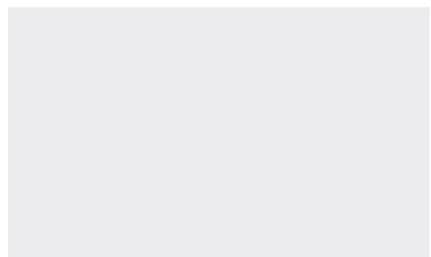
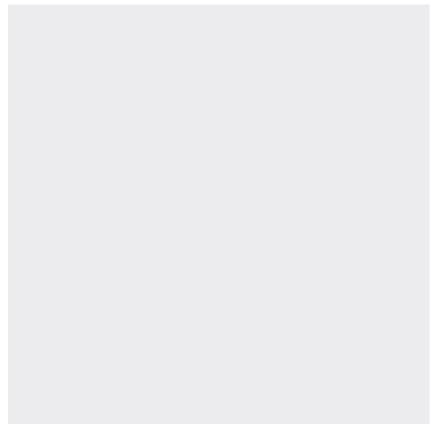


**ULTRALIFE<sup>®</sup>**  
2017 ANNUAL REPORT



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## **TO OUR SHAREHOLDERS**

During 2017, we aggressively pursued exciting new revenue contributions from market and sales reach expansion, new product development and customer partnerships, while preparing to launch new products to serve the emerging Internet of Things demand. On a 4% year-over-year increase in revenue to \$85.5 million, we grew operating profit 72% to \$6.5 million and generated EPS growth of 61% to \$0.37, before including \$0.12 per share resulting from a one-time tax benefit associated with the Tax Cuts and Jobs Act. Once again, we delivered results that demonstrate the operating leverage of our “30-5-5-10=10” business model. In addition, we generated Adjusted EBITDA of \$9.6 million, ending the year with cash-on-hand of \$18.3 million, a current ratio of 4.3 and no debt, further building liquidity and funding growth initiatives internally.

### **Battery & Energy Products (B&EP)**

B&EP sales increased 8% to \$64.8 million in 2017. Government and defense sales grew 22% over 2016, and now comprise 42% of total segment sales versus 37% last year. The increase reflects higher overall demand for batteries and chargers across our U.S. and international customer base, and is indicative of the early signs of a recovery for this sector. Commercial sales were essentially flat with 2016 due primarily to timing differences in medical sales. Since 2011, when we initially launched our commercial diversification strategy, our medical revenue has grown at a compounded annual growth rate of 45% when including the acquisition of Accutronics in January 2016. Our year-end 2017 order backlog increased 34% over 2016 to \$31 million, primarily due to higher ongoing demand for our medical products.

### **Communications Systems**

For our Communication Systems business, we remain embedded in developing major opportunities with our OEM and channel partners serving the U.S. Department of Defense, where our technical expertise is helping to shape platform capabilities, increase communications consistency and eliminate legacy equipment programs by providing radio agnostic and cost effective solutions. This positioning resulted in contract awards for additional Vehicle Installed Power Enhanced Riflemen Appliqués, and our new Vehicle Amplifier-Adapter system for the U.S. Army’s Security Force Assistance Brigades for shipment in 2018. While 2017 sales were 11% lower than the previous year due to the fulfillment of a large contract award in 2016, sales of core amplifiers and integrated solutions products increased 73% driven by increased demand for 20-watt amplifiers, universal vehicle adapters and power supplies. Our year-end 2017 order backlog increased 166% over 2016 to \$9.0 million, reflecting the higher activity level.

## **Going Forward**

For 2018, disciplined execution of our business model, continued investment in market and sales reach expansion, new product development and strategic capital spending and a 49% increase in our backlog, place us in an excellent position to extend our track record of profitable growth. We remain optimistic of at least four key areas that are potential catalysts for accelerating revenue growth: more major government and defense deals, continuing to achieve high single to double digit medical market growth, our aggressive push in the Internet of Things market and a meaningful acquisition. Our clean balance sheet, efficient cash generation and access to capital give us the flexibility to aggressively pursue both organic and inorganic growth opportunities.

For Battery & Energy Products, we intend to continue to expand our market and sales reach through diversification, further penetration of commercial markets, international government defense markets and broadening our range of U.S. government defense customers. We will also maintain close collaboration with our key customers to develop new products and evolve existing products through multi-generational product planning, and to help them achieve their product performance goals and expand their competitive advantage. We will continue to focus on the medical, safety, security, Internet of Things, asset tracking and robotics markets, and utilize our global platforms to drive revenue growth in targeted end markets. In defense markets, the increasing activity levels from the various defense department contracting channels, as evidenced by the multiple awards we received in 2017 for shipment in 2018 and beyond, are encouraging indicators of potential growth for this sector.

For Communications Systems, after some challenging years while government/defense tactical communications spending was dramatically reduced, the efforts we put forth to develop new integrated products through strategic partnership collaborations are starting to pay dividends. Our vehicle amplifier adapter solutions for hand-held radios, which include our latest RF amplifiers, power supplies and advanced mechanical integration, are hitting the mark for enabling an enhanced range of communications and operational flexibility for the soldier, as demonstrated by our recent major program contracts and growing installed base within the U.S. Army. Several new radios with improved waveforms, multiple channels and increased overall radio performance are also expected to drive demand for our products and solutions. Internationally, we see activity increasing and are engaged through channel partners with militaries of several NATO countries as they prepare to increase spending in 2018 as part of their multi-lateral commitments. Given our strong presence and alignment with our customers and current world events, we remain optimistic about our revenue growth prospects.

In closing, I would like to thank our employees for their 2017 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, 2017

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)

<u>Delaware</u>	<u>16-1387013</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

<u>2000 Technology Parkway, Newark, New York</u>	<u>14513</u>
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.10 per share	NASDAQ Global Market

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..X...

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..X...

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ X ]

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

Large accelerated filer .... Accelerated filer ..... Non-accelerated filer .... Smaller reporting company ..X...

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

On June 30, 2017, 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 \$69,474,629 (in whole dollars) based upon the closing price for such common stock as reported on the NASDAQ Global Market on June 30, 2017.

As of February 1, 2018, the registrant had 15,653,649 shares of common stock outstanding, net of 4,019,711 treasury shares.

## 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; potential costs because of the warranties we supply with our products and services; possible future declines in demand for the products that use our batteries or communications systems; the unique risks associated with our China operations; our efforts to develop new commercial applications for our products; possible breaches in security and other disruptions; reduced U.S. and foreign military spending including the uncertainty associated with government budget approvals; potential disruptions in our supply of raw materials and components; variability in our quarterly and annual results and the price of our common stock; our inability to comply with changes to the regulations for the shipment of our products; safety risks, including the risk of fire; possible impairments of our goodwill and other intangible assets; negative publicity of Lithium-ion batteries; our resources being overwhelmed by our growth prospects; our ability to retain top management and key personnel; our exposure to foreign currency fluctuations; our customers' demand falling short of volume expectations in our supply agreements; the risk that we are unable to protect our proprietary and intellectual property; rules and procedures regarding contracting with the U.S. and foreign governments; exposure to possible violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act or other anti-corruption laws; our ability to utilize our net operating loss carryforwards; our ability to comply with government regulations regarding the use of "conflict minerals"; possible audits of our contracts by the U.S. and foreign governments and their respective defense agencies; known and unknown environmental matters; technological innovations in the non-rechargeable and rechargeable battery industries; and other risks and uncertainties, certain of which are beyond our control.

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 the development of 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" or "expect" or words of similar import are intended to identify forward-looking statements. For further discussion of certain of the matters described above and other risks and uncertainties, see "Risk Factors" in Item 1A of this Annual Report on Form 10-K.

As used in this 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.; 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™ 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](http://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](http://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-MnO<sub>2</sub>), Lithium Manganese Dioxide Carbon Monofluoride (Li-CFx/MnO<sub>2</sub>) hybrid and Lithium Thionyl Chloride (Li-SOCl<sub>2</sub>) 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 obtain development contracts for intellectual property that we believe will enhance our efforts to commercialize new products that we develop. Revenues in this segment that pertain to development or license contracts may vary widely each year, depending upon the quantity and size of contracts obtained.

Revenues for this segment for the year ended December 31, 2017 were \$69,789 and segment contribution (gross profit) was \$19,659.

## *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, 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-adapters (“VAA”), Vehicle Installed Power Enhanced Rifleman Appliqué (“VIPER”) systems 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, 2017 were \$15,742 and segment contribution (gross profit) was \$6,573.

## *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 expenses.

There were no revenues for this category for the year ended December 31, 2017 and our corporate operating expenses were \$19,756.

See Management’s Discussion and Analysis of Financial Condition and Results of Operations and the 2017 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, which enhanced our channels into the military communications area and strengthened our presence in global defense markets, was relocated to our Newark, New York facility during the second half of 2007. 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.

## **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 Carbon Monofluoride hybrid, and Lithium Thionyl Chloride technologies.

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-SO<sub>2</sub> 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-SO<sub>2</sub> 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 pipeline inspection equipment, automatic re-closers and oceanographic 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.

*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.

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, but the achievable number of cycles (cycle life) varies among technologies and is an important competitive factor. All rechargeable batteries experience a small, but measurable, loss in energy with each cycle. The industry commonly reports cycle life in 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 2.5 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-adapters 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 adapters 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 OEM's, 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 accordingly, 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. Our 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 the 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 one major customer, a large defense primary contractor, which comprised 18% and 12% of our revenues in 2017 and 2016, respectively. During the year ended December 31, 2016, another large defense contractor comprised 13% of our sales; however, sales to this customer in 2017 comprised 3% of our sales. There were no other customers that comprised greater than 10% of our total revenues during these years.

In 2017, sales to U.S. and non-U.S. customers were approximately \$47,614 and \$37,917, respectively. In 2016, sales to U.S. and non-U.S. customers were approximately \$45,094 and \$37,366, respectively. For more information relating to revenues by country for the last two fiscal years and long-lived assets for the last two fiscal years by country of origin, see Note 11 in the Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

## *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, point of sale equipment and metering applications, as well as users of military equipment. Our strategy is to develop sales and marketing alliances with OEM's 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 through a number of national retailers. 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 allows for 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. These efforts have resulted in our winning 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 our BA-5390 non-rechargeable Lithium Manganese Dioxide batteries to the U.S. military. While production deliveries are expected to begin in the first half of 2019, we continue to receive orders for our legacy BA-5390 batteries from the Defense Logistics Agency. 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. Production deliveries under this award are expected to begin in the first half of 2019.

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 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, 2017 and 2016, our backlog related to Battery & Energy Products was approximately \$31,000 and \$23,100, respectively. The 34% increase in our Battery & Energy Products backlog at December 31, 2017 is primarily due to higher demand for batteries from global medical products OEMs, a large U.S.-based global defense contractor, and government and defense suppliers. The 2017 backlog is related to orders that are expected to ship throughout 2017.

## *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, 2017 and 2016, our backlog related to Communications Systems orders was approximately \$8,100 and \$3,000, respectively. The 166% increase in our Communications Systems backlog at December 31, 2017 is mostly a result

of a December 2017 \$3,900 award to supply our Vehicle Amplifier-Adaptors (“VAA”) to a large global defense contractor, the remaining shipments on an August 2017 \$4,700 award to supply our Vehicle Installed Power Enhanced Rifleman Appliqués (“VIPER”) to a large global defense contractor and increased demand for our core products such as our 20-watt amplifiers, universal vehicle adaptors and power supplies.

## **Patents, Trade Secrets and Trademarks**

We rely on licenses of technology as well as 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 six patents issued in the U.S., two patents issued in Mexico, two patents issued in the European Union, one patent issued in the United Kingdom, one patent issued in China, one patent issued in Japan and have eleven patents pending in the U.S, Europe, Australia, India, and 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 or use under license. The following are registered trademarks of ours: Ultralife®, Ultralife Thin Cell®, Ultralife HiRate®, Ultralife & design®, LithiumPower®, LithiumPower & Design®, SmartCircuit®, Smart Circuit®, Smart Circuit & design®, We Are Power®, AMTI®, ABLE™, ACCUTRONICS®, ACCUPRO®, ENTELLION®, Intelligent Power Vault®, McDowell Research® and RPS®.

## **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, ISO 14001, and ISO 13485 certified. Our manufacturing facilities in Shenzhen, China are ISO 9001, ISO 1400 and ISO 13485 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 the planned increases will be adequate to meet foreseeable customer demand.

Certain materials used in our products 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. All other raw materials we utilize are readily available from many sources.

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, as 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 and rechargeable batteries beyond current volumes and are 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 \$16,650 and \$13,639 as of December 31, 2017 and 2016, respectively. The year-over-year increase primarily reflects inventory to service our higher backlog at December 31, 2017.

#### *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 \$9,676 and \$9,817 as of December 31, 2017 and 2016, respectively.

### **Research and Development**

We concentrate significant resources on research and development activities to improve our technological capabilities and to design new products for customers' applications. We conduct our research and development in Newark, New York; Virginia Beach, Virginia; Tallahassee, Florida; Newcastle-under-Lyme, United Kingdom and Shenzhen, China. During 2017 and 2016, we expended \$5,142 and \$6,155, respectively, on research and development, including \$405 and \$209, respectively, on customer sponsored research and development activities, which are included in cost of goods sold. The year-over-year decrease primarily reflects the timing of development and testing costs associated with the initial shipment of VIPER units in 2016 and discretionary cost reduction actions completed during and subsequent to the second quarter of 2016, including synergies with Accutronics. We expect that research and development expenditures in the future will be fairly consistent with those in 2017, as we anticipate that new product development initiatives 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.

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 2017 and 2016, we spent approximately \$175 and \$117, 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.

Our future estimated costs associated with our compliance with ITAR, EAR, and the foreign export and import controls we are subject to based on our current sales volumes 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, 2017 for the 2016 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 expertise in the non-rechargeable battery market, which we believe would be difficult to reproduce without substantial time and expense.

### **Employees**

As of December 31, 2017, we employed a total of 568 permanent and temporary employees: 33 in research and development, 464 in production and 71 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 one major customer, a large defense primary contractor, which comprised 18% and 12% of our revenues in 2017 and 2016, respectively. During the year ended December 31, 2016, another large defense contractor comprised 13% of our sales; however, sales to this customer in 2017 comprised 3% of our sales. 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 customer to be good, the reduction, delay or cancellation of orders from this customer or this customer's 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.

