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, 2009

OR

o **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	16-1387013
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2000 Technology Parkway, Newark, New York	14513
(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	The 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 o No ☑

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

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

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 o No o

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. o

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 o   Accelerated filer ☑   Non-accelerated filer o   Smaller reporting company o

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately $76,000,000 (in whole dollars) based upon the closing price for such common stock as reported on the NASDAQ Global Market on June 26, 2009.

As of February 28, 2010, the registrant had 17,047,756 shares of common stock outstanding, net of 1,358,507 treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement relating to the June 8, 2010 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 therein.

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PART I

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Forward-looking statements can be identified by words such as "believes," "anticipates," "intends," "plans," "seeks," "estimates," "expects" and similar references to future periods. 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, future demand for our products and services, addressing the process of U.S. defense procurement, the successful commercialization of our products, the successful integration of our acquired businesses, general domestic and global economic conditions, including the recent distress in the financial markets that has had an adverse impact on the availability of credit and liquidity resources generally, government and environmental regulation pertaining to the manufacture, transportation, storage, use and disposal of batteries, finalization of non-bid government contracts, competition and customer strategies, technological innovations in the non-rechargeable and rechargeable battery industries, changes in our business strategy or development plans, capital deployment, business disruptions, including those caused by fires, raw material supplies, and other risks and uncertainties, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those forward-looking statements described herein as anticipated, believed, estimated or expected or words of similar import. 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.

As used in this annual report, unless otherwise indicated, the terms "we", "our" and "us" refer to Ultralife Corporation and include our wholly-owned subsidiaries, Ultralife Batteries (UK) Ltd., McDowell Research Co., Inc., ABLE New Energy Co., Limited and its wholly-owned subsidiary ABLE New Energy Co., Ltd, RedBlack Communications, Inc. and Stationary Power Services, Inc., and our majority-owned joint venture Ultralife Batteries India Private Limited.

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

ITEM 1. BUSINESS

General

We offer products and services ranging from portable and standby 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, standby power systems, communications and electronics systems and accessories, and custom engineered systems, solutions and services. We continually evaluate various ways to grow, including opportunities to expand through mergers, acquisitions and business partnerships.

We sell our products worldwide through a variety of trade channels, including original equipment manufacturers ("OEMs"), industrial and retail distributors, national retailers and directly to U.S. and international defense departments. We enjoy strong name recognition in our markets under our Ultralife® Batteries, McDowell Research®, RedBlack™ Communications, AMTI™, Stationary Power Services™, U.S. Energy Systems™, RPS Power Systems™ and ABLE™ brands. We have sales, operations and product development facilities in North America, Europe and Asia.

We report our results in four operating segments: Non-Rechargeable Products, Rechargeable Products, Communications Systems and Design and Installation Services. The Non-Rechargeable Products segment includes: lithium 9-volt, cylindrical and various other non-rechargeable batteries. The Rechargeable Products segment includes: rechargeable batteries, charging systems, uninterruptable power supplies and accessories, such as cables. The Communications Systems segment includes: power supplies, cable and connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment and integrated communication system kits. The Design and Installation Services segment includes: standby power and communications and electronics systems design, installation and maintenance activities and revenues and related costs associated with various development contracts. We look at our segment performance at the gross margin level, and we do not allocate research and development or selling, general and administrative costs against the segments. All other items that do not specifically relate to these four segments and are not considered in the performance of the segments are considered to be Corporate charges. (See Note 10 in the Notes to Consolidated Financial Statements.)

Beginning with our first quarterly report on Form 10-Q for fiscal 2010, we will report, in line with how we manage our business operations, our results in three operating segments instead of four: Battery & Energy Products; Communications Systems; and Energy Services. The Non-rechargeable Products and Rechargeable Products segments will be combined into a single segment called Battery & Energy Products. The Communications Systems segment will include our RedBlack Communications business, which was previously included in the Design & Installation Services segment. The Design & Installation Services segment will be renamed Energy Services and will continue to encompass our standby power business. Research, design and development contract revenues and expenses, which were previously included in the Design & Installation Services segment, will be captured under the respective operating segment in which the work is performed.

Our website address is www.ultralifecorp.com. We make available free of charge via a hyperlink on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports 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 Peter F. Comerford, Secretary, Ultralife Corporation, 2000 Technology Parkway, Newark, New York, 14513. Our filings with the SEC are also available through the SEC website at www.sec.gov or at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calling 1-800-SEC-0330.

Non-Rechargeable Products

We manufacture and/or market a family of lithium-manganese dioxide (Li-MnO_2) non-rechargeable batteries including 9-volt, HiRateÒ cylindrical, Thin CellÒ, and other form factors. We also manufacture and market a family of lithium-thionyl chloride (Li-$SOCl_2$) non-rechargeable batteries produced at our Chinese operating unit. Applications for our 9-volt batteries include: smoke alarms, wireless security systems and intensive care monitors, among many other devices. Our HiRate and Thin Cell 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, automotive telematics, 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: man-pack 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 various private label brands, 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: 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 for 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.

