

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 1996

or

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

\_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-20852

ULTRALIFE BATTERIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

16-1387013

(State or other jurisdiction  
incorporation or organization)

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

1350 Route 88 South, Newark, New York 14513

(Address of principal executive offices)

(Zip Code)

(315) 332-7100

(Registrant's telephone number, including area code)

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

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

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

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

Common stock, \$.10 par value -7,934,211 shares outstanding as of  
November 5, 1996

ULTRALIFE BATTERIES, INC.

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PART I FINANCIAL INFORMATION  
Item 1. Financial Statements:

ULTRALIFE BATTERIES, INC.  
CONDENSED BALANCE SHEETS

	(Unaudited) Sept. 30, 1996	June 30, 1996
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,156,079	\$ 1,212,743
Available-for-sale securities	16,019,905	21,839,692
Accounts receivable	5,293,871	4,907,279
Inventories	8,773,135	8,437,791
Other current assets	432,920	450,251
	-----	-----
Total current assets	33,675,910	36,847,756
Net property and equipment	11,782,156	10,688,538
Available-for-sale securities held to purchase equipment	11,026,052	12,016,593
Investment in joint venture	283,500	283,500
Technology license agreements, net	763,143	796,542
	=====	=====
Total assets	\$ 57,530,761	\$ 60,632,929
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,783,263	\$ 3,434,473
Other accrued liabilities	935,532	763,690
	-----	-----
Total current liabilities	3,718,795	4,198,163
Shareholders' equity		
Common stock - par value	792,985	792,322
Capital in excess of par value	64,656,475	64,630,638
Unrealized gain on securities	2,508,169	3,842,878
Foreign currency translation adjustments	34,633	37,749
Accumulated deficit	-14,180,296	-12,868,821
	-----	-----
Total shareholders' equity	53,811,966	56,434,766
	=====	=====
Total liabilities and shareholders' equity	\$ 57,530,761	\$ 60,632,929
	=====	=====

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

	Three Months Ended September 30,	
	1996	1995
Revenues:		
Battery sales	\$ 3,619,676	\$ 3,719,963
Technology contracts	352,050	395,197
Total revenue	3,971,726	4,115,160
Cost of products sold:		
Battery costs	3,301,163	3,109,841
Technology contracts	196,710	195,110
Total cost of products sold	3,497,873	3,304,951
Gross Profit	473,853	810,209
Research & Development	818,075	635,761
Selling & Administrative	1,270,248	981,662
Total Operating Expenses	2,088,323	1,617,423
Operating (Loss)	(1,614,470)	(807,214)
Interest Income	302,995	552,087
Net Income (Loss)	\$(1,311,475)	\$ (255,127)
Earnings (Loss) Per Share	\$ (0.17)	\$ (0.03)
Weighted Average Number of Shares	7,924,840	7,665,634

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

	Three Months Ended September 30,	
	1996	1995
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (1,311,475)	\$ (255,127)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and other provisions	380,319	(199,795)
Foreign currency (loss)/gain	(3,115)	3,196
Changes in operating assets and liabilities:		
Increase in trade accounts receivable	(395,110)	(1,083,633)
(Increase) decrease in contract revenue receivable	0	21,277
Increase in inventories	(459,920)	582,357
Decrease in prepaid expenses and other current assets	17,332	424,394
(Decrease) increase in accounts payable and accrued liabilities	(479,369)	(719,743)
Net cash used in operating activities	(2,251,338)	(1,227,074)
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,307,445)	(2,584,966)
Purchase of securities	(16,941,122)	(20,380,083)
Sales of securities	5,722,824	5,423,008
Maturities of securities	16,693,917	18,882,342
Net cash (used in) provided by investing activities	4,168,174	1,340,301
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock	26,500	30,294
Effect of exchange rate changes on cash	0	810
Net cash provided by financing activities	26,500	31,104
(Decrease) Increase in Cash and Cash Equivalents	1,943,336	144,331
Cash and Cash Equivalents at Beginning of Period	1,212,743	1,734,146
Cash and Cash Equivalents at End of Period	\$ 3,156,079	\$ 1,878,477

ULTRALIFE BATTERIES, INC.  
NOTES TO FINANCIAL STATEMENTS

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1. BASIS OF PRESENTATION

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

2. NET LOSS PER SHARE

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period; common stock options have not been included since their inclusion would be antidilutive.