*We may incur significant costs because of the warranties we supply with 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.

*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 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.*

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, and other civil disturbances that are outside of our control. 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 a 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.

*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.

*Breaches in security and other disruptions and/or our ability to prevent or respond to such breaches, could diminish our ability to generate revenues or contain costs 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. The committee is presently reviewing all key aspects of cyber security and has engaged outside security consultants to ensure a robust plan is in place.

*Reductions or delays in U.S. and foreign military spending could continue to 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, 2017 and 2016, approximately \$44,700 or 52% and \$41,600 or 50%, 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 \$35,100 or 41% in 2017 and \$33,600 or 41% in 2016. Therefore, any significant disruption or deterioration of our relationship with the U.S. Government or any prime defense contractor could still 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 continued 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

*Our supply of raw materials and components could be disrupted.*

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 involvement with 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. 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 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, 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 for reasons which may be unrelated to our operating results.

*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.

*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 the 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 business, financial condition and results of operation.

*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 such business which 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.

*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.

*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 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 our 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. 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.

*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. While the percentage of our business with customers outside of the U.S. slightly declined in 2017, sales to such customers still make up a significant percentage of our total revenues. For example, in 2017, 44% our sales were to customers outside of the U.S. as compared to 45% in 2016. 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. 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.

*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.

*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.

*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.

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

At December 31, 2017, we had approximately \$70,000 of U.S. and \$13,000 of U.K. net operating loss carryforwards ("NOLs") and \$2,000 of U.S. tax credit carryforwards available to offset future taxable income. We continually assess the carrying value of these assets based on the relevant accounting standards. The U.S. NOLs of \$70,000 expire beginning in 2019 through 2034. As of December 31, 2017, we reflected a full valuation allowance against our deferred tax assets to the extent they are not able to be offset by future reversing temporary differences. As we continue to assess the realizability of our deferred tax assets, the amount of the valuation allowance could be reduced. Achieving our business plan targets, particularly those relating to revenue and profitability, is integral to our assessment regarding the recoverability of our deferred tax assets. The reduction of all or a portion of the valuation allowance could result in a significant one-time benefit to earnings followed in subsequent periods by an increase in our effective tax rate and increases in tax liabilities.

*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 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, 2017, 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 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, Newcastle-under-Lyme, United Kingdom and Shenzhen, China facilities, while our research and development efforts for our Communications Systems products are conducted in Tallahassee, Florida and at our facility 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 in the normal course of business. We believe that the final disposition of such matters will not have a material adverse effect on our financial position, results of operations or cash flows.

##### *Dreamliner Litigation*

In July 2013, an unoccupied Boeing 787 Dreamliner aircraft operated by Ethiopian Airlines (“EA”) was damaged by a fire while parked at London Heathrow Airport. We participated in and provided technical assistance in support of an investigation of this incident conducted by U.K. and U.S. regulatory authorities as well as by the manufacturer of the aircraft, as we are one of many downstream suppliers to that manufacturer. A final report was issued by the Air Accidents Investigative Branch – UK Civil Aviation regulatory authority, with findings indicating that the fire was primarily caused by circumstances related to the plane’s emergency locator transmitter (“ELT”) manufactured and installed by another company.

A component of the ELT is a battery pack which incorporates Ultralife’s industry-standard Lithium Manganese Dioxide non-rechargeable D-cell. Ultralife has had this cell in production since 2001, with millions of units produced. The cell is widely-used for global defense and commercial applications. This battery product has gone through rigorous safety and qualification testing, including United Nations Transport of Dangerous Goods, Manual of Tests and Criteria, and is authorized for use in aerospace applications under Technical Standard Order C142.

On May 4, 2015, we were notified of a lawsuit in which we were named, along with other suppliers to the aircraft manufacturer, concerning that 2013 fire. The suit was filed by EA in the Commercial Court, Queen’s Bench Division of the High Court of Justice, London and seeks as damages \$42,000 plus other unspecified amounts, including those for loss of use and diminution in value of the aircraft. We maintain liability and products liability insurance through reputable providers, and in accordance with our corporate practices, immediately advised and referred this matter to our insurers. We are working with those insurers and their counsel to actively defend against this action, which is ongoing.

At this time, we believe that there is not a reasonable possibility that this incident will result in a material financial exposure to the Company.

#### **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."

The following table sets forth the quarterly high and low closing sales prices of our common stock during 2016 and 2017:

	Closing Sales Prices	
	<u>High</u>	<u>Low</u>
2016:		
Quarter ended March 27, 2016	\$6.51	\$4.95
Quarter ended June 26, 2016	\$5.85	\$3.76
Quarter ended September 25, 2016	\$5.05	\$3.95
Quarter ended December 31, 2016	\$5.05	\$3.92
2017:		
Quarter ended April 2, 2017	\$5.90	\$4.93
Quarter ended July 2, 2017	\$7.20	\$5.25
Quarter ended October 1, 2017	\$7.45	\$6.30
Quarter ended December 31, 2017	\$7.70	\$6.00

##### **Holders**

As of February 7, 2018, there were approximately 3,200 registered holders of record of our common stock.

##### **Purchases of Equity Securities by the Issuer**

On April 28, 2014, the Company's Board of Directors approved a share repurchase program (the "Share Repurchase Program") which became effective on May 1, 2014 and under which the Company was authorized to repurchase up to 1.8 million shares of its outstanding common stock over a period not to exceed twelve months. The Share Repurchase Program was extended through June 2, 2016, and the maximum number of shares authorized to be repurchased under the program was increased to 3.4 million shares.

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. The Share Repurchase Program expired on June 2, 2016 and did not obligate the Company to repurchase any specific number of shares.

In 2016, we repurchased a total of 156,092 shares of our common stock for an aggregate consideration of \$630, of which 149,904 shares were repurchased under the Share Repurchase Program for an aggregate amount (excluding fees and commissions) of \$603.

From the inception of the Share Repurchase Program on May 1, 2014 through its expiration on June 2, 2016, the Company repurchased 2,592,095 shares for an aggregate cost (excluding fees and commissions) of \$10,480.

The following table sets forth information regarding 2016 purchases of our common stock under this program:

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased As Part of Publicly Announced Program</b>	<b>Maximum Number of Shares That May Yet Be Purchased Under the Program</b>
Total for 2016	149,904	\$4.02	2,592,095	-

## 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 elsewhere in 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.

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 \$3,071 or 3.7% to \$85,531 for the year ended December 31, 2017 compared to \$82,460 for the year ended December 31, 2016. During 2017, we experienced revenue growth of 7.8% for our Battery & Energy products business and a revenue decline of 11.1% for our Communications Systems business. This 2017 performance reflected a \$3,167 or 7.6% increase in sales to government and defense customers and a \$96 or 0.2% decrease in sales to our commercial customers. The increase in government and defense sales reflects higher U.S. and international demand for our military batteries and chargers which increased \$5,132 or 21.3% in 2017 and higher demand for our core Communications Systems products such as 20-watt amplifiers, universal vehicle adaptors and power supplies which increased \$5,431 or 73.3% in 2017. These increases were partially offset by a year-over-year decrease of \$7,396 in shipments of our Vehicle Installed Power Enhanced Rifleman Appliqué (“VIPER”) systems to fulfill contracts awarded in 2016 and 2017. The slight decline in our commercial business was due primarily to timing differences in medical sales and the impact of the weaker U.S. Dollar on certain export sales. Despite unfavorable currency fluctuations, sales for Accutronics increased by 5.1% in 2017.

Gross margin increased to 30.7% for the year ended December 31, 2017, as compared to 30.4% for the year ended December 31, 2016. The 30 basis point increase was due primarily to product mix in our Communications Systems business segment, which was more heavily weighted towards our core products.

Operating expenses decreased by \$1,589 or 7.4% to \$19,756 during the year ended December 31, 2017, compared to \$21,345 during the year ended December 31, 2016. This decrease was due primarily to strict control over discretionary spending, while focusing on the development of new products and revenue growth. Operating expenses as a percentage of revenues decreased 270 basis points from 25.9% in 2016 to 23.2% in 2017 due to the combination of higher revenues and lower expenses in 2017.

Income tax benefit was \$1,369 for the year ended December 31, 2017, compared to expense of \$98 for the year ended December 31, 2016. As a result of the Tax Cuts and Jobs Act, a one-time, non-cash tax benefit of \$1,939 was included in our 2017 results upon the revaluation, at the newly enacted 21% Federal tax rate, of deferred tax liabilities relating to book-to-tax differences on goodwill and indefinite-lived intangible assets.

Net income attributable to Ultralife for 2017 was \$7,648, which includes the one-time, non-cash tax benefit of \$1,939, compared to \$3,509 for the year ended December 31, 2016. Reported earnings per share for 2017 of \$0.49 per basic share (\$0.48 per diluted share) includes \$0.37 from our operating performance compared to \$0.23 per basic share (\$0.23 per diluted share) for 2016, plus \$0.12 related to the tax benefit.

Adjusted EBITDA, defined as net income (loss) 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 \$9,594 for the year ended December 31, 2017 compared to \$7,502 for the prior period. See the section “Adjusted EBITDA” beginning on page 28 for a reconciliation of Adjusted EBITDA to net income attributable to Ultralife.

As a result of careful working capital management and cash generated from operations, our liquidity remains solid with total cash of \$18,330, an increase of \$7,624 from the cash position of \$10,706 as of December 31, 2016. The increase

primarily reflects our favorable operating performance, partially offset by an increase in inventory to help service our increased backlog in 2018. We had no debt as of December 31, 2017 or December 31, 2016.

For 2017, we achieved our stated goal of generating profitable growth, increasing operating income by 72% on a 4% gain in revenue. As a result of the actions taken in 2017 to lay the foundation for new revenue contributions in 2018, we are starting the year with a higher backlog than last year. The combination of new revenue opportunities and continued disciplined execution of our business model places us in an excellent position to extend our track record of profitable growth.

## Results of Operations

### *Year Ended December 31, 2017 Compared With the Year Ended December 31, 2016:*

	<u>Year Ended December 31, 2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
Revenues:			
Battery & Energy Products	\$69,789	\$64,753	\$5,036
Communications Systems	15,742	17,707	(1,965)
Total	<u>85,531</u>	<u>82,460</u>	<u>3,071</u>
Cost of Products Sold:			
Battery & Energy Products	50,130	45,173	4,957
Communications Systems	9,169	12,179	(3,010)
Total	<u>59,299</u>	<u>57,352</u>	<u>1,947</u>
Gross Profit:			
Battery & Energy Products	19,659	19,580	79
Communications Systems	6,573	5,528	1,045
Total	<u>26,232</u>	<u>25,108</u>	<u>1,124</u>
Operating Expenses	<u>19,756</u>	<u>21,345</u>	<u>(1,589)</u>
Operating Income	6,476	3,763	2,713
Other Expense, Net	181	183	2
Income Before Taxes	6,295	3,580	2,715
Income Tax (Benefit) Provision	<u>(1,369)</u>	<u>98</u>	<u>(1,467)</u>
Net Income	7,664	3,482	4,182
Net Income (Loss) Attributable to Non-Controlling Interest	16	(27)	43
Net Income Attributable to Ultralife	<u>\$7,648</u>	<u>\$3,509</u>	<u>\$4,139</u>
Net Income Attributable to Ultralife Common Shares – Basic	<u>\$0.49</u>	<u>\$0.23</u>	<u>\$0.26</u>
Net Income Attributable to Ultralife Common Shares – Diluted	<u>\$0.48</u>	<u>\$0.23</u>	<u>\$0.25</u>
Weighted Average Shares Outstanding –Basic	<u>15,528,000</u>	<u>15,261,000</u>	<u>267,000</u>
Weighted Average Shares Outstanding – Diluted	<u>15,858,000</u>	<u>15,405,000</u>	<u>453,000</u>

*Revenues.* Total revenues for the year ended December 31, 2017 amounted to \$85,531, an increase of \$3,071, or 3.7% from the \$82,460 reported for the year ended December 31, 2016.

Battery & Energy Products revenues increased \$5,036, or 7.8%, for the year ended December 31, 2017. Government and defense sales of this business increased 21.5% from 2016 and now comprise 41.6% of total segment sales versus 36.9% last year. The increase reflects the higher overall demand for batteries and chargers across our U.S. and international customer base. Commercial revenues of this business decreased .2% from 2016 and now comprise 58.4% of total segment sales versus 63.1% last year. The year-over-year decrease primarily resulted from timing differences in medical sales, including large shipments in the fourth quarter of 2016 to stock a large global medical OEM under an ongoing master supply agreement, and the impact of currency fluctuations on some export sales. The reduction in 2017 was not fully offset by a 5.1% increase in medical sales by Accutronics and a 4.3% increase across our expanding commercial customer base.

Communications Systems revenues decreased \$1,965 or 11.1% for the year ended December 31, 2017. Revenues attributable to fulfillment of orders through an OEM to the U.S. Army of the Vehicle Installed Power Enhanced Riflemen

Appliqué (“VIPER”) were \$2,895 in 2017 compared to \$10,291 in 2016. Excluding the VIPER shipments, sales of core amplifiers and integrated solutions products increased \$5,431 or 73.3% in 2017 driven by increased demand for our core products such as our 20-watt amplifiers, universal vehicle adaptors and power supplies.

Our order backlog at December 31, 2017 was \$39,086, an increase of \$12,912 or 49.3% from the backlog at December 31, 2016, which was \$26,174. For our Battery & Energy Products business, the backlog increased by \$7,876 or 34.0% to \$31,013 from \$23,137 primarily due to higher demand for medical products. For our Communications Systems business, the backlog increased by \$5,036 or 165.8% to \$8,973 from \$3,037 resulting primarily from the award of a \$3,900 order to supply our Vehicle Amplifier-Adaptor (“VAA”) through a large global defense supplier for the U.S. Army’s Security Force Assistance Brigades (SFABs) and the completion of shipments under a 2017 VIPER award.

*Cost of Products Sold and Gross Profit.* Cost of products sold for the year ended December 31, 2017 increased \$1,947, or 3.4%, from the year ended December 31, 2016. Consolidated cost of products sold as a percentage of total revenue decreased from 69.6% for the year ended December 31, 2016 to 69.3% for the year ended December 31, 2017. Correspondingly, consolidated gross margin was 30.7% for the year ended December 31, 2017, compared with 30.4% for the year ended December 31, 2016. The 30 basis point improvement in gross margin is due primarily to product mix in our Communications Systems business segment, which was more heavily weighted towards our high value proposition core products.