Revenues for this segment for the year ended December 31, 2009 were $65,697 and segment contribution (gross margin) was $12,404.

Rechargeable Products

We believe that our range of lithium ion rechargeable batteries and charging systems offer substantial benefits, including the ability to design and produce lightweight, high-energy batteries in a variety of custom sizes, shapes, and thickness. We market lithium ion 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. We believe that the chemistry of our lithium ion batteries provides significant advantages over other currently available rechargeable batteries. These advantages include lighter weight, longer operating time, longer time between charges and a wider operating temperature range. Conventional rechargeable batteries such as nickel metal hydride and nickel cadmium, are heavier, have lower energy and require more frequent charging. Additionally, we offer lead-acid batteries and uninterruptable power supplies, sold under our RPS Power Systems brand, and other brands, for the standby power market. Products include standby batteries and uninterruptable power supplies for use in telecommunications, banking, aerospace and information services industries.

Revenues for this segment for the year ended December 31, 2009 were $42,295 and segment contribution (gross margin) was $9,117.

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 power supplies, power cables, connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment and integrated communication systems such as tactical repeaters and SATCOM-On-The-Move systems. Products include field deployable systems, which operate from wide-ranging AC and DC sources using a basic building block approach, allowing for a quick response to specialized applications. All systems are packaged to meet specific customer needs in rugged enclosures to allow for their use in severe environments. We market these products to all branches of the U.S. military, approved foreign defense organizations, and U.S. and international prime defense contractors.

Revenues for this segment for the year ended December 31, 2009 were $43,448 and segment contribution (gross margin) was $13,057.

Design and Installation Services

Design and Installation Services include the design, installation, integration and maintenance of both communications electronics and standby power systems. Within this segment, we also seek to fund the development of new products to advance our technologies through contracts with both government agencies and third parties. We have been successful in obtaining awards for such programs for power-system technologies.

We continue to obtain contracts that are in parallel with our efforts to ultimately commercialize products that we develop. Revenues in this segment that pertain to technology 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, 2009 were $20,669 and segment contribution (gross margin) was $2,282.

Corporate

We allocate revenues and cost of sales across 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, 2009 and corporate contribution was a loss of $44,222.

See Management's Discussion and Analysis of Financial Condition and Results of Operations and the 2009 Consolidated Financial Statements and Notes thereto for additional information. For information relating to total assets by segment, revenues for the last three years by segment, and contribution by segment for the last three years, see Note 10 in the Notes to Consolidated Financial Statements.

History

We were 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 June 1994, we formed a subsidiary, Ultralife Batteries (UK) Ltd. ("Ultralife UK"), which acquired certain assets of Dowty Group PLC ("Dowty") and provided us with a presence in Europe. 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 and provided additional exposure to new 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, with the operations having been relocated to the Newark, New York facility during the second half of 2007, which enhanced our channels into the military communications area and strengthened our presence in global defense markets. In September 2007, we acquired RedBlack Communications, Inc. ("RedBlack"), located in Hollywood, Maryland, an engineering and technical services firm specializing in the design, integration, and fielding of mobile, modular and fixed-site communication and electronic systems. The acquisition provided a natural extension to our communications systems business and opened another channel of distribution for our broad portfolio of communications systems, accessories and portable power products. In November 2007, we acquired Stationary Power Services, Inc. ("Stationary Power") and RPS Power Systems, Inc. ("RPS"), affiliated companies both located in

Clearwater, Florida. Stationary Power is an infrastructure power management services firm specializing in the engineering, installation and preventive maintenance of standby power systems, uninterruptible power supply systems, DC power systems and switchgear/control systems for the telecommunications, aerospace, banking and information services industries. RPS supplies lead acid batteries for use in the design and installation of standby power systems. The Stationary Power acquisition furthered our transformation to a value-added power solutions, accessories and engineering services company serving a broad spectrum of government, defense and commercial markets. 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 November 2008, we acquired certain assets of U.S. Energy Systems, Inc. and its services affiliate, U.S. Power Services, Inc. ("USE" collectively), a nationally recognized standby power installation and power management services business located in Riverside, California. The acquisition was made to advance our goal of becoming the leading provider of engineering, installation, integration and maintenance services to the growing standby power industry. 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 entrée into the handheld radio/amplifier market, complementing Ultralife's communications systems offerings. In January 2010, Stationary Power and RPS formally merged, with Stationary Power being the surviving corporation.

Products, Services and Technology

Non-Rechargeable Products

A non-rechargeable battery is used until discharged and then discarded. 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 and lithium-thionyl chloride technologies.