3. RECENT PRONOUNCEMENTS

In March 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed of," which requires that impairment losses be recognized when the carrying value of an asset exceeds its fair value. Although the Company is required to adopt the standard in fiscal 1997, the Company regularly assesses all of its long-lived assets for impairment; and therefore does not believe the adoption of the standard will have a material effect on its financial position or results of operations.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which establishes market value accounting and reporting standards for stock-based employee compensation plans. Companies may elect to continue to account for stock-based compensation using the "intrinsic value approach" under Accounting Principles Board (APB) Opinion No. 25. Although the Company is required to adopt the standard in fiscal 1997, it anticipates continuing to follow APB No. 25, with pro forma disclosures required under SFAS No. 123. Therefore, adoption will have no impact on its financial position or results of operations.

The discussion and analysis below, and throughout this report, contains forward-looking statements within the meaning of Section 27A of the Securities and Exchange Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. Actual results could differ materially from those projected or suggested in the forward-looking statements.

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

Results of Operations

Three months ended September 30, 1996 and 1995

Consolidated revenues of Ultralife Batteries, Inc. (the "Company") for the three months ended September 30, 1996 were \$3,972,000 compared to \$4,115,000 reported for the same period of the prior year. The decreased revenue in the amount of \$143,000 or 3% was the net result of reduced revenues in the U.S. nearly offset by increased sales in the U.K. Revenues from Ultralife's U.K. operations increased 32% from the prior year's first quarter as orders increased and the company resumed full production of its high rate primary battery product line following a fire which occurred in September, 1995. In the U.S., higher revenues were anticipated from sales of 9 volt batteries. However, delays in introduction of premium long life smoke detector units by the original equipment manufacturers have delayed release of the company's 9 volt batteries to these customers. Additionally, technical contract revenues were lower than the comparable period in the prior year.

On November 1, 1996, Ultralife was awarded a contract valued at \$1,260,000 as a result of the U.S. Army exercising its option to receive more batteries. In addition, the company's U.K. operations received a production contract from the British Ministry of Defense valued at approximately \$1,000,000 to be delivered in this fiscal year.

Consolidated gross margin was 12% of revenue for the first fiscal quarter of 1997 compared to 20% for the same period for fiscal 1996. The Company has continued its reduced production level of the 9 volt battery during the quarter ended September 30, 1996 compared to the prior year. This strategic decision was taken in order to more closely balance production with sales levels. As a result, cost of goods sold in the U.S. increased as the fixed costs were absorbed over fewer batteries manufactured.

Total operating expenses of \$2,088,000 for the first quarter of the current year reflect an increase of \$471,000 or 29% compared to \$1,617,000 for the same period of the prior year. A component of total operating expense is research and development. These expenditures increased by \$182,000 or 29% to \$818,000 for the three months ended September 30, 1996 from \$636,000 for the corresponding period of the previous year. These increased research and development expenditures are directly related to the commercialization of the Company's rechargeable lithium-ion solid-polymer batteries. A continuation of substantial research and development expenditures is anticipated as the company moves toward mass production and continued improvement of rechargeable batteries. Selling and administrative expenses increased by \$288,000 or 29% to \$1,270,000 for the first quarter of the current fiscal year compared to \$982,000 for the prior year. This increase was planned by the Company in order to support the introduction of the rechargeable battery.

Automated manufacturing equipment for the rechargeable battery has been ordered and significant machinery has been received by the Company. The Company expects to have the manufacturing machinery installed and qualified for production of the rechargeable battery during the first calendar quarter of 1997.

#### Liquidity and Capital Resources

As of September 30, 1996, cash, cash equivalents and available-for-sale investments totaled more than \$30,000,000. The Company used \$2,251,000 of cash from operations during the first three months of fiscal 1997. This is the net result of increased net losses for the period, a reduction of accounts payable as well as increases in both accounts receivable and inventory. Additionally, the Company expended approximately \$1,307,000 of cash to purchase machinery and equipment as it continues preparation of the commercialization of the rechargeable lithium-ion solid-polymer battery and upgrades of both the U.S. and U.K. manufacturing facilities.

The Company does not currently have any long-term debt. Also, it does not have any current financing arrangements or loan facilities in place or available to it. The Company's current financial position is adequate to support its financial requirements for the near future.



PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None filed during the quarter ended September 30, 1996.

SIGNATURES

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

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

Date: November 14, 1996.  
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By:/s/ Bruce Jagid  
-----  
Bruce Jagid  
Chief Executive Officer

Date: November 14, 1996.  
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By:/s/ Robert Cook  
-----  
Robert Cook  
Chief Financial Officer  
and Controller

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ULTRALIFE BATTERIES, INC.

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	JUL-01-1996	
	SEP-30-1996	
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		16,019,905
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		198,947
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57,530,761		
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	3,971,726	
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