For our Battery & Energy Products segment, the cost of products sold increased \$4,957 or 11.0%, from the year ended December 31, 2016. Battery & Energy Products’ gross profit for 2017 was \$19,659 or 28.2% of revenues, an increase of \$79 or 0.4% from gross profit of \$19,580, or 30.2% of revenues, for 2016. As a result, Battery & Energy Products’ gross margin as a percentage of revenues decreased for the year ended December 31, 2017 by 200 basis points over the prior year, reflecting product mix, including a larger concentration of government and defense sales compared to the prior year, as well as non-recurring incremental supply chain and logistics fees experienced in 2017.

For our Communications Systems segment, the cost of products sold decreased by \$3,010 or 24.7% from the year ended December 31, 2016. Communications Systems’ gross profit for the year ended December 31, 2017 was \$6,573 or 41.8% of revenues, an increase of \$1,045 or 18.9% from gross profit of \$5,528 or 31.2% of revenues, for the year ended December 31, 2016. The 1,060 basis points increase in gross margin as a percentage of revenue during 2017 is due to sales product mix primarily related to the higher sales of core products.

*Operating Expenses.* Total operating expenses for the year ended December 31, 2017 decreased \$1,589 or 7.4% from the year ended December 31, 2016. This decrease was primarily attributable to strict control over non-revenue related discretionary spending, while focusing on the development of new products and revenue growth.

Overall, operating expenses as a percentage of revenues were 23.1% for the year ended December 31, 2017 compared to 25.9% for the comparable 2016 period. Amortization expense associated with intangible assets related to our acquisitions decreased to \$422 for the year ended December 31, 2017 (\$257 in selling, general and administrative expenses and \$165 in research and development costs) from \$503 for the year ended December 31, 2016 (\$303 in selling, general and administrative expenses and \$200 in research and development costs). Research and development costs were \$4,737 in 2017, a decrease of \$1,209 or 20.3%, from \$5,946 reported in 2016. The decrease primarily reflects the timing of development and testing costs associated with the initial shipment of VIPER units in 2016 and discretionary cost reduction actions completed during and subsequent to the second quarter of 2016, including synergies with Accutronics. Selling, general, and administrative expenses decreased \$380 or 2.5%, from \$15,399 for the year ended December 31, 2016 to \$15,019 for the year ended December 31, 2017. The decrease is attributable to the absence of one-time costs incurred to complete the acquisition of Accutronics in January 2016 and discretionary cost reductions.

*Other Income (Expense).* Other income (expense) totaled (\$181) for the year ended December 31, 2017 compared to (\$183) for the year ended December 31, 2016. Interest and financing expense, net of interest income, decreased \$80 to \$183 for 2017 from \$263 for 2016, as a result of one-time costs of \$48 associated with the acquisition of Accutronics in 2016 and more favorable terms of our Revolving Credit Agreement which was executed on May 31, 2017. Miscellaneous income (expense) amounted to \$2 for 2017 compared with \$80 for 2016, primarily due to transactions impacted by foreign currency fluctuation between the U. S. Dollar, Pound Sterling and Euro.

*Income Taxes.* We recorded a tax benefit of \$1,369 for the year ended December 31, 2017 compared to a tax provision of \$98 for the year ended December 31, 2016. As a result of the Tax Cuts and Jobs Act, a one-time, non-cash tax benefit of \$1,939 was included in our 2017 results upon the revaluation, at the newly enacted 21% Federal tax rate, of deferred tax

liabilities relating to book-to-tax differences on goodwill and certain other indefinite-lived intangible assets. Excluding this benefit, the tax provision for 2017 would have been \$570 primarily reflecting the income generated by our foreign operations and the recognition of deferred tax liabilities generated from the amortization of goodwill and certain other indefinite-lived intangible assets for tax purposes that cannot be predicted to reverse for book purposes. The year-over-year decrease is primarily attributable to tax benefit associated with the Tax Cuts and Jobs Act, which more than offset higher 2017 taxes on foreign earnings and the 2016 reversal of an excess accrual of income taxes from prior years. The effective consolidated tax rates for the years ended December 31, 2017 and 2016 were as follows:

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Income Before Income Taxes (a)	\$6,295	\$3,580
Income Tax Benefit (b)	(1,369)	98
Effective Rate (b) / (a)	(21.8%)	2.7%

In 2017 and 2016, in the U.S. and for certain past operations in the U.K., we continue to report a valuation allowance for our net operating loss carryforwards and other deferred tax assets that cannot be offset by reversing temporary differences. The recognition of a valuation allowance is based on an assessment of all available evidence, both positive and negative, weighted based on objective verifiability. The assessment of the realizability of the U.S. deferred tax assets was based on a number of factors including our history of operating losses prior to 2015, our historical operating volatility, our historical inability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate. The use of our U.K. NOL carryforwards may be limited due to the change in the past U.K. operations. Based on our assessment of all available evidence and its weighting based on objective verifiability, we concluded that the realizability of these deferred tax assets is not more likely than not. In both 2017 and 2016, 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 and anticipate a full or partial reversal of the valuation allowance in future periods. (See Notes 1 and 9 in the Notes to Consolidated Financial Statements for additional information.)

*Net Income Attributable to Ultralife.* Net income attributable to Ultralife was \$7,648, which includes the \$1,939 tax benefit, compared to \$3,509 for the year ended December 31, 2016. Reported earnings per share for 2017 of \$0.49 per basic share (\$0.48 per diluted share) includes \$0.37 from our operating performance compared to \$0.23 per basic share (\$0.23 per diluted share) for 2016, plus \$0.12 related to the tax benefit. Average common shares outstanding used to compute diluted earnings per share increased from 15,405,000 in the 2016 period to 15,858,000 in the 2017 period, mainly due to the increase in the weighted average stock from \$4.73 for 2016 to \$6.42 for 2017 and the resulting impact on the treasury method used to calculate dilutive shares.

#### Adjusted EBITDA

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

We use Adjusted EBITDA in our decision-making processes relating to the operation of our business together with U.S. GAAP financial measures such as income (loss) from operations. We believe that Adjusted EBITDA permits a comparative assessment of our operating performance, relative to our performance based on our U.S. GAAP results, while isolating the effects of depreciation and amortization, which may vary from period to period without any correlation to underlying operating performance, and of non-cash 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 U.S. GAAP, and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Our Adjusted EBITDA has limitations as an analytical tool, and when assessing our operating performance, Adjusted EBITDA should not be considered in isolation or as a substitute for net income (loss) attributable to Ultralife or other consolidated statement of operations data prepared in accordance with U.S. GAAP. Some of these limitations include, but are not limited to, the following:

- 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 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 U.S. GAAP results and using Adjusted EBITDA only on a supplemental basis. Adjusted EBITDA is calculated as follows for the periods presented:

	<b>Years ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Net Income Attributable to Ultralife	\$7,648	\$3,509
Add:		
Interest Expense, Net	183	263
Income Tax (Benefit) Provision	(1,369)	98
Depreciation and Amortization of Financing Fees	2,057	2,294
Amortization of Intangible Assets	422	503
Stock-Based Compensation Expense	653	710
Non-Cash Purchase Accounting Adjustment	-	96
Loss on Asset Disposal and Other	-	29
Adjusted EBITDA	<u>\$9,594</u>	<u>\$7,502</u>

## **Liquidity and Capital Resources**

### *Cash Flows and General Business Matters*

As of December 31, 2017, cash totaled \$18,330 (including restricted cash of \$99), an increase of \$7,624 from the beginning of the year primarily attributable to the Company's operating performance. During the year ended December 31, 2017, we generated \$7,270 of cash from operating activities as compared to \$7,653 of cash for the year ended December 31, 2016, a decrease of \$383. In 2017, the cash generated from operating activities was a result of our net income of \$7,664 plus an add-back of \$1,463 for non-cash expenses of depreciation, amortization, and stock-based compensation, partially offset by a \$1,669 net deferred tax benefit primarily attributable to a one-time benefit of \$1,939 relating to the revaluation of deferred tax liabilities on goodwill and certain other indefinite-lived intangible assets upon enactment of the Tax Cuts and Jobs Act .

Working capital changes of \$1,857 partially offset the operating cash generated, due mainly to an increase in inventory to service the year-over-year increase in backlog. In 2016, the cash generated from operating activities resulted from our net income of \$3,482 plus an add-back of \$3,536 for non-cash expenses of depreciation, amortization, and stock-based compensation. Working capital changes accounted for \$635 of the operating cash generation, due mainly to a decrease in inventory.

We used \$1,392 in cash for investing activities during 2017 compared with \$11,076 in cash used for investing activities in 2016. Cash paid for capital expenditures totaled \$1,392 and \$1,219 in 2017 and 2016, respectively. The year-over-year increase in cash paid for capital expenditures was due primarily to the 2017 payment for automation equipment pertaining to our Battery & Energy Products business. The Company acquired Accutronics in 2016 utilizing cash of \$11,161, which was partially offset by the cash acquired from Accutronics of \$1,304.

We generated \$1,403 in cash from financing activities during 2017, compared to a use of \$173 in cash for financing activities during 2016. We received \$1,429 and \$460 in 2017 and 2016, respectively, in funds from the issuance of common stock in connection with the exercise of stock options by our employees. In 2017 and 2016, we used \$26 and \$28, respectively, for tax withholdings related to stock-based awards. In 2016, we spent \$607 to repurchase treasury stock under the Company's Share Repurchase Program, which was concluded in June of that year.

Although we carry a full reserve for our deferred tax asset as of both December 31, 2017 and 2016, we continue to have significant U.S. NOLs available to utilize as an offset to taxable income. As of December 31, 2017, none of our U.S. NOLs have expired. See Note 9 in our Notes to the Consolidated Financial Statements for additional information.

As of December 31, 2017, we had made commitments to purchase approximately \$1,392 of production machinery and equipment, which we expect to fund through operating cash flows.

In January 2016, we acquired Accutronics Limited ("Accutronics") as disclosed in Note 2 to our Consolidated Financial Statements. The purchase price of £7,708 (approximately \$11,200) was funded out of our cash. Based on operating cash flows and working capital management, including reductions in discretionary spending and further reductions of inventory, a large portion of the cash used was restored over the course of 2016 and 2017.

#### *Debt and Lease Commitments*

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

The Credit Facility provides the Company with an aggregate of up to \$30,000 of loan and letter of credit availability determined based on a borrowing base formula. The Company had available borrowings of approximately \$30,000 under the Credit Facility at December 31, 2017. The Company may use advances under the Credit Facility for general working capital purposes, to reimburse drawings under letters of credit and to fund capital expenditures and acquisitions, all subject to the terms of the Credit Agreement. The Company had no amounts drawn under the Prior Credit Agreement at the time of its expiration and has not borrowed under the Credit Facility.

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

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

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

In addition to the affirmative and negative covenants, the Company must maintain a fixed charge coverage ratio of 1.15 to 1.0, tested each fiscal quarter for the trailing four fiscal quarters, and a minimum tangible net worth of \$40,000, tested as of the end of each calendar year. The Company was in full compliance with its covenants as of December 31, 2017.

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

As of December 31, 2017, we had no outstanding balance under the Credit Facility and no outstanding letters of credit related to the Credit Facility.

See Note 6 in the Notes to Consolidated Financial Statements for additional information.

#### *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 U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect amounts reported therein. The estimates and assumptions that require management's most difficult, subjective or complex judgments are described below.

##### Revenue Recognition:

**Product Sales** – In general, revenues from the sale of products are recognized when products are shipped. When products are shipped with terms that require transfer of title upon delivery at a customer's location, revenues are recognized on date of delivery. We make a provision at the time the revenue is recognized for warranty costs expected to be incurred. Customers, including distributors, do not have a general right of return on products shipped. For products shipped under vendor managed inventory arrangements, revenue is recognized when the product is consumed by the customer, at which point title has transferred and there are no further obligations by the Company.

**Deferred Revenue** - For each source of revenues, we defer recognition if: (i) evidence of an agreement does not exist, (ii) delivery or service has not occurred, (iii) the selling price is not fixed or determinable, or (iv) collectability is not reasonably assured.

#### 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 record provisions for excess, obsolete or slow moving inventory based on changes in customer demand, technology developments or other economic factors. The factors that contribute to inventory valuation risks are our purchasing practices, material and product obsolescence, accuracy of sales and production forecasts, introduction of new products, product lifecycles, product support and foreign regulations governing hazardous materials (see Item 1A – Risk Factors for further information on foreign regulations). We manage our exposure to inventory valuation risks by maintaining safety stocks, minimum purchase lots, managing product end-of-life issues brought on by aging components or new product introductions, and by utilizing certain inventory minimization strategies such as vendor-managed inventories. We believe that the accounting estimate related to valuation of inventories is a "critical accounting estimate" because it is susceptible to changes from period-to-period due to the requirement for management to make estimates relative to each of the underlying factors ranging from purchasing, to sales, to production, to after-sale support. If actual demand, market conditions or product lifecycles are adversely different from those estimated by management, inventory adjustments to lower market values would result in a reduction to the carrying value of inventory, an increase in inventory write-offs and a decrease in gross margins.

#### Warranties:

We maintain provisions related to normal warranty claims by customers. We evaluate these reserves quarterly based on actual experience with warranty claims to date and our assessment of additional claims in the future. 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.

#### 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.

#### 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.

#### Goodwill and Other 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 being utilized 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.

The Company changed the date of its annual impairment test in 2017 from December 31 to the first day of the fourth quarter. The change was made for administrative purposes and did not materially impact the estimated fair values.

We conducted our annual impairment tests for goodwill and other indefinite-lived intangible assets as of October 1, 2017. For 2017, we identified four 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 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. We performed a quantitative impairment test of each of our four trademarks as of October 1, 2017 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. 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 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 expected volatility for stock options by taking an average of historical volatility over the past five years and a computation of implied volatility. 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. 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 may be in effect when the differences are expected to reverse.