Our non-rechargeable battery products are based on lithium-manganese dioxide 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 price competitive 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 high energy 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, medical and music/audio. Typical applications include: smoke alarms, wireless alarm systems, bone growth stimulators, telemetry devices, blood analyzers, ambulatory infusion pumps, parking meters, wireless audio devices and guitar pickups. A significant portion of the sales of our 9-volt battery is to major U.S. and international smoke alarm OEMs for use in their long-life smoke alarms. We also manufacture our 9-volt lithium battery under private label 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.

We believe that we manufacture the only standard size 9-volt battery warranted to last 10 years when used in ionization-type smoke alarms. Although designs exist using other battery configurations, such as three 2/3 A or 1/2 AA-type battery cells, we believe that our 9-volt solution is superior to these alternatives. Our current 9-volt battery manufacturing capacity is adequate to meet forecasted customer demand.

Cylindrical Batteries. Featuring high energy, wide temperature range, long shelf life and operating life, our cylindrical cells and batteries, based on both lithium-manganese dioxide 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 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_2 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.

We market our line of lithium cells and batteries to the OEM market for commercial, defense, medical, automotive, asset tracking and search and rescue applications, among others. Significant commercial applications include pipeline inspection equipment, automatic reclosers 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. Automotive applications include: telematics, tire-pressure monitoring and engine electronics 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. With their thin prismatic form and a high ratio of active materials to packaging, Thin Cell batteries can efficiently fill most battery cavities. We are currently marketing these batteries to OEMs for applications such as displays, wearable medical devices, theft detection systems, and RFID devices.

Rechargeable Products

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 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 electrical energy per unit volume stored in a battery. High energy density batteries generally are longer lasting power sources providing longer operating time and necessitating fewer battery recharges. 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 cycle life is a preferred feature of a rechargeable battery because it allows the user to charge and recharge many times before noticing a difference in performance.

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 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. 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. 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 offer a variety of lithium ion cells and batteries. These products are used in a wide variety of applications including communications, medical and other portable electronic devices.

Lead-Acid Batteries. We offer a variety of lead-acid batteries primarily for use in the design and installation of standby power systems. These products include standby batteries and uninterruptable power supplies for use in telecommunications, banking, aerospace and information services industries.

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.

Communications Systems

We design and manufacture communications systems and accessories, and provide communications systems design services, through our McDowell Research, RedBlack Communications and AMTI brands, to support military communications systems including power supplies, RF amplifiers, battery chargers, amplified speakers, equipment mounts, case equipment and integrated communication systems. We specialize in field deployable power systems, which operate from wide-ranging AC and DC sources using a basic building block approach, allowing for a quick response to specialized applications. We package all systems to meet specific customer needs in rugged enclosures to allow their use in severe 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:

Integrated Systems. Our integrated systems include: SATCOM-On-The-Move ("SOTM"); rugged, deployable case systems; multiband transceiver kits and HF transceiver kits; briefcase power systems; dual transceiver cases; enroute communications cases; radio cases; and tactical repeater systems. These systems give communications operators everything that is needed to provide reliable links to support C4I (Command, Control, Communications, Computers and Information systems).

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

RF Amplifiers. Our RF amplifiers include: 20, 50, 75 and 100-watt multiband (30 – 512 MHz) and 50 watt VHF RF (30 – 90 MHz) amplifiers. These amplifiers are used to extend the range of manpack and handheld tactical transceivers and can be used on mobile or fixed site applications.

Design and Installation Services

Our design and installation services focus on standby power system design, installation and maintenance, integrating communications equipment and power systems for maximum mobility and optimum customer utility. These include equipment installations in commercial, defense and law enforcement applications, including vehicles for satellite communications, engineering services, upgrading current fleet vehicles and integrated logistics and project management support.

Communications and Electronics. Our communications and electronics services include the design, integration, fielding and life cycle management of portable, mobile and fixed-site communications systems. Capabilities include engineering, rapid prototyping, systems integration and logistics support.

Standby Power. Our standby power services provide mission critical solutions to a broad range of applications in the telecommunications, aerospace, banking and information services industries involving the installation and preventive maintenance of standby power systems, uninterrupted power supply systems, DC power systems and switchgear/control systems.

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

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Sales and Marketing

We employ a staff of sales and marketing personnel in North America, Europe and Asia. We sell our products and services directly to commercial customers, including OEMs, as well as government and defense agencies in the U.S. and abroad and have contractual arrangements with sales agents who market our products on a commission basis in particular areas. While OEM agreements and contracts contain volume-based pricing based on expected volumes, industry practices dictate that pricing is rarely adjusted retroactively when contract volumes are not achieved. 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 companies within the automotive industry. 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 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 have had certain "exigent", non-bid contracts with the U.S. government that are subject to an audit and final price adjustment, which could result in decreased margins compared with the original terms of the contracts. As part of its due diligence, the government conducts post-audits of the completed exigent contracts to ensure that information used in supporting the pricing of exigent contracts did not differ materially from actual results.