In 2017 and 2016, in the U.S. and certain operations in the U.K., we continued to report a valuation allowance for our deferred tax assets that we believe cannot be offset by reversing temporary differences because based on past history, it is more likely than not that we would not be able to utilize our U.S. and U.K. net operating losses ("NOLs") that have accumulated over time. The recognition of a valuation allowance on our deferred tax assets resulted from our evaluation of all available evidence, both positive and negative. The assessment of the realizability of the NOLs was based on a number of factors including our history of net operating losses prior to 2015, our historical operating volatility, our historical inability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate. We concluded that these historical factors represent sufficient negative evidence and have concluded that we should continue to record a full valuation allowance at December 31, 2017. We currently carry a deferred tax asset in China that we have determined does not require a valuation allowance as it is more likely than not to be fully realized. We continually assess the carrying value of this asset based on relevant accounting standards.

#### 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 business's acquisition date.

## **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 36.

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Ultralife Corporation

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Ultralife Corporation (the Company) and its subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, 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.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ Freed Maxick, CPAs, P.C.

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

Rochester, New York  
February 8, 2018

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

**ASSETS**

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Current Assets:		
Cash	\$18,241	\$10,629
Restricted Cash	89	77
Trade Accounts Receivable, Net of Allowance for Doubtful Accounts of \$292 and \$277, Respectively	14,657	13,179
Inventories, Net	26,326	23,456
Prepaid Expenses and Other Current Assets	2,603	2,079
Total Current Assets	<u>61,916</u>	<u>49,420</u>
Property, Equipment and Improvements, Net	7,570	7,999
Goodwill	20,458	19,965
Other Intangible Assets, Net	7,085	7,194
Deferred Income Taxes	32	94
Security Deposits and Other Non-Current Assets	125	72
Total Assets	<u><u>\$97,186</u></u>	<u><u>\$84,744</u></u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current Liabilities:		
Accounts Payable	\$8,787	\$7,292
Accrued Compensation and Related Benefits	2,413	1,258
Accrued Expenses and Other Current Liabilities	2,871	2,606
Income Taxes Payable	168	172
Total Current Liabilities	<u>14,239</u>	<u>11,328</u>
Deferred Income Taxes	3,867	5,538
Other Non-Current Liabilities	31	18
Total Liabilities	<u>18,137</u>	<u>16,884</u>
Commitments and Contingencies (Note 7)		
Shareholders' Equity:		
Preferred Stock – Par Value \$.10 Per Share; Authorized 1,000,000 Shares; None Issued	-	-
Common Stock – Par Value \$.10 Per Share; Authorized 40,000,000 Shares;		
Issued – 19,670,928 Shares and 19,324,723 Shares, Respectively;		
Outstanding – 15,651,217 Shares and 15,308,971 Shares, Respectively	1,966	1,932
Capital in Excess of Par Value	180,211	178,163
Accumulated Deficit	(82,894)	(90,542)
Accumulated Other Comprehensive Loss	(1,611)	(3,080)
Treasury Stock - at Cost; 4,019,711 Shares and 4,015,752 Shares at December 31, 2017 and 2016, respectively	(18,469)	(18,443)
Total Ultralife Corporation Equity	<u>79,203</u>	<u>68,030</u>
Non-Controlling Interest	(154)	(170)
Total Shareholders' Equity	<u>79,049</u>	<u>67,860</u>
Total Liabilities and Shareholders' Equity	<u><u>\$97,186</u></u>	<u><u>\$84,744</u></u>

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,	
	2017	2016
<b>Revenues</b>	\$85,531	\$82,460
<b>Cost of Products Sold</b>	59,299	57,352
<b>Gross Profit</b>	26,232	25,108
<b>Operating Expenses:</b>		
Research and Development	4,737	5,946
Selling, General and Administrative	15,019	15,399
Total Operating Expenses	19,756	21,345
<b>Operating Income</b>	6,476	3,763
<b>Other Expense (Income):</b>		
Interest and Financing Expense	183	263
Miscellaneous	(2)	(80)
<b>Income Before Income Taxes</b>	6,295	3,580
Income Tax (Benefit) Provision	(1,369)	98
<b>Net Income</b>	7,664	3,482
Net Income (Loss) Attributable to Non-Controlling Interest	16	(27)
<b>Net Income Attributable to Ultralife Corporation</b>	7,648	3,509
<b>Other Comprehensive Income (Loss):</b>		
Foreign Currency Translation Adjustments	1,469	(2,173)
<b>Comprehensive Income Attributable to Ultralife Corporation</b>	\$9,117	\$1,336
<b>Net Income Per Share Attributable to Ultralife Corporation Common Shareholders – Basic:</b>	\$.49	\$.23
<b>Net Income Per Share Attributable to Ultralife Corporation Common Shareholders – Diluted:</b>	\$.48	\$.23
<b>Weighted Average Shares Outstanding – Basic</b>	15,528	15,261
<b>Weighted Average Shares Outstanding – Diluted</b>	15,858	15,405

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						
<b>Balance –</b>								
<b>December 31, 2015</b>	19,181,815	\$1,918	\$177,007	\$(907)	\$(94,051)	\$(17,808)	\$(143)	\$66,016
Purchases of Stock						(635)		(635)
Vesting of Restricted Shares	15,900	2	(2)					-
Stock Option Exercises	127,008	12	448					460
Stock-Based Compensation - Stock Options			676					676
Restricted Stock			34					34
Foreign Currency Translation Adjustments				(2,173)				(2,173)
Net Income					3,509		(27)	3,482
<b>Balance –</b>								
<b>December 31, 2016</b>	19,324,723	\$1,932	\$178,163	\$(3,080)	\$(90,542)	\$(18,443)	\$(170)	\$67,860
Purchases of Stock						(26)		(26)
Vesting of Restricted Shares	12,900	1	(1)					-
Stock Option Exercises	333,305	33	1,396					1,429
Stock-Based Compensation - Stock Options			642					642
Restricted Stock			11					11
Foreign Currency Translation Adjustments				1,469				1,469
Net Income					7,648		16	7,664
<b>Balance –</b>								
<b>December 31, 2017</b>	19,670,928	\$1,966	\$180,211	\$(1,611)	\$(82,894)	\$(18,469)	\$(154)	\$79,049

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

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

	<b>Years ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>OPERATING ACTIVITIES:</b>		
Net Income	\$7,664	\$3,482
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	2,005	2,223
Amortization of Intangible Assets	422	503
Amortization of Financing Fees	52	71
Stock-Based Compensation	653	710
Loss on Long-Lived Asset Disposals	-	29
Deferred Income Tax Expense	(1,669)	135
Provision for allowance for doubtful accounts	(5)	(24)
Changes in operating assets and liabilities:		
Accounts Receivable	(1,295)	(667)
Inventories	(2,537)	1,981
Prepaid Expenses and Other Assets	(673)	730
Income taxes receivable and payable	(8)	(158)
Accounts Payable and Other Liabilities	2,661	(1,362)
Net Cash Provided by Operating Activities	7,270	7,653
<b>INVESTING ACTIVITIES:</b>		
Cash Paid for Property, Equipment and Improvements	(1,392)	(1,219)
Acquisition of Accutronics, Net of Cash Acquired	-	(9,857)
Net Cash Used in Investing Activities	(1,392)	(11,076)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from Exercise of Stock Options	1,429	460
Tax Withholdings on Stock-Based Awards	(26)	(28)
Cash Paid to Repurchase Treasury Stock	-	(607)
Proceeds from Debt Borrowings	-	3,030
Payments of Debt Borrowings	-	(3,030)
Net Cash Provided by (Used in) Financing Activities	1,403	(175)
Effect of Exchange Rate Changes on Cash	331	(166)
<b>INCREASE (DECREASE) IN CASH</b>	<b>7,612</b>	<b>(3,764)</b>
Cash, Beginning of Year	10,629	14,393
Cash, End of Year	<b>\$18,241</b>	<b>\$10,629</b>
<b>Supplemental Cash Flow Information:</b>		
Construction in Process in Accounts Payable	\$87	\$83
Income Taxes Paid	\$345	\$273
Interest Paid	\$102	\$179

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.; 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), 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, 2017 and 2016.

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. 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 longer than contractual payment terms are considered past due and are reviewed individually for collectability. We maintain reserves for potential credit losses based upon our loss history and specific receivables aging analysis. Receivable balances are written off when collection is deemed unlikely. Allowance for doubtful accounts was \$292 and \$277 for the years ended December 31, 2017 and 2016, respectively.

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 – 20
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. 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 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 is recognized.

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 utilized 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 on the balance sheets. Exchange gains and (losses) relate to foreign currency transactions and balances denominated in currencies other than the functional currency included in net income for the years ended December 31, 2017 and 2016 were \$(10) and \$86, respectively.

k. *Revenue Recognition*

Product Sales – In general, revenues from the sale of products are recognized when products are shipped. When products are shipped with terms that require transfer of title upon delivery at a customer's location, revenues are recognized on the date of delivery. We will make a provision at the time the revenue is recognized for warranty costs expected to be incurred. Customers, including distributors, do not have a general right of return on products shipped. For products

shipped under vendor managed inventory arrangements, revenue is recognized when the product is consumed by the customer, at which point title has transferred and there are no further obligations by the Company.

Deferred Revenue – For each source of revenues, we defer recognition if: (i) evidence of an agreement does not exist, (ii) delivery or service has not occurred, (iii) the selling price is not fixed or determinable, or (iv) collectability is not reasonably assured.

l. *Warranty Reserves*

We estimate future costs associated with expected product failure rates, material usage and service costs in the development of our warranty obligations. Warranty reserves, included in other current liabilities and other long-term liabilities as applicable on our Consolidated Balance Sheets, are based on historical experience of warranty claims. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded.

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. *Advertising Expenses*

Advertising costs are expensed as incurred and are included in selling, general and administrative expenses in the accompanying Consolidated Statements of Income and Comprehensive Income. Such expenses amounted to \$26 and \$32 for the years ended December 31, 2017 and 2016, respectively.

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. During 2017 and 2016, we expended \$5,142 and \$6,155, respectively, on research and development, including \$405 and \$209, respectively, on customer sponsored research and development activities, which are included in cost of goods sold. We recognized \$405 and \$209 of revenue relating to these activities during 2017 and 2016, respectively.

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.

A valuation allowance is required when it is more likely than not that the recorded value of a deferred tax asset will not be realized. As of December 31, 2017, we continued to recognize a valuation allowance in the U.S. and certain U.K. operations on our net deferred tax assets to the extent that temporary tax differences and the U.S. and U.K. net operating loss and tax credit carryforwards resulting in the deferred tax asset are not able to be offset by future reversing temporary differences. The assessment of the realizability of the U.S. NOL was based on a number of historical factors including, our history of net operating losses prior to 2015, our historical operating volatility, our historical inability to accurately forecast earnings for future periods, and the continued uncertainty of the general business climate as of the end of 2017. We concluded that these historical factors represent sufficient negative evidence and have concluded that we should record a full valuation allowance against these net deferred tax assets. We also recorded a full valuation allowance on our net deferred tax asset for the year ended December 31, 2016.

r. *Concentration Related to Customers and Suppliers*

During the year ended December 31, 2017, we had one major customer, a large defense primary contractor, which comprised 18% and 12% of our revenues in 2017 and 2016, respectively. During the year ended December 31, 2016, another large

defense primary contractor comprised 13% of our sales; however, sales to this customer in 2017 comprised 3% of our sales. 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 2017 and 2016, we do not consider this customer to be a significant credit risk. We do not normally obtain collateral on trade accounts receivable.

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, 2017 and 2016. The fair value of cash, trade accounts receivable, trade accounts payable, and accrued liabilities approximates carrying value due to the short-term nature of these instruments.

t. *Earnings Per Share*

Basic earnings per share is computed by dividing net income or loss attributable to Ultralife Corporation by the weighted average number of common shares outstanding for the period. Diluted earnings per share calculations reflect the assumed exercise and conversion of dilutive employee stock options and unvested restricted stock, if any, applying the treasury stock method. Diluted earnings per share in 2017 include 1,035,711 outstanding in-the-money stock options that add 330,676 shares to the number of shares outstanding. Diluted earnings per share in 2016 include 1,238,804 outstanding in-the-money stock options that add 135,458 shares to the number of shares outstanding, and include 15,900 restricted stock units that add 9,538 shares outstanding. There were no unvested restricted stock units as of December 31, 2017.

Diluted earnings per share calculations exclude the effect of 824,500 and 1,332,281 employee stock options in 2017 and 2016, respectively, as such options have an exercise price in excess of the weighted average market price of the Company's common stock.

u. *Stock-Based Compensation*

We have various stock-based employee compensation plans that are described more fully in Note 8. 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*

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes", which requires that deferred tax liabilities and assets be netted against each other and classified as non-current in a classified statement of financial position. ASU 2015-17 is effective for public companies for annual and interim periods beginning after December 15, 2016. During the first quarter of 2017, we adopted ASU 2015-17 on a retrospective basis. As such, we reclassified \$32 and \$94 of foreign current deferred tax assets to non-current on the consolidated balance sheets as of December 31, 2017 and 2016, respectively. The deferred tax liabilities relate to U.S. tax obligations which cannot be netted against foreign deferred taxes. The adoption of ASU 2015-17 did not affect our consolidated statements of income.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718)", which identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. ASU 2016-09 is effective for public companies for annual and interim periods beginning after December 15, 2016. We adopted the new accounting standard in the first quarter of 2017 and will maintain our policy to estimate forfeitures expected to occur to determine stock-based compensation expense. Adoption of this new accounting standard resulted in the recognition of an increase in the Company's gross deferred tax asset of \$1,123 and an offsetting increase in the valuation allowance. There was no impact to the Company's retained earnings as a result of adopting this new accounting standard.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which simplifies the subsequent measurement of inventory by using only the lower of cost and net realizable value. This standard is effective for fiscal years and interim periods within those years beginning after December 15, 2016, and must be applied on a retrospective basis. We adopted the new accounting standard in the first quarter of 2017. There was no material impact to the Company's financial statements as a result of adopting this new accounting standard.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 (Topic 606) "Revenue from Contracts with Customer" related to revenue from contracts with customers. Under this standard, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP and permits the use of either the retrospective or cumulative effect transition method. Topic 606 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company will adopt Topic 606 effective January 1, 2018. Topic 606 will not have a material impact on our Consolidated Financial Statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases" requires that lessees recognize a right-to-use asset and related lease liability for all significant financing and operating leases not considered short-term leases, and specifies where in the statement of cash flows the related lease payments are to be presented. The guidance is effective for years beginning after December 15, 2018 and early adoption is permitted. The Company has not yet determined the impact of this standard on our Consolidated Financial Statements, but believes it may be significant. We have elected not to adopt this standard in advance of its required effective date.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, "Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory". The new guidance requires that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the

asset is sold to an outside party. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. Early adoption is permitted. The new guidance requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company will adopt Topic 740 effective January 1, 2018. Topic 740 will not have a material impact on our Consolidated Financial Statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, "Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments". The new guidance makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The new guidance requires adoption on a retrospective basis unless it is impracticable to apply, in which case the Company would be required to apply the amendments prospectively as of the earliest date practicable. The Company will adopt this standard effective January 1, 2018. This standard will not have a material impact 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 Company is currently assessing the impact that adopting this new accounting standard will have on our Consolidated Financial Statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718) – Scope of Modification Accounting", which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and early adoption is permitted, including in an interim period. ASU 2017-09 is to be applied on a prospective basis to an award modified on or after the adoption date. We do not intend to early adopt ASU 2017-09 and do not expect the adoption of this new accounting standard will have a material impact on our Consolidated Financial Statements.

## **Note 2 – Acquisition**

On January 13, 2016, Ultralife UK Limited (the "Merger Subsidiary"), a U.K. corporation and a wholly-owned subsidiary of Ultralife Corporation (the "Company"), completed the acquisition of all of the outstanding ordinary shares of Accutronics Limited ("Accutronics"), a U.K. corporation based in Newcastle-under-Lyme, U.K., from Intrinsic Equity Limited, Catapult Growth Fund Limited Partnership, MJF Pension Trustees Limited, Robert Andrew Phillips and Michael Allen (collectively, the "Sellers"). There are no material relationships between the Company or Merger Subsidiary and any of the Sellers, other than pertaining to this acquisition. Accutronics is a leading independent designer and manufacturer of smart batteries and charger systems for high-performance, feature-laden portable and handheld electronic devices and is classified in the Battery & Energy Products segment. The acquisition of Accutronics advances our strategy of commercial revenue diversification and expands our geographic reach within European OEM's. With industry experts predicting mid-to-high single digit growth in the global medical batteries market, this strategic investment positions Ultralife well for further penetration of and growing revenue streams from an attractive commercial market.

The acquisition was completed pursuant to the terms of the Share Purchase Agreement dated January 13, 2016 by and among the Merger Subsidiary and the Sellers. The Merger Subsidiary paid at the time of closing an aggregate purchase price of £7,575 (\$10,976) in cash, and in exchange the Merger Subsidiary received all of the outstanding shares of Accutronics ordinary stock. Monies to fund the purchase price were advanced to the Merger Subsidiary from the Company's general corporate funds.

The purchase price was subject to adjustment based on the difference between actual and estimated amounts of working capital of Accutronics as well as the amount of net cash of Accutronics. The adjustment resulted in a final payment to the Sellers in the amount of £133 on February 24, 2016, bringing the total aggregate purchase price to £7,708 (\$11,161).

The purchase price allocation was determined in accordance with the accounting treatment of a business combination in Financial Accounting Standards Board ("FASB") ASC Topic 805, *Business Combinations*. Under the guidance, 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 consideration paid 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 (in thousands). 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 a number of factors, including reference to an analysis performed under FASB ASC Topic 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 occur. The originally reported purchase price allocation has been updated based on information obtained about facts and circumstances that existed as of the acquisition date. As a result, adjustments were made which reduced identifiable intangible assets and property, plant and equipment by \$402 and \$99, respectively, and increased prepaids and other current assets, inventory, deferred income taxes on intangible assets and goodwill by \$291, \$75, \$113 and \$104, respectively.

Cash	\$1,304
Accounts Receivable	1,344
Inventory	2,167
Prepaids and Other Current Assets	584
Property, Plant & Equipment	269
Identifiable Intangible Assets	4,374
Goodwill	4,487
Accounts Payable	(1,009)
Accrued Expenses	(1,136)
Income Taxes Payable	(111)
Non-Current Liabilities	(209)
Deferred Income Taxes	(74)
Deferred Income Taxes on Intangible Assets	<u>(829)</u>
<b>Total Consideration</b>	<b>\$11,161</b>

The goodwill included in the Company's purchase price allocation presented above represents the value of Accutronics assembled and trained workforce, the incremental value that Accutronics engineering and technology will bring to the Company and the revenue growth expected to occur over time 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 identifiable intangible assets included in the Company's purchase price allocation represent customer contracts and relationships of \$2,821, intellectual property of \$1,132 and trade name of \$421 that are amortized straight-line over a period ranging from 10 to 15 years.

During the year ended December 31, 2016, direct acquisition costs of \$251 and increased cost of sales related to purchase accounting adjustments of \$96 for inventory acquired were recorded in the Company's Consolidated Statement of Income and Comprehensive Income. Accutronics contributed revenue of \$10,362 and operating income of \$436 during the twelve-month period ended December, 2016, reflecting the purchase accounting adjustments and non-recurring costs directly related to the acquisition.

Set forth below is the unaudited pro forma results of the Company for the twelve-month period ended December 31, 2016 as if the acquisition occurred as of January 1, 2015. The unaudited pro forma results exclude direct acquisition costs of \$251 and cost of sales of \$96 related to the purchase accounting adjustments for inventory acquired. The results of Accutronics were not material for the period from January 1, 2016 to the acquisition date.

	<u>Year Ended</u> <u>December 31, 2016</u>
Revenue	\$82,460
Operating income	\$4,061
Net income attributable to Ultralife	\$3,821

Earnings per share:	
Basic	\$0.25
Diluted	\$0.25

The unaudited pro forma results do not reflect the realization of any expected cost savings or other synergies from the acquisition of Accutronics as a result of restructuring activities, other cost savings initiatives or sales synergies following the completion of the business combination. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined Company would have been if the acquisition had occurred at the beginning of the 2015 period presented, nor are they indicative of future results of operations.

### Note 3 – Share Repurchase Program

On April 28, 2014, the Company’s Board of Directors approved a share repurchase program (the “Share Repurchase Program”) which became effective on May 1, 2014 and under which the Company was authorized to repurchase up to 1.8 million shares of its outstanding common stock over a period not to exceed twelve months. The Share Repurchase Program was extended through June 2, 2016, and the maximum number of shares authorized to be repurchased under the program was increased to 3.4 million shares.

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. The Share Repurchase Program expired on June 2, 2016 and did not obligate the Company to repurchase any specific number of shares.

In 2016, we repurchased a total of 156,092 shares of our common stock for an aggregate consideration of \$630, of which 149,904 shares were repurchased under the Share Repurchase Program for an aggregate amount (excluding fees and commissions) of \$603.

From the inception of the Share Repurchase Program on May 1, 2014 through its expiration on June 2, 2016, the Company repurchased 2,592,095 shares for an aggregate cost (excluding fees and commissions) of \$10,480.

### Note 4 - Supplemental Balance Sheet Information

*a. 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:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Raw Materials	\$14,606	\$14,482
Work in Process	2,013	986
Finished Products	9,707	7,988
Total	<u>\$26,326</u>	<u>\$23,456</u>

b. *Property, Plant and Equipment*

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

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Land	\$123	\$123
Buildings and Leasehold Improvements	7,858	7,757
Machinery and Equipment	50,852	49,722
Furniture and Fixtures	2,005	1,947
Computer Hardware and Software	5,338	5,223
Construction in Progress	535	421
	<u>66,711</u>	<u>65,193</u>
Less – Accumulated Depreciation	<u>(59,141)</u>	<u>(57,194)</u>
Total	<u>\$7,570</u>	<u>\$7,999</u>

Estimated costs to complete construction-in-progress as of December 31, 2017 and 2016 were approximately \$5,136 and \$170, respectively.

Depreciation expense was \$2,005 and \$2,223 for the years ended December 31, 2017 and 2016, respectively.

c. *Goodwill and Other Intangible Assets*

The Company performed its annual impairment tests of goodwill and other indefinite-lived intangible assets as of October 1, 2017. The Company changed the date of its annual impairment test in 2017 from December 31 to the first day of the fourth quarter. The change was made for administrative purposes and did not materially impact the estimated fair values.

The Company performed a quantitative impairment test of its four identified goodwill reporting units. 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 2017 and 2016, we determined that no impairments existed. 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 used in our impairment analysis.

The following table summarizes the goodwill activity by segment for the years ended December 31, 2017 and 2016:

	<b>Battery &amp; Energy Products</b>	<b>Communi- cations Systems</b>	<b>Total</b>
Balance – January 1, 2016	\$4,790	\$11,493	\$16,283
Acquisition of Accutronics	4,487	-	4,487
Effect of Foreign Currency Translation	(805)	-	(805)
Balance – December 31, 2016	<u>8,472</u>	<u>11,493</u>	<u>19,965</u>
Effect of Foreign Currency Translation	493	-	493
Balance – December 31, 2017	<u>\$8,965</u>	<u>\$11,493</u>	<u>\$20,458</u>

The composition of intangible assets was:

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

	<b>December 31, 2016</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Trademarks	\$3,404	\$ -	\$3,404
Customer Relationships	6,395	3,975	2,420
Patents and Technology	5,455	4,417	1,038
Distributor Relationships	377	368	9
Trade Name	359	36	323
Total Other Intangible Assets	<u>\$15,990</u>	<u>\$8,796</u>	<u>\$7,194</u>

The change in the cost value of other intangible assets is a result of the effect of foreign currency translations.

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

	<b>Year ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Research and Development Expense	\$165	\$200
Selling, General and Administrative Expense	257	303
Total	<u>\$422</u>	<u>\$503</u>

Future amortization expense of amortizable intangible assets will be approximately \$400, \$379, \$367, \$348 and \$334 for the fiscal years ending December 31, 2018 through 2022, respectively.

#### **Note 5 - Operating Leases**

We lease various buildings, machinery, land, automobiles and office equipment. Rental expenses for all operating leases were approximately \$660 and \$668 for the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments under non-cancelable operating leases as of December 31, 2017 are as follows:

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
\$558	\$416	\$100	\$-	\$-

#### **Note 6 - Debt**

##### *Credit Facilities*

On May 31, 2017, Ultralife Corporation entered into a Credit and Security Agreement (the "Credit Agreement") and related security agreements with KeyBank National Association ("KeyBank" or the "Bank") to establish a \$30,000 senior secured, cash flow-based, revolving credit facility that includes a \$1,500 letter of credit subfacility (the "Credit Facility").

The Credit Agreement provides that the Credit Facility may be increased with the Bank’s concurrence to \$50,000 prior to the last six months of the term and is scheduled to expire on May 30, 2020. The Credit Facility replaces the Company’s asset-based revolving credit facility with PNC Bank National Association which expired in accordance with its terms on May 24, 2017 (the “Prior Credit Agreement”).

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

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

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

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

In addition to the affirmative and negative covenants, the Company must maintain a fixed charge coverage ratio of 1.15 to 1.0, tested each fiscal quarter for the trailing four fiscal quarters, and a minimum tangible net worth of \$40,000, tested as of the end of each calendar year. The Company was in full compliance with its covenants as of December 31, 2017.

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

As of December 31, 2017, we had no outstanding balance under the Credit Facility and no outstanding letters of credit related to the Credit Facility.

**Note 7 - 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, 2017, we have made commitments to purchase approximately \$1,392 of production machinery and equipment.

c. *China*

Our operating facility in China presents risks including, but not limited to, changes in local regulatory requirements, including 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, eminent domain claims, labor disputes, rapid changes in government, economic and political policies, and other various contingencies that are outside of our control. Any such event 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 costs associated with expected product failure rates, material usage and service costs in the development of our warranty obligations. Warranty reserves are based on historical experience of warranty claims and generally will be estimated as a percentage of sales over the warranty period. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded. Changes in our product warranty liability during the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Balance, January 1	\$172	\$192
Provision (reversal) for warranties issued	84	39
Settlements made	(107)	(59)
Balance, December 31	<u>\$149</u>	<u>\$172</u>

f. *Legal Matters*

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

*Dreamliner Litigation*

In July 2013, an unoccupied Boeing 787 Dreamliner aircraft operated by Ethiopian Airlines (“EA”) was damaged by a fire while parked at London Heathrow Airport. We participated in and provided technical assistance in support of an investigation of this incident conducted by U.K. and U.S. regulatory authorities as well as by the manufacturer of the aircraft, as we are one of many downstream suppliers to that manufacturer. A final report was issued by the Air Accidents Investigative Branch - - UK Civil Aviation regulatory authority, with findings indicating that the fire was primarily caused by circumstances related to the plane’s emergency locator transmitter (“ELT”) manufactured and installed by another company.

A component of the ELT is a battery pack which incorporates Ultralife’s industry-standard Lithium Manganese Dioxide non-rechargeable D-cell. Ultralife has had this cell in production since 2001, with millions of units produced. The cell is widely-used for global defense and commercial applications. This battery product has gone through rigorous safety and qualification testing, including United Nations Transport of Dangerous Goods, Manual of Tests and Criteria, and is authorized for use in aerospace applications under Technical Standard Order C142.

On May 4, 2015, we were notified of a lawsuit in which we were named, along with other suppliers to the aircraft manufacturer, concerning that 2013 fire. The suit was filed by EA in the Commercial Court, Queen’s Bench Division of

the High Court of Justice, London and seeks as damages \$42,000 plus other unspecified amounts, including those for loss of use and diminution in value of the aircraft. We maintain liability and products liability insurance through reputable providers, and in accordance with our corporate practices, immediately advised and referred this matter to our insurers. We are working with those insurers and their counsel to actively defend against this action, which is ongoing.

At this time, we believe that there is not a reasonable possibility that this incident will result in a material financial exposure to the Company.

## Note 8 - Shareholders' Equity

### a. *Stock-Based Compensation Expense*

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

	<u>2017</u>	<u>2016</u>
Stock Options	\$642	\$676
Restricted Stock Grants	11	34
Total	<u>\$653</u>	<u>\$710</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 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 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. However, 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, 2017, there were 1,116,083 stock options outstanding under the 2004 LTIP and 744,128 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. 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. Pursuant to Accounting Standards Codification Topic 718, Compensation – Stock Compensation, the transaction was accounted for as an equity award modification. During the second quarter, the Company recognized compensation cost of

\$193 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. All such options in items (iii) and (iv) shall 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. The market-based conditions for the stock options in items (iii) and (iv) had not been met as of December 31, 2017. 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.