During the year ended December 31, 2009, we had one major customer, the U.S. Department of Defense, which comprised 26% of our revenue. During the year ended December 31, 2008, we had two major customers, Raytheon Company and Port Electronics Corp., which comprised 29% and 16% of our revenue, respectively. During the year ended December 31, 2007, we had three major customers, the U.S. Department of Defense, the U.K. Ministry of Defence and Raytheon Company, which comprised 14%, 12%, and 13% of our revenue, respectively. We believe that the loss of these customers could have a material adverse effect on us. We believe that we currently have good relationships with these customers.

In 2009, sales to U.S. and non-U.S. customers were approximately $138,036 and $34,073, respectively. For information relating to revenues by country for the last three fiscal years and long-lived assets for the last three fiscal years by country of origin, see Note 10 in the Notes to Consolidated Financial Statements.

Non-Rechargeable Products

We target sales of our non-rechargeable products to manufacturers of security and safety equipment, automotive telematics, 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 OEMs and governmental agencies that utilize our batteries in their products, commit to cooperative research and development or marketing programs, and recommend our products for design-in or replacement use in their products. We are addressing these markets through direct contact by our sales and technical personnel, use of sales agents and stocking distributors, manufacturing under private label and promotional activities.

We seek to capture a significant market share for our products within our targeted OEM markets, which we believe, if successful, will result in increased product awareness and sales at the end-user or consumer level. We are also selling our 9-volt battery to the consumer market through limited 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. For those military procurements that are not bid, the procurements are typically subject to an audit of the product's underlying cost structure and associated profitability. Additionally, we are typically required to successfully meet contractual specifications and to pass various qualification testing for the products under contract by the military. An inability by us to pass these tests in a timely fashion could have a material adverse effect on our business, financial condition and results of operations. 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 have been successfully marketing our products to defense organizations in the U.S. and other countries. These efforts have resulted in us winning significant contracts. For example, in December 2004, we were awarded 100% of the Next Gen II Phase IV battery production contracts by the U.S. Defense Department to provide five types of non-rechargeable lithium-manganese dioxide batteries to the U.S. Army. Combined, these batteries comprise what is called the Rectangular Lithium Manganese Dioxide Battery Group. The government awarded 60 percent to our U.S. operation and 40 percent to our U.K operation. The contract provides for order releases over a five-year period with a maximum potential value of up to $286,000. Orders under this contract are dependent upon the demand for these batteries by end users and inventory stocking strategies, among other things. Through December 31, 2009, we received orders for deliveries under this contract totaling $49,907. This contract expired at the end of 2009. In February 2005, we were awarded a five-year production contract by the U.S. Defense Department, with a maximum total potential of $15,000, to provide our BA-5347/U non-rechargeable lithium-manganese dioxide batteries to the U.S. military. The contract value represented 60 percent of a small business set-aside award. Production deliveries began in the first quarter of 2006. Through December 31, 2009, we have received orders for deliveries under this contract totaling $12,101. This contract is set to expire in 2010.

At December 31, 2009, 2008 and 2007, our backlog of non-rechargeable products was approximately $11,000, $23,300 and $15,300, respectively. The majority of the 2009 backlog was related to orders that are expected to ship throughout 2010.

Rechargeable Products

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 seek design wins with 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 target sales of our lead-acid rechargeable batteries through direct sales to customers in the telecommunications, banking, aerospace and information services industries.

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, 2009, 2008 and 2007, our backlog related to rechargeable products was approximately $5,000, $9,700 and $7,500, respectively. The majority of the 2009 backlog was related to orders that are expected to ship throughout 2010.

Communications Systems

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

We market our products to defense organizations and OEMs in the U.S. and internationally. These efforts resulted in a number of significant contracts for us. For example, in September 2007, we were awarded a $24,000 contract from Raytheon Company to produce and supply SOTM satellite communications systems for installation on Mine Resistant Ambush Protected (“MRAP”) armored vehicles. In December 2007, we received two separate orders valued at $62,000 and $40,000, from U.S. defense contractors to supply advanced communications systems. In October 2009, we received an order valued at $20,000, from an U.S. defense contractor for these same systems.

At December 31, 2009, 2008 and 2007, our backlog related to communications systems orders was approximately $11,100, $4,400 and $115,500, respectively. The majority of the 2009 backlog was related to orders that are expected to ship throughout 2010.

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Design and Installation Services

We continue to expand our sales and marketing activities to increase sales of our design and installation services for communications electronics systems and standby power applications. We provide our services directly to defense organizations, government agencies and commercial customers in the telecommunications, aerospace, banking and information services industries.

At December 31, 2009, 2008 and 2007, our backlog related to design and installation services was approximately $15,600, $6,000 and $3,600, respectively. The majority of the 2009 backlog was related to services that are expected to be performed throughout 2010.

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. Although we seek to protect our proprietary information, there can be no assurance that others will not either develop the same or similar information independently or obtain access to our proprietary information, despite our efforts to protect such proprietary information. 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 is more dependent on the knowledge, ability, experience and technological expertise of our employees, as opposed to the legal protection that our patents and other proprietary rights may or will afford.

We hold thirteen patents in the U.S. and foreign countries. Our patents protect technology that makes automated production more cost-effective and protect important competitive features of our products. However, we do not consider our business to be dependent on patent protection.

In 2003, we entered into an agreement with Saft Groupe S.A. to license certain tooling for certain BA-5390 battery cases. The licensing fee associated with this agreement is essentially one dollar per battery case sold. The total royalty expense reflected in 2009 was $19. This agreement expires in the year 2017.

Select key employees are required to enter into agreements providing for confidentiality and the assignment of rights to inventions made by them while employed by us. These agreements also contain certain noncompetition and nonsolicitation 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.

The following are registered trademarks or trademarks of ours: Ultralife®, Ultralife Thin Cell®, Ultralife HiRate®, Ultralife Polymer®, The New Power GenerationÒ, LithiumPowerÒ, SmartCircuitÒ, PowerBugÒ, We Are PowerÒ, AMTIÒ, RPSÒ, ABLEÔ, RedBlack™, RPS Power Systems™, Stationary Power Systems™, U.S. Energy Systems™, McDowell Research®, and Max Juice For More Gigs®.

Manufacturing and Raw Materials

We manufacture our products from raw materials and component parts that we purchase. We have ISO 9001:2000 certification for our manufacturing facilities in Newark, New York, Virginia Beach, Virginia, Abingdon, England, and Shenzhen, China. In addition, our manufacturing facilities in Newark, New York and Shenzhen, China are ISO 14001 certified.

We expect that in the future, raw material purchases will fluctuate based on the timing of customer orders, the related need to build inventory in anticipation of orders and actual shipment dates.

Non-Rechargeable Products

Our Newark, New York facility has the capacity to produce approximately nine million 9-volt batteries per year and approximately fourteen million cylindrical cells per year. Our facility in Abingdon, England is equipped to produce approximately two million cylindrical cells per year. Capacity, however, is also related to individual operations and product mix changes can produce bottlenecks in an individual operation, constraining overall capacity. Our manufacturing facility in Shenzhen, China is capable of producing approximately five million cylindrical cells per year and approximately 500,000 thin cells per year. 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, including equipment relating to our 9-volt transition to China, will be adequate to meet foreseeable customer demand. However, with unanticipated growth in demand for our products, demand could exceed capacity, which would require us to install additional capital equipment to meet these incremental needs, which in turn may require us to lease or contract additional space to accommodate such needs.

We utilize lithium foil as well as other metals and chemicals to manufacture our batteries. Although we know of three major suppliers that extrude lithium into foil and provide such foil in the form required by us, we do not anticipate any shortage of lithium foil or any difficulty in obtaining the quantities we require. 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 product, 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, none of such interruptions has had a material adverse effect on us. All other raw materials utilized by us are readily available from many sources.

We use various utilities to provide heat, light and power to our facilities. As energy costs rise, we continue to seek ways to reduce these costs and will initiate energy-saving projects at times to assist in this effort. It is possible, however, that rising energy costs may have an adverse effect on our financial results.

The total carrying value of our non-rechargeable products inventory, including raw materials, work in process and finished goods, amounted to approximately $12,100 as of December 31, 2009.

Rechargeable Products

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 that could replace materials 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 segment generally assembles battery packs and chargers and is limited only by physical space and is not constrained by manufacturing equipment capacity. In addition, our facility in Abingdon, England has the capacity to produce significant volumes of rechargeable batteries and chargers.

The total carrying value of our rechargeable products inventory, including raw materials, work in process and finished goods, amounted to approximately $8,900 as of December 31, 2009.

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 that could replace materials 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 communications accessories and systems, as this operation generally assembles products and is limited only by physical space and is not constrained by manufacturing equipment capacity.

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

Our Virginia Beach, Virginia facility has the capacity to produce communications accessories 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 $11,900 as of December 31, 2009.

Design and Installation Services

We believe that the raw materials and components utilized for our standby power installations are readily available from many sources. Although we believe that alternative sources are available to supply materials that could replace materials 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.

The total carrying value of our design and installation services inventory, including raw materials, work in process and finished goods, amounted to approximately $2,600 as of December 31, 2009.

Research and Development

We concentrate significant resources on research and development activities to improve upon our technological capabilities and to design new products for customers' applications. We conduct our research and development in Newark, New York, Virginia Beach, Virginia, West Point, Mississippi, Tallahassee, Florida and Shenzhen, China. During 2009, 2008 and 2007 we expended approximately $9,500, $8,100 and $7,000, respectively, on research and development, including $3,500, $3,000 and $2,500, respectively, on customer sponsored research and development activities. We expect that research and development expenditures in the future will be modestly higher than those in 2009, as 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.

Non-Rechargeable Products

We continue to develop non-rechargeable cells and batteries that broaden our product offering to our customers.

Rechargeable Products

We continue to develop our rechargeable product portfolio, including batteries, cables and charging systems, as our customers' needs continue to grow for portable power.

Communications Systems

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

Design and Installation Services

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

We work to receive contracts with defense contractors and commercial customers. For example, in February 2004, we announced that we received a development contract from General Dynamics valued at approximately $2,700. The contract was for lithium non-rechargeable and lithium ion rechargeable batteries, as well as vehicle and soldier-based chargers for the Land Warrior-Stryker Interoperable ("LW-SI") program. In 2005, we received an added scope award of this project, increasing the total project to approximately $4,000. Additionally, purchase orders have been received for the products developed under this contract as the batteries have become commercialized. In 2005, we were awarded various development contracts, including the development of a rechargeable battery for a portable radio. In 2006, we completed the General Dynamics contract work and were awarded several small development contracts for rechargeable product development and new generation high powered cells. In 2008, we were awarded a contract from General Dynamics UK for the development and supply of rechargeable batteries and smart chargers in support of the UK MoD Bowman Programme. In 2009, a second Bowman contract was received for the development and supply of two next-generation rechargeable batteries and a next-generation smart charger.

In January 2008, we entered into a technology partnership with Mississippi State University ("MSU") to develop fuel cell-battery portable power systems enabling lightweight, long endurance military missions. The development of this power system is to be performed under a $1,600 program that was awarded by a U.S. Defense Department agency to MSU as the prime contractor. MSU has awarded us a $475 contract to participate in this program as a subcontractor. Under the contract, we will oversee the development, testing, approval and manufacturing of prototypes of a new compact military battery to be used with handheld tactical radios, building on its ongoing development work under the LW-SI Program. In addition, we established a development and assembly operation in a 14,000 square-foot facility located in West Point, Mississippi to manufacture products coming out of the technology partnership and other of our products. Since its inception, our West Point Hybrid Power Group has been awarded several contract awards for technology demonstrations related to the characterization of fuel cells, as well as portable power systems combining fuel cells with smart rechargeable batteries and chargers.

Safety; Regulatory Matters; Environmental Considerations

Certain of the materials utilized in our batteries may pose safety problems if improperly used. 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. New regulations that pertain to all lithium battery shippers went into effect in October 2008, January 2009, and January 2010. Additional regulations imposing more restrictions on the shipment of lithium and lithium ion batteries may also go into effect in 2010 or 2011. 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. If we are unable to comply with the new regulations, however, 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.

Our RPS and McDowell lead acid products have been tested and have been deemed to meet all requirements as specified in 49 CFR 173.159 (d) for exception as hazardous material classification. Our RPS and McDowell lead acid batteries have been tested and have been deemed to meet all requirements as specified in the special provision 238 for determination of "Non-Spillable" and are not subject to the provision of 49 CFR 173.159 (d).

The European Union's Restriction of Hazardous Substances ("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 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. 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 European Union's Battery Directive "on batteries and accumulators and waste batteries and accumulators" went into effect on September 26, 2008. It 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 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 Directive introduces measures to prohibit the marketing of some batteries containing hazardous substances. It contains measures for establishing schemes aiming at high level 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.

China's "Management Methods for Controlling Pollution Caused by Electronic Information Products Regulation" ("China RoHS") provides a two-step, broad regulatory framework including similar hazardous substance restrictions as are imposed by the European Union's RoHS Directive, and apply to methods for the control and reduction of pollution and other public hazards to the environment caused during the production, sale, and import of electronic information products ("EIP") in China affecting a broad range of electronic products and parts, with an implementation date of March 1, 2007. Currently, only the first step of the regulatory framework of China RoHS, which details marking and labeling requirements under Standard SJT11364-2006 ("Marking Standard"), is in effect. However, the methods under China RoHS only apply to EIP placed in the marketplace in China. Additionally, the Marking Standard does not apply to components sold to OEM's for use in other EIP. Our sales in China are limited to sales to OEM's and to distributors who supply to OEM's. Should our sales strategy change to include direct sales to end-users, our compliance system is sufficient to meet our requirements under China RoHS. 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 substantial 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. 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 how these regulations will affect us or our customers, that could have a material adverse effect on our business, financial condition and results of operations. In 2009, we spent approximately $416 on environmental controls, 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, Abingdon, England and Shenzhen, China facilities contain dry rooms or glove box equipment, as well as specialized air-drying equipment.

Non-Rechargeable 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 insurance, including business interruption insurance, to protect against 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, and the 9-volt battery and a range of 3-volt cells are recognized under the Underwriters Laboratories, Inc. Component Recognition Program.

Rechargeable Products

Lead acid batteries are recovered from our customers and delivered to a permitted lead smelter for reclamation following applicable federal, state and local regulations.

Communications Systems

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

Our McDowell lead acid products have been tested and have been deemed to meet all requirements as specified in 49 CFR 173.159 (d) for exception as hazardous material classification. Our McDowell lead acid batteries have been tested and have been deemed to meet all requirements as specified in the special provision 238 for determination of "Non-Spillable" and are not subject to the provision of 49 CFR 173.159 (d).

Design and Installation Services

Our RPS lead acid products have been tested and have been deemed to meet all requirements as specified in 49 CFR 173.159 (d) for exception as hazardous material classification. Our RPS lead acid batteries have been tested and have been deemed to meet all requirements as specified in the special provision 238 for determination of “Non-Spillable” and are not subject to the provision of 49 CFR 173.159 (d).

Lead acid batteries are recovered from our customers and delivered to a permitted lead smelter for reclamation following applicable federal, state and local regulations.

Corporate

Please refer to the description of the environmental remediation for our Newark, New York facility set forth in Item 3, Legal Proceedings of this report.

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 those offering standby power installation services, and companies producing communications systems. We compete on the basis of design flexibility, performance, 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 expertise, which we believe would be difficult to reproduce without substantial time and expense in the non-rechargeable battery market.

Competition in the standby power market is concentrated among a number of suppliers and installers ranging from small distributors who purchase, resell and install products manufactured by others to major battery and power supply manufacturers, which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of ours. We compete on the basis of product and installation design, functionality, flexibility, performance, price, reliability and service. While we believe our battery technologies and electronics are equal or superior to competitive products, there can be no assurance that our technology and products will not be rendered obsolete by developments in competing technologies that are currently under development or that may be developed in the future or that our competitors will not market competing products that obtain market acceptance more rapidly than ours.

Employees

As of December 31, 2009, we employed a total of 1,072 permanent and temporary employees: 76 in research and development, 865 in production and 131 in sales and administration. Of the total, 777 are employed in the U.S., 9 in Europe and 286 in Asia. None of our employees is represented by a labor union.

ITEM 1A. RISK FACTORS

We may be unable to obtain financing to fund ongoing operations and future growth.

While we believe our improved gross margins and cost control actions will allow us to generate cash and achieve profitability in the future, there is no assurance as to when or if we will be able to achieve our projections. Our future cash flows from operations, combined with our accessibility to cash and credit, may not be sufficient to allow us to finance ongoing operations or to make required investments for future growth. We may need to seek additional credit or access capital markets for additional funds. There is no assurance, given the current state of credit markets and our recent operating performance, that we would be successful in this regard.

We may not generate a sufficient amount of cash or generate sufficient funds from operations to fund our operations or repay our indebtedness at maturity or otherwise.

Our ability to draw funds and make payments on our asset-based credit facility will depend on our ability to consistently generate cash flow from operations in the future. This ability, to a certain extent, is subject to general economic, financial, competitive, regulatory and other factors beyond our control. There can be no assurance that our business will generate cash flow from operations or that future borrowings will be available to us in amounts sufficient to enable us to fund our liquidity needs or to repay our indebtedness.

We may not be able to achieve the covenants as set forth in our new asset based lending facility with RBS Capital.

Our ability to successfully meet the covenants as set forth in our lending facility will depend on our generation of EBITDA from each of our domestic legal entities in line with our projections. Our lending facility includes a fixed charge ratio which we must achieve on a quarterly basis to avoid default. The existence of an event of default would significantly impact our ability to draw funds from our credit facility, which could have a material adverse effect on our business, financial condition and results of operations. There can be no assurances that we will generate sufficient cash flow from operations to ensure compliance with the covenants of our lending facility. In the event of a default, our interest rate will increase by 200 basis points during the default period.

A decline in demand for products or services using our batteries or communications systems could reduce demand for our products or services.

A substantial portion of our business depends on the continued demand for products or services using our batteries and communications systems sold by our customers, including OEM’s. Our success depends significantly upon the success of those customers’ products or services 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.

For instance, in the years ended December 31, 2009, 2008, 2007, 11%, 8% and 17% of our revenues, respectively, were comprised of sales of our 9-volt batteries, and of this, approximately 34%, 39% and 41%, respectively, pertained to sales to smoke alarm OEMs. If the retail demand for long-life smoke alarms decreases significantly, this could have a material adverse effect on our business, financial condition and results of operations.