On January 3, 2011, pursuant to the terms of his employment agreement, we granted our President and Chief Executive Officer, Michael D. Popielec, an option to purchase 50,000 shares of common stock at \$6.58 under the 2004 LTIP. The option vested in annual increments of 12,500 shares over a four-year period commencing December 30, 2011. The option expired on December 30, 2017.

As of December 31, 2017, there was \$385 of total unrecognized compensation costs related to outstanding stock options, which we expect to recognize over a weighted average period of 1.0 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, 2017 and 2016:

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Risk-free interest rate	1.7%	1.4%
Volatility factor	50.0%	48.2%
Weighted average expected life (years)	5.0	4.8
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 in the years ended December 31, 2017 or 2016.

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:

<b>Year Ended December 31, 2017</b>				
	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Shares under Option – January 1	2,323,581	\$6.22		
Options Granted	244,750	5.60		
Options Exercised	(333,305)	4.29		
Options Forfeited or Expired	(374,815)	8.11		
Shares under option – December 31	<u>1,860,211</u>	<u>\$5.06</u>	<u>2.93</u>	<u>\$2,624</u>
Vested and Expected to Vest - December 31	<u>1,649,594</u>	<u>\$4.63</u>	<u>2.75</u>	<u>\$2,438</u>
Options Exercisable – December 31	<u>1,045,798</u>	<u>\$4.18</u>	<u>2.63</u>	<u>\$1,806</u>

**Year Ended December 31, 2016**

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>
Shares under Option – January 1	2,257,969	\$6.30
Options Granted	369,550	4.69
Options Exercised	(152,789)	3.86
Options Forfeited or Expired	(151,149)	6.09
Shares under option – December 31	<u>2,323,581</u>	<u>\$6.22</u>
Options Exercisable – December 31	<u>1,302,390</u>	<u>\$5.05</u>

The following table represents additional information about stock options outstanding at December 31, 2017:

Range of Exercise Prices	Option Outstanding			Options Exercisable	
	Number of Outstanding Options – December 31, 2017	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number of Options Exercisable at December 31, 2017	Weighted- Average Exercise Price
\$3.22 - \$3.99	435,398	3.28	\$3.78	368,406	\$3.80
\$4.00 - \$4.99	510,213	3.27	4.37	335,624	4.40
\$5.00 - \$9.99	614,600	5.56	5.69	341,768	5.77
\$10.00 - \$15.00	300,000	2.00	12.50	-	-
\$3.22 - \$15.00	<u>1,860,211</u>	<u>2.93</u>	<u>\$5.06</u>	<u>1,045,798</u>	<u>\$4.18</u>

The weighted average fair value of options granted during the years ended December 31, 2017 and 2016 was \$2.47 and \$2.01, 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, 2017 and 2016 was \$588 and \$149, respectively.

Cash received from option exercises under our stock-based compensation plans for the years ended December 31, 2017 and 2016 was \$1,429 and \$460, respectively.

c. *Restricted Stock Awards*

During 2014, we awarded 49,200 restricted stock units under the 2014 LTIP to certain key employees. These units vest over three years and we estimated their weighted average grant date fair value to be \$3.24 per share. \$11 and \$34 of expense was recorded in 2017 and 2016, respectively, relating to these units. In September 2017, 12,900 shares of the awarded restricted stock vested and the Company repurchased 3,959 shares to satisfy the statutory tax withholding on shares vested for certain employees.

At December 31, 2017, there was no unrecognized compensation expense related to restricted stock grants.

d. *Reserved Shares*

We have reserved 946,027 shares of common stock under the various stock option plans, warrants and restricted stock awards as of December 31, 2017.

## Note 9 - Income Taxes

Our income tax provision consists of:

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Current:		
Federal	\$-	\$(70)
State	-	20
Foreign	300	13
	<u>300</u>	<u>(37)</u>
Deferred:		
Federal	(1,717)	220
State	55	-
Foreign	(7)	(85)
	<u>(1,669)</u>	<u>135</u>
Total income tax provision	<u><u>\$(1,369)</u></u>	<u><u>\$98</u></u>

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

The Act reduces the U.S. corporate tax rate to 21 percent, effective January 1, 2018. Deferred tax liabilities associated with goodwill and certain other intangible assets have been reduced by \$1,939, resulting in a deferred income tax benefit of \$1,939 for the year ended December 31, 2017.

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

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. The Company has recognized the provisional tax impacts related to the revaluation of deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended December 31, 2017. As of December 31, 2017, we have completed the majority of our accounting for the tax effects of the Act. If revisions are needed as new information becomes available, the final determination of the deemed re-measurement of our deferred assets and liabilities or other applicable provisions of The Act will be completed as additional information becomes available, but no later than one year from the enactment of the 2017 Tax Act.

The deferred U.S. income tax benefit for 2017 primarily represents a one-time, non-cash benefit of \$1,939 relating to the revaluation of deferred tax liabilities on goodwill and certain other intangible assets upon the enactment of the Tax Act, offset by the increase in the deferred tax liability associated with the increase in the taxable temporary difference related to the goodwill and certain other indefinite-lived intangible assets. The deferred income tax provision for 2016 is primarily due to the recognition of deferred tax liabilities relating to goodwill and certain other intangible assets that cannot be predicted to reverse during our loss-carryforward for book purposes partially offset by the deferred tax benefit of the amortization of certain intangible assets of Accutronics (U.K.). The current income tax provision is primarily attributable to the operating income of Accutronics (U.K.). The benefit associated with the current income tax provision in 2016 is primarily related to an excess accrual of income taxes in prior years.

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 liabilities and assets are as follows:

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Deferred Tax Liabilities:		
Property, Plant and Equipment	\$-	\$-
Other	38	-
Intangible Assets	3,806	5,471
Total Deferred Tax Liabilities	<u>3,844</u>	<u>5,471</u>
Deferred Tax Assets:		
Property, Plant and Equipment	44	77
Net Operating Loss Carryforwards	17,870	27,127
Tax Credit Carryforwards	1,837	1,704
Intangible Assets	1,535	2,923
Accrued Expenses, Reserves and Other	1,359	1,527
Total Deferred Tax Assets	<u>22,645</u>	<u>33,358</u>
Valuation Allowance for Deferred Tax Assets	<u>(22,636)</u>	<u>(33,331)</u>
Net Deferred Tax Assets	<u>9</u>	<u>27</u>
Net Deferred Tax Liabilities	<u><u>\$3,835</u></u>	<u><u>\$5,444</u></u>

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

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Non-Current Deferred Tax Assets	\$32	\$94
Non-Current Deferred Tax Liabilities	<u>(3,867)</u>	<u>(5,538)</u>
	<u><u>\$(3,835)</u></u>	<u><u>\$(5,444)</u></u>

The valuation allowance for deferred tax assets decreased by \$10,695 and \$1,262 in the years ended December 31, 2017 and 2016, respectively. The decreases in the valuation allowance were due to the reduction of deferred tax assets due to the Company's pretax income as well as the revaluation of the deferred taxes due to the enactment of the Tax Cuts and Jobs Act.

Effective January 1, 2017, the Company adopted ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvement to Employee Share-Based Payment Accounting. As a result of the adoption, the Company recognized a gross deferred tax asset of \$1,123 and a corresponding valuation allowance in the same amount resulting in no net deferred tax asset recognition.

In 2017 and 2016, in the U.S. and for certain past operations in the U.K., we continue to report a valuation allowance for our net operating loss carryforwards and other deferred tax assets that cannot be offset by reversing temporary differences. The recognition of the valuation allowance is based on an assessment of all available evidence, both positive and negative, weighted based on objective verifiability. The assessment of the realizability of the U.S. deferred tax assets was based on a number of factors including our history of operating losses, our historical operating volatility, our historical inability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate. The use of our U.K. net operating loss carryforwards may be limited due to the change in the past U.K. operation. Based on our assessment of all available evidence and its weighting based on objective verifiability, we concluded that the realizability of these deferred tax assets is not more likely than not. In both 2017 and 2016, we have not recognized a valuation allowance against our other foreign deferred tax assets as we believe that it is more likely than not that they will be realized. We will continue to evaluate the realizability of our deferred tax assets in future periods.

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

At December 31, 2017, 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:

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
United States	\$4,831	\$2,803
Foreign	1,464	777
	<u>\$6,295</u>	<u>\$3,580</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 (loss) from continuing operations before income taxes as follows:

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Statutory Income Tax Rate	34%	34.0%
(Increase) Decrease in Tax Provision Resulting From:		
Equity Compensation	0.7	9.6
Income Tax Credits	(0.9)	(6.2)
Foreign Tax Rates	(3.8)	(2.2)
Release of Unrecognized Tax Benefits	-	-
Valuation Allowance	(20.9)	(30)
Excess Accrual	-	(5.2)
Tax Rate Change	(30.8)	-
Other	(0.1)	2.7
Effective Income Tax Rate	<u>(21.8)%</u>	<u>2.7%</u>

#### *Accounting for Uncertainty in Income Taxes*

There were no unrecognized tax benefits related to uncertain tax positions at December 31, 2017 and 2016.

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

#### **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. Since January 2010, we have matched 50% on the first 4% contributed by an employee, or a maximum of 2% of the employee's income. For 2017 and 2016, we contributed \$181 and \$191, 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.

**2017:**

	<b>Battery &amp; Energy Products</b>	<b>Communications Systems</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$69,789	\$15,742	\$-	\$85,531
Segment Contribution	19,659	6,573	(19,756)	6,476
Interest Expense, Net			(183)	(183)
Miscellaneous			(2)	(2)
Income Tax Benefit			1,369	1,369
Non-Controlling Interest			(16)	(16)
Net Loss Attributable to Ultralife				<u>\$7,648</u>
Total Assets	\$44,720	\$32,169	\$20,297	\$97,186
Capital Expenditures	\$1,015	\$212	\$63	\$1,290
Goodwill	\$8,965	\$11,493	-	\$20,458
Depreciation and Amortization of Intangible Assets	\$1,830	\$430	\$167	\$2,427
Stock-Based Compensation	\$301	\$88	\$264	\$653

**2016:**

	<b>Battery &amp; Energy Products</b>	<b>Communications Systems</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$64,753	\$17,707	\$-	\$82,460
Segment Contribution	19,580	5,528	(21,345)	3,763
Interest Expense, Net			(263)	(263)
Miscellaneous			80	80
Income Tax Provision			(98)	(98)
Non-Controlling Interest			27	27
Net Income Attributable to Ultralife				<u>\$3,509</u>
Total Assets	\$39,691	\$32,021	\$13,032	\$84,744
Capital Expenditures	\$852	\$158	\$367	\$1,377
Goodwill	\$8,472	\$11,493		\$19,965
Depreciation and Amortization of Intangible Assets	\$2,042	\$541	\$143	\$2,726
Stock-Based Compensation	\$403	\$110	\$197	\$710

**U.S. and Non-U.S. Revenue Information<sup>1</sup>:**

<b>2017:</b>	<b>Total Revenue</b>	<b>United States</b>	<b>Non-United States</b>
Battery & Energy Products	\$69,789	\$33,397	\$36,392
Communications Systems	15,742	14,217	1,525
Total	<u>\$85,531</u>	<u>\$47,614</u>	<u>\$37,917</u>
		<u>56%</u>	<u>44%</u>

<b>2016:</b>	<b>Total Revenue</b>	<b>United States</b>	<b>Non-United States</b>
Battery & Energy Products	\$64,753	\$29,587	\$35,166
Communications Systems	17,707	15,507	2,200
Total	<u>\$82,460</u>	<u>\$45,094</u>	<u>\$37,366</u>
		<u>55%</u>	<u>45%</u>

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

Long-lived assets (including goodwill and intangible assets) held outside the U.S., principally in the United Kingdom and China, were \$12,443 and \$11,652 at December 31, 2017 and 2016, respectively.

### **Commercial and Government/Defense Revenue Information:**

<b>2017:</b>	<b>Total Revenue</b>	<b>Commercial</b>	<b>Government/ Defense</b>
Battery & Energy Products	\$69,789	\$40,790	\$28,999
Communications Systems	15,742	-	15,742
Total	<u>\$85,531</u>	<u>\$40,790</u>	<u>\$44,741</u>
		48%	52%
<b>2016:</b>	<b>Total Revenue</b>	<b>Commercial</b>	<b>Government/ Defense</b>
Battery & Energy Products	\$64,753	\$40,886	\$23,867
Communications Systems	17,707	-	17,707
Total	<u>\$82,460</u>	<u>\$40,886</u>	<u>\$41,574</u>
		50%	50%

### **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, 2017. 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, 2017, our internal control over financial reporting was effective based on those criteria.