Our customers may not meet the volume requirements 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, industry practices dictate that 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.

Our acquisitions and business partnerships may not result in the revenue growth and profitability that we expect. In addition, we may not be able to successfully integrate our acquisitions.

We are integrating our acquisitions into our business and assimilating their operations, services, products and personnel with our management policies, procedures and strategies. We can provide no assurances that we will achieve revenue growth and profitability that we expect from these acquisitions or that we will not incur unforeseen additional costs or expenses in connection with the integration of these acquisitions. To effectively manage our expected growth, we must continue to successfully manage our integration of these companies and continue to improve our operational and information technology systems, internal procedures, accounts receivable and management, financial and operational controls to accommodate these acquisitions. If we fail in any of these areas, our business could be adversely affected.

In 2007 we acquired RedBlack, Stationary Power and RPS, in 2008 we formed a joint venture in India and acquired USE, and in 2009 we acquired AMTI, which added new facilities and operations to our overall business. The integration of recent, and future, acquisitions could place an increased burden on our management team which could adversely impact our ability to effectively manage these businesses. Our 2007 and 2008 acquisitions of Stationary Power and USE, respectively, were impacted by overall market conditions including delays in capital spending by the customer base, as well as market disruption caused by the pricing actions of a key supplier. Our ability to quickly rebound from these conditions may strain our management resources and increase our overall spending base to ensure that our other core businesses are not neglected.

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 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 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 have had certain "exigent", non-bid contracts with the U.S. government that have been subject to an audit and final price adjustment, which have resulted in decreased margins compared with the original terms of the contracts. As of December 31, 2009, there were no outstanding exigent contracts with the government. As part of its due diligence, the government has conducted post-audits of the completed exigent contracts to ensure that information used in supporting the pricing of exigent contracts did not differ materially from actual results. In September 2005, the Defense Contracting Audit Agency ("DCAA") presented its findings related to the audits of three of the exigent contracts, suggesting a potential pricing adjustment of approximately $1,400 related to reductions in the cost of materials that occurred prior to the final negotiation of these contracts. We have reviewed these audit reports, have submitted our response to these audits and believe, taken as a whole, the proposed audit adjustments can be offset with the consideration of other compensating cost increases that occurred prior to the final negotiation of the contracts. While we believe that potential exposure exists relating to any final negotiation of these proposed adjustments, we cannot reasonably estimate what, if any, adjustment may result when finalized. In addition, in June 2007, we received a request from the Office of Inspector General of the Department of Defense ("DoD IG") seeking certain information and documents relating to our business with the Department of Defense. We are cooperating with the DoD IG inquiry and are furnishing the requested information and documents. At this time we have no basis for assessing whether we might face any penalties or liabilities on account of the DoD IG inquiry. The aforementioned DCAA-related adjustments could reduce margins and, along with the aforementioned DoD IG inquiry, could have an adverse effect on our business, financial condition and results of operation.

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 will continue to develop battery products, communications systems and services 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. Additionally, in these scenarios we are 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.

When a 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 a material adverse effect on our business, financial condition and results of operations.

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

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, 2009, 2008 and 2007, approximately 65%, 75%, and 67% respectively, of our revenues were comprised of sales made directly or indirectly to the U.S. and foreign militaries. During the year ended December 31, 2009, we had one major customer, the U.S. Department of Defense, which comprised 26% of our revenue. During the year ended December 31, 2008, we had two major customers, Raytheon Company and Port Electronics Corp., which comprised 29% and 16% of our revenue, respectively. During the year ended December 31, 2007, we had three major customers, the U.S. Department of Defense, the U.K. Ministry of Defence and Raytheon Company, which comprised 14%, 12%, and 13% of our revenue, respectively. There were no other customers that comprised greater than 10% of our total revenues during the years ended December 31, 2009, 2008 and 2007. While sales to these customers were substantial during the years ended December 31, 2009, 2008 and 2007, we do not consider these customers to be significant credit risks. Government decisions regarding military deployment and budget allocations to fund military operations may have an impact on the demand for our products and services. If the demand for products and services from the U.S. or foreign militaries were to decrease significantly, this could have a material adverse effect on our business, financial condition and results of operations.

Our overall operating results are affected by many factors, including the timing of orders from our key customers and the timing of expenditures to manufacture parts and purchase inventory in anticipation of future orders of products and services. The reduction, delay or cancellation of orders from one or more of our key customers for any reason or the loss of one or more of our key customers could materially and adversely affect our business, operating results and financial condition.

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. We have two customers that comprised 45% of our trade accounts receivables as of December 31, 2009. We have two customers that comprised 36% of our trade accounts receivables as of December 31, 2008. There were no other customers that comprised greater than 10% of our total trade accounts receivable