**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 2018 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", "Section 16(a) Beneficial Ownership Reporting 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	1,860,211	\$5.06	946,027
Equity compensation plans not approved by security holders	-	-	-
Total	<u>1,860,211</u>	<u>\$5.06</u>	<u>946,027</u>

See Note 8 in 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 by and between BCF Solutions, Inc. and Ultralife Corporation	Exhibit 2.1 of the Form 10-Q for the quarter ended September 30, 2012, filed November 8, 2012
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*	Technology Transfer Agreement relating to Lithium Batteries	Exhibit 10.19 of our Registration Statement on Form S-1 filed on October 7, 1994, File No. 33-84888 (the "1994 Registration Statement")
10.2*	Technology Transfer Agreement relating to Lithium Batteries	Exhibit 10.20 of the 1994 Registration Statement
10.3*	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)
10.4†	Ultralife Corporation 2014 Long-Term Incentive Plan	Appendix A to our Definitive Proxy Statement filed on April 21, 2014
10.5†	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
10.6†	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
10.7†	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
10.8†	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
10.9†	Employment Agreement between the Registrant and Peter F. Comerford	Exhibit 10.30 of the Form 10-K for the year ended December 31, 2009, filed March 16, 2010
10.10†	Employment Agreement between the Registrant and Michael D. Popielec	Exhibit 10.40 of the Form 10-K for the year ended December 31, 2010, filed

10.11†	dated December 6, 2010 Revised definition of “Change in Control” for Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan	March 15, 2011 Exhibit 10.1 of the Form 8-K filed on May 26, 2011
10.12	Settlement Agreement between the Registrant and the United States of America dated June 1, 2011	Exhibit 10.1 of the Form 8-K filed on June 2, 2011
10.13†	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
10.14†	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
10.15	Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 10-Q for the quarter ended June 30, 2013, filed August 9, 2013
10.16†	Retirement and Consulting Agreement, Release and Waiver of All Claims, between Ultralife Corporation and Peter F. Comerford, dated May 28, 2013	Exhibit 10.1 of the Form 10-Q for the quarter ended June 30, 2013, filed August 9, 2013
10.17†	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
10.18†	Amended No. 6. to Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan	Appendix A of Form DEF 14A filed on April 22, 2013
10.19	Amendment No. 1, dated April 30, 2014, to the Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 10-Q for the quarter ended March 30, 2014, filed May 9, 2014
10.20	Amendment No. 2, dated October 28, 2014, to the Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 10-Q for the quarter ended September 28, 2014, filed November 3, 2014
10.21	Amendment No. 3, dated April 30, 2015, to the Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 8-K filed on April 30, 2015
10.22	Amendment No. 4, dated June 5, 2015, to the Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 8-K filed on June 5, 2015
10.23	Amendment No. 5, dated January 13, 2016, to the Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 8-K filed on January 20, 2016
10.24	Credit and Security Agreement between Ultralife Corporation and	Exhibit 10.1 of the Form 8-K filed on June 6, 2017

KeyBank National Association dated  
May 31, 2017

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 8, 2018

/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 8, 2018

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

Date: February 8, 2018

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

Date: February 8, 2018

/s/ Steven M. Anderson  
Steven M. Anderson (Director)

Date: February 8, 2018

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

Date: February 8, 2018

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

Date: February 8, 2018

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

Date: February 8, 2018

/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

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 333-117662, 333-136737, 333-155349, 333-179235 and 333-203037) of our report dated February 8, 2018 on the consolidated financial statements of Ultralife Corporation for the year ended December 31, 2017, which appear in this Form 10-K.

/s/ Freed Maxick CPAs, P.C.  
Rochester, New York  
February 8, 2018

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 8, 2018

/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 8, 2018

/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, 2017 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 8, 2018

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

Date: February 8, 2018

/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, 2017

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 or organization)

16-1387013

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

2000 Technology Parkway, Newark, New York

(Address of principal executive offices)

14513

(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.10 per share	NASDAQ Global Market

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..X...

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..X...

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ X ]

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

Large accelerated filer .... Accelerated filer ..... Non-accelerated filer .... Smaller reporting company ..X...  
Emerging Growth Company .....

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

On June 30, 2017, 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 \$69,474,629 (in whole dollars) based upon the closing price for such common stock as reported on the NASDAQ Global Market on June 30, 2017.

As of April 24, 2018, the registrant had 15,913,644 shares of common stock outstanding, net of 4,019,711 treasury shares.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

None.

## EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (Amendment No. 1) amends our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (Original Filing), filed with the U.S. Securities and Exchange Commission (SEC) on February 8, 2018 (Original Filing Date). The sole purpose of this Amendment No. 1 is to include the information required by Items 10 through 14 of Part III of Form 10-K. This information was previously omitted from the Original Filing 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 filing this Amendment to include Part III information in 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 Filing. We plan on filing our definitive proxy statement on or about June 1, 2018 as we are holding our 2018 Annual Shareholders' Meeting ("the Meeting") on July 25, 2018. The reference on the cover of the Original Filing to the incorporation by reference to portions of our definitive proxy statement into Part III of the Original Filing is hereby deleted.

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 Filing are hereby amended and restated in their entirety. This Amendment No. 1 does not amend, modify, or otherwise update any other information in the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original Filing. In addition, this Amendment No. 1 does not reflect events that may have occurred subsequent to the Original Filing Date.

Pursuant to Rule 12b-15 under the Exchange Act, this Amendment No. 1 also contains new certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, which are attached hereto. Because no financial statements are included in this Amendment No. 1 and this Amendment No. 1 does not contain or amend any disclosure with respect to Items 307 and 308 of Regulation S-K, paragraphs 3, 4, and 5 of the certifications have been omitted.

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 III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

##### Directors

Our directors are elected to serve until the next annual meeting of shareholders and until his or her successor shall have been duly elected and qualified. 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>
<b>Steven M. Anderson</b>	61	<p>Brigadier General (Ret.) Anderson has been a director of the Company since April 13, 2010. General (Ret.) Anderson presently serves as the Chief Growth Officer for Sallyport Global LLC, a \$600 million/year security and services company based in Reston, VA, with significant overseas operations in the Middle East and Africa. He previously served as the Afghanistan Country Manager for Fluor Corporation from April 2016 to March 2018, managing the US Army LOGCAP (Logistics Civil Augmentation Program) providing contingency support to US forces in the Afghanistan combat zone. He has served as an owner and Chief Marketing Officer from January 2013 to March 2016 and Senior VP from February 2011 through December 2012 of Relyant, LLC, a service-disabled veteran-owned small business and global provider of construction, environmental, energy and logistics services. General (Ret.) Anderson, a career military officer who retired from active duty in November 2009, served for five years as a general officer in the US Army, including 15 months as the senior US and coalition logistician in Iraq in support of Operation Iraqi Freedom. From 2004 to 2006, General (Ret.) Anderson served as the senior US logistician in Korea (Deputy C-4 for the United Nations Command/Combined Forces Command and J4, United States Forces Korea) and spearheaded the development of Camp Humphreys, the combined and US headquarters facility in Central Korea. He served in various command positions including Commander, Division Support Command, 2<sup>nd</sup> Infantry Division, Korea (2000-02), and Commander, 725<sup>th</sup> Main Support Battalion, 25<sup>th</sup> Infantry Division (Light), Schofield Barracks, Hawaii (1995-97). In his final military assignment, he served for two years on the Army Staff in the Pentagon as the Director, Operations and Logistics Readiness, Office of the Army Deputy Chief of Staff, G4 (logistics). General (Ret.) Anderson is a 1978 graduate of the US Military Academy at West Point and earned a Masters of Science degree in Operations Research and Systems Analysis Engineering at the Naval Postgraduate School in 1987. In 2014, he was inducted into the US Army Ordnance Hall of Fame and elected to the board of directors of the National Association of Ordnance Contractors (NAOC). General (Ret.) Anderson has been nominated for re-election to our Board of Directors because of his general knowledge of the US military and particularly his knowledge of its procurement processes and policies. The military and prime defense contractors are important customer bases of the Company.</p>
<b>Michael D. Popielec</b>	56	<p>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 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,</p>

**Name**                      **Age**                      **Present Principal Occupation, Employment History and Expertise**

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**                      61                      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 and industrial roofing systems. Prior to that, Mr. Saeli was a business 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 automotive supplier of engineered laser-welded and roll-formed metal products, from March 2006 through April 13, 2009 when he resigned those positions. Noble International, Ltd. filed voluntary relief under Chapter 11 of the U.S. Bankruptcy Code on April 15, 2009. From 1998 through 2006, Mr. Saeli served as Vice President of Corporate Development for Lear Corporation, an automotive supplier of seating, interior and electronic products. Over the past five years, Mr. Saeli has served on various boards of privately held profit 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 also qualifies as an audit committee financial expert under applicable SEC rules.

**Robert W. Shaw II**                      61                      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 for domestic ferry companies and the US government, the American Queen Steamboat Company, a \$100 million operator of overnight cruise ships, and for Hornblower NY Ferry Fleet, the \$400 million start-up of New York City's fleet of fast ferries. Mr. Shaw has served as the president of the largest dining and excursion boat operators 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 a 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.

<u>Name</u>	<u>Age</u>	<u>Present Principal Occupation, Employment History and Expertise</u>
<b>Ranjit C. Singh</b>	65	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. From February 2002 to February 2003, Mr. Singh served as President and Chief Executive Officer of Reliacast Inc., a video streaming software and services company. Prior to that, he was President and Chief Operating Officer of ContentGuard, which develops and markets digital property rights software. Before joining ContentGuard earlier in 2000, Mr. Singh worked for Xerox as a corporate Senior Vice President with various responsibilities related to its software businesses. Mr. Singh joined Xerox in 1997, having been employed by Citibank where he was Vice President of Global Distributed Computing. 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.
<b>Bradford T. Whitmore</b>	60	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, Ltd., an investment firm that holds approximately 3% of the outstanding shares of our common stock. Mr. Whitmore and Grace Brothers, Ltd. collectively hold or claim beneficial ownership of slightly less than 34% of the outstanding shares of our common stock. Over the past five years, Mr. Whitmore has served as a director of several privately held companies in which Grace Brothers, Ltd. 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 2017 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>
<b>Philip A. Fain</b>	63	Mr. Fain was named 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

<u>Name</u>	<u>Age</u>	<u>Present Principal Occupation and Employment History</u>
		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.

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 2017, our Board of Directors held five meetings and the committees of our Board of Directors held a total of fourteen meetings. During 2017, 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 70<sup>th</sup> 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 2019 Annual Meeting of Shareholders.

### *Audit and Finance Committee*

The current members of the Audit and Finance Committee are Thomas L. Saeli (Chair), Steven M. Anderson and Ranjit C. Singh. This committee selects our independent registered public accounting firm, subject to ratification of our full Board of Directors, 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 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 risk that could have a material impact on our Company. The Audit and Finance Committee met five times during 2017.

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), Steven M. Anderson 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, 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 five times during 2017.

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 shareholders as described below. The Corporate Development and Governance Committee may 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 "Shareholder 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), Steven M. Anderson 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 2017.

## Shareholder 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 shareholders. 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 shareholder 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 Shareholders, either in person or telephonically. All directors participated in last year's Annual Meeting of Shareholders.

#### 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 five times during 2017. In addition, our standing committees meet in executive session on a regular basis.

#### Communicating with the Board of Directors

Shareholders 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 is 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.

## Section 16(a) Beneficial Ownership Reporting Compliance

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 2017, 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. Shareholders 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.

## 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 \$65,000, except for the Board Chair, who will receive an annual cash retainer of \$95,000 for the period July 1, 2017 through June 30, 2018. Each non-employee director received an annual cash retainer of \$65,000, except for the Board Chair, who received an annual cash retainer of \$95,000 for the period July 1, 2016 through June 30, 2017. 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 periods July 1, 2016 to June 30, 2017 and July 1, 2017 to June 30, 2018 were as follows:

	<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, 2017, we paid our non-employee directors an aggregate \$439,268.

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 during the fiscal year ended December 31, 2017.

Name	Fees	Stock Awards (\$)	Option Awards (\$)	Non- Equity	Nonqualified	All Other Compensation (\$)	Total (\$)
	Earned or Paid in Cash (\$)			Incentive Plan Compensation	Deferred Compensation Earnings		
(1)	(2)	(3)	(4)	(5)	(6)		
Steven. M. Anderson	83,756	-	-	-	-	-	83,756
Thomas L. Sacli	87,004	-	-	-	-	-	87,004
Robert W. Shaw II	85,004	-	-	-	-	-	85,004
Ranjit C. Singh	88,504	-	-	-	-	-	88,504
Bradford T. Whitmore	95,000	-	-	-	-	-	95,000
	<b>439,268</b>	-	-	-	-	-	<b>439,268</b>

- (1) 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.
- (2) There were no stock awards granted to our non-employee directors during 2017 or outstanding at December 31, 2017.
- (3) There were no option awards granted to our non-employee directors during 2017 or outstanding at December 31, 2017.
- (4) There was no non-equity incentive plan compensation paid to our non-employee directors for the fiscal year ended December 31, 2017.
- (5) There were no deferred compensation earnings for our non-employee directors for the fiscal year ended December 31, 2017.
- (6) There was no other compensation paid to our non-employee directors for the fiscal year ended December 31, 2017.

#### **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 2017.

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 2017 and 2016:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
		(1)	(2)	(3)	(4)	(5)	(6)
<b>Michael D. Popielec</b> President and Chief Executive Officer	2017	504,150	393,671	-	193,410	20,046	1,111,277
	2016	500,160	-	-	75,398	18,166	593,724
<b>Philip A. Fain</b> Chief Financial Officer, Treasurer and Secretary	2017	319,512	167,170	-	50,080	9,559	546,321
	2016	309,311	-	-	37,969	9,769	357,049

- (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” 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 granted during fiscal years 2017 and 2016.
- (4) On April 19, 2017, the Company’s Board of Directors extended the expiration date from December 30, 2017 to December 30, 2020 of options previously granted (and fully vested at the time of modification) to Mr. Popielec to purchase an aggregate 300,000 shares of our common stock. Pursuant to Accounting Standards Codification Topic 718, Compensation – Stock Compensation, the transaction was accounted for as an equity award modification. The amount shown for 2017 for Mr. Popielec represents the incremental fair value of the modified award computed as the difference between the fair value of the modified award and the fair value of the original award immediately before it was modified. 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 Note 8 to our audited financial statements included in our Annual Reports on Form 10-K for the fiscal years ended December 31, 2017 and December 31, 2016, respectively, for the assumptions used in valuing these stock option awards in accordance with ASC 718. Refer to the “Narrative to Summary Compensation Table” for further information.
- (5) Amounts shown as “All Other Compensation” consist of the following:

		401(k) Plan Employer Match (\$)	Other Benefits <sup>(a)</sup> (\$)	Total (\$)
<b>Michael D. Popielec</b>	2017	5,300	14,746	20,046
	2016	5,300	12,866	18,166
<b>Philip A. Fain</b>	2017	5,300	4,259	9,559
	2016	5,300	4,469	9,769

- (a) 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 shareholders by rewarding performance that achieves successful execution of our business strategy, grows our business and increases shareholder value. Our executive rewards 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 2017, the Board of Directors, at the recommendation of the Compensation and Management Committee, approved a base salary increase of 3% for Mr. Fain (\$313,015 to \$322,405). Other than this adjustment, no further changes were made to the base salaries of our executive officers during 2017. In May 2016, the Board of Directors, at the recommendation of the Compensation and Management Committee, approved a base salary increase of 4.0% for Mr. Popielec (\$486,683 to \$506,150) and 4.0% for Mr. Fain (\$300,976 to \$313,015). 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 50<sup>th</sup> percentile for executive officers at the companies in our peer group.

For 2017, 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 2017 were consolidated operating profit and revenue goals of \$6.0 million and \$86.7 million, respectively, as measured pursuant to generally accepted accounting standards. 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 95% 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 95% 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 135% 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 2017 financial performance, Messrs. Popielec and Fain earned STIP awards for 2017 of \$393,671 and \$167,170, respectively, which were paid in February 2018.

For 2016, 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 2016 were consolidated operating profit

and revenue goals of \$7.1 million and \$102.6 million, respectively, as measured pursuant to generally accepted accounting standards. 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 90% 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 90% 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 135% 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 2016 financial performance, our executive officers did not earn a STIP award for 2016.

#### *Long-Term Incentive Plan*

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

Refer to “Outstanding Equity Awards” below for stock options granted during 2017 and 2016. There were no other equity-based awards granted to our executive officers during 2017 and 2016.

#### *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. We provide a company match of 50% on the first 4% of an employee’s contributions, up to a maximum of 2% of the employee’s annual salary.

#### *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.

#### **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, 2017 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 Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
Michael D. Popielec	50,000	-	-	6.4218	12/30/2020 (1)
	250,000	-	-	6.4218	12/30/2020 (1)
	-	-	200,000 (2)	10.0000	12/30/2020
	-	-	200,000 (2)	15.0000	12/30/2020
	26,667	13,333 (3)	-	3.7103	3/3/2022
	13,334	6,666 (4)	-	3.7876	3/5/2022
	13,334	26,666 (5)	-	4.2902	6/1/2023
Philip A. Fain	50,000	-	-	4.4218	12/9/2018
	20,000	-	-	3.9797	1/3/2019
	70,000	-	-	3.9384	3/4/2021
	20,000	10,000 (6)	-	3.7103	3/3/2022
	6,667	13,333 (7)	-	4.2902	6/1/2023
	-	20,000 (8)	-	5.7075	4/19/2024

- (1) On April 19, 2017, our Board of Directors, on recommendation of the Compensation and Management Committee, extended the option expiration date from December 30, 2017 to December 30, 2020, pursuant to the Company's Amended and Restated 2004 Long-Term Incentive Plan.
- (2) Stock options were granted to Mr. Popielec under the terms of his employment agreement and begin to vest on the date our common stock first reaches a closing price equal to the exercise price for 15 trading days in a 30-day trading period, with such vesting in equal amounts on the four anniversary dates of that date. All such options expire as of the later of December 31, 2017 and five years after the initial vesting commences, but in no event later than December 31, 2020. Such options had not vested as of December 31, 2017.
- (3) On March 3, 2015, 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 March 3, 2016, 13,333 shares on March 3, 2017 and 13,333 shares on March 3, 2018.
- (4) On March 5, 2015, our Board of Directors, on recommendation of the Compensation and Management Committee, granted to Mr. Popielec the option to purchase 20,000 shares of our common stock. This option vested with respect to 6,667 shares on March 5, 2016, 6,667 shares on March 5, 2017 and 6,666 shares on March 5, 2018.
- (5) On June 1, 2016, 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 June 1, 2017, and will vest with respect to 13,333 shares on June 1, 2018 and 13,333 on June 1, 2019.
- (6) On March 3, 2015, our Board of Directors, on recommendation of the Compensation and Management Committee, granted to Mr. Fain the option to purchase 30,000 shares of our common stock. This option vested with respect to 10,000 shares on March 3, 2016, 10,000 shares on March 3, 2017 and 10,000 shares on March 3, 2018.

- (7) On June 1, 2016, 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 June 1, 2017, and will vest with respect to 6,667 shares on June 1, 2018 and 6,666 shares on June 1, 2019.
- (8) 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 and will vest with respect to 6,667 shares and 6,666 shares on June 1, 2019 and June 1, 2020, respectively.

There were no other equity awards outstanding at December 31, 2017 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 2017 are set forth above beginning on Page 86.

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 shareholder approval to increase the number of shares available under our Amended and Restated 2004 Long-Term Incentive Plan ("Restated 2004 LTIP"). Shareholder 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, 2017. Refer to the Outstanding Equity Awards section above beginning on Page 87.

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.

## 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. Under the Restated 2004 LTIP and 2014 LTIP, the Committee has discretion to provide 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 respective plan).

## Stock Ownership Guidelines

In order to better align the interests of our executive officers and shareholders, 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 2017, 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 \$4.98 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, 2016 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 as of April 24, 2018 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 15,913,644 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) 1560 Sherman Avenue, Suite 900 Evanston, IL 60201	5,363,073	33.7%
NGP Energy Technology Partners II, L.P. (2) 1700 K Street NW, Suite 750 Washington, D.C. 20006	950,721	6.0%

- (1) This information as to the beneficial ownership of shares of our common stock is based on the Form 4 dated February 24, 2017 filed with the SEC by Grace Brothers, Ltd., an Illinois limited partnership, Bradford T. Whitmore individually and as general partner of Grace Brothers, Ltd. and as manager and sole voting member of Sunray I, LLC, Spurgeon Corporation, as general partner of Grace Brothers, Ltd. and Sunray I, LLC, a Delaware limited liability company that reports beneficial ownership of 5,298,229 shares of our common stock. Mr. Whitmore reports sole voting and dispositive power with respect to 4,844,457 of such shares, of which 4,452,283 shares are held in the name of Sunray I, LLC. Grace Brothers, Ltd., Mr. Whitmore and Spurgeon Corporation report shared voting and dispositive power with respect to 518,616 of such shares.
- (2) This information as to the beneficial ownership of shares of our common stock is based on Amendment No. 2 to Schedule 13G dated April 5, 2016 filed with the SEC by NGP Energy Technology Partners II, L.P. (a Delaware limited partnership which owns the reported securities), NGP ETP II, L.L.C., the general partner of NGP Energy Technology Partners II, L.P, Energy Technology Partners, L.L.C., the sole manager of NGP ETP II, L.L.C., and Philip J. Deutch, the sole member and manager of Energy Technology Partners, L.L.C. and the manager of NGP ETP II, L.L.C. Mr. Deutch is also a member of the investment committee of NGP ETP II, L.L.C. NGP Energy Technology Partners II, L.P. reports sole voting and dispositive power with respect to all 950,721 shares. By virtue of the relationships between and among the reporting persons, NGP ETP II, L.L.C., Energy Technology Partners, L.L.C. and Mr. Deutch may be deemed to have the power to direct the voting and disposition of the shares of common stock beneficially owned by NGP Energy Technology Partners II, L.P. NGP ETP II, L.L.C., Energy Technology Partners, L.L.C. and Mr. Deutch disclaim beneficial ownership of the reported securities except to the extent of their pecuniary interest therein.

### Security Ownership of Management

The table below shows certain information regarding the beneficial ownership of shares of our common stock as of April 24, 2018 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)
Steven M. Anderson	18,500	*
Michael D. Popielec	656,955 (3)	1.7% (7)
Thomas L. Saeli	56,246	*
Robert W. Shaw II	50,000	*
Ranjit C. Singh	79,801	*
Bradford T. Whitmore	5,363,073 (4)	33.7%
Philip A. Fain	260,000 (5)	*
All Directors and Executive Officers as a group (7 persons)	6,484,575 (6)	37.1% (7)

\*Less than 1%

- (1) Except as otherwise indicated, the shareholders 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 shareholders. 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 21, 2018, which shares are referred to in the footnotes to this table as “shares subject to options that may be exercised.”

- (2) Based on 15,913,644 shares issued and outstanding.
- (3) The amount shown includes 386,667 shares subject to options that may be exercised by Mr. Popielec prior to July 21, 2018.
- (4) The amount shown includes 518,616 shares beneficially owned by Grace Brothers, Ltd., an Illinois limited partnership, held in a margin account, and Spurgeon Corporation, which is a general partner of Grace Brothers, Ltd. Mr. Whitmore is a general partner of Grace Brothers, Ltd. See “Security Ownership of Certain Beneficial Owners” above for more information about Grace Brothers, Ltd.
- (5) The amount shown includes 190,000 shares subject to options that may be exercised by Mr. Fain prior to July 21, 2018.
- (6) The amount shown includes 576,667 shares subject to options that may be exercised by Directors and Executive Officers
- (7) Percentages exclude shares subject to options that may be exercised by Directors and Executive Officers.

### 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, 2017.

<u>Plan Category</u>	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	1,860,211	\$6.10	946,027
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>1,860,211</b>	<b>\$6.10</b>	<b>946,027</b>

## 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 2017 and 2016, 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, 2016 and 2017.

### Principal Accountant Fees and Services

Aggregate fees for professional services rendered for us for 2016 and 2017 were:

	<u>2016</u>	<u>2017</u>
Audit Fees	\$211,310	\$218,793
Audit - Related Fees	11,800	8,500
Tax Fees	-	-
All Other Fees	-	-
Total Fees	<u>\$223,110</u>	<u>\$227,293</u>

### *Audit Fees*

Audit fees were for professional services rendered for the audit of our consolidated financial statements and reviews of our quarterly consolidated financial statements.

### *Audit-Related Fees*

Audit-related fees were for the annual audit of our 401(k) defined contribution plan. Also included in the audit-related fees for 2016 is an amount related to a review of our 8-K filing related to our acquisition of Accutronics.

### *Tax Fees*

Freed Maxick did not provide any tax compliance or consulting services for the years ended December 31, 2017 and 2016.

Our Audit and Finance Committee has not adopted pre-approval policies and procedures for audit and non-audit services. Although no pre-approval policy was in effect, 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 our Annual Report on Form 10-K filed with the SEC on February 8, 2018, which is being amended hereby.

3. Exhibits:

See the Exhibit Index immediately following the signature page of this report.

## 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 26, 2018

/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 26, 2018

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

Date: April 26, 2018

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

Date: April 26, 2018

/s/ Steven M. Anderson  
Steven M. Anderson (Director)

Date: April 26, 2018

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

Date: April 26, 2018

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

Date: April 26, 2018

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

Date: April 26, 2018

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

## EXHIBIT INDEX

Exhibit Index	Description of Document	Incorporated By Reference from:
2.1	Stock Purchase Agreement by and between BCF Solutions, Inc. and Ultralife Corporation	Exhibit 2.1 of the Form 10-Q for the quarter ended September 30, 2012, filed November 8, 2012
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*	Technology Transfer Agreement relating to Lithium Batteries	Exhibit 10.19 of our Registration Statement on Form S-1 filed on October 7, 1994, File No. 33-84888 (the “1994 Registration Statement”)
10.2*	Technology Transfer Agreement relating to Lithium Batteries	Exhibit 10.20 of the 1994 Registration Statement
10.3*	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)
10.4†	Ultralife Corporation 2014 Long-Term Incentive Plan	Appendix A to our Definitive Proxy Statement filed on April 21, 2014
10.5†	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
10.6†	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
10.7†	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
10.8†	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
10.9†	Employment Agreement between the Registrant and Peter F. Comerford	Exhibit 10.30 of the Form 10-K for the year ended December 31, 2009, filed March 16, 2010
10.10†	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
10.11†	Revised definition of “Change in Control” for Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan	Exhibit 10.1 of the Form 8-K filed on May 26, 2011
10.12	Settlement Agreement between the Registrant and the United States of America dated June 1, 2011	Exhibit 10.1 of the Form 8-K filed on June 2, 2011
10.13†	Amendment No. 4 to Ultralife	Exhibit 4.5 of the Registration Statement

10.14†	Corporation Amended and Restated 2004 Long-Term Incentive Plan Amendment No. 5 to Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan	on Form S-8 filed on January 30, 2012, File No. 333-179235 Exhibit 10.1 of the Form 8-K filed on May 26, 2011
10.15	Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 10-Q for the quarter ended June 30, 2013, filed August 9, 2013
10.16†	Retirement and Consulting Agreement, Release and Waiver of All Claims, between Ultralife Corporation and Peter F. Comerford, dated May 28, 2013	Exhibit 10.1 of the Form 10-Q for the quarter ended June 30, 2013, filed August 9, 2013
10.17†	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
10.18†	Amended No. 6. to Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan	Appendix A of Form DEF 14A filed on April 22, 2013
10.19	Amendment No. 1, dated April 30, 2014, to the Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 10-Q for the quarter ended March 30, 2014, filed May 9, 2014
10.20	Amendment No. 2, dated October 28, 2014, to the Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 10-Q for the quarter ended September 28, 2014, filed November 3, 2014
10.21	Amendment No. 3, dated April 30, 2015, to the Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 8-K filed on April 30, 2015
10.22	Amendment No. 4, dated June 5, 2015, to the Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 8-K filed on June 5, 2015
10.23	Amendment No. 5, dated January 13, 2016, to the Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 8-K filed on January 20, 2016
10.24	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
21	Subsidiaries	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018
23.1	Consent of Freed Maxick CPAs, P.C.	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018

31.1	CEO 302 Certifications	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018
31.2	CFO 302 Certifications	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018
32	906 Certifications	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018
100.INS	XBRL Instance Document	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018
100.SCH	XBRL Taxonomy Extension Schema Document	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018
100.CAL	XBRL Taxonomy Calculation Linkbase Document	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018
100.LAB	XBRL Taxonomy Label Linkbase Document	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018
100.PRE	XBRL Taxonomy Presentation Linkbase Document	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018
100.DEF	XBRL Taxonomy Definition Document	Exhibit to Form 10-K for the year ended December 31, 2017, filed on February 8, 2018

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

† Management contract or compensatory plan or arrangement.

Exhibits filed herewith:

- 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

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 26, 2018

/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 26, 2018

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

## CORPORATE & SHAREHOLDER INFORMATION

### Board of Directors

Bradford T. Whitmore	Board Chair; Managing Partner, Grace Brothers, Ltd.
Steven M. Anderson	Brigadier General (Ret.) U.S. Army; Chief Growth Officer, Sallyport Global, LLC
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

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### Stock Exchange Listing

NASDAQ

### Stock Symbol

ULBI

### Stock Transfer Agent

American Stock Transfer & Trust Company  
6201 15<sup>th</sup> Avenue  
Brooklyn, NY 11219

### Annual Meeting

July 25, 2018  
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, 2017 by going to the Investor Info page at [www.ultralifecorporation.com](http://www.ultralifecorporation.com) or by calling us at 1-315-332-7100. 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](http://www.ultralifecorp.com)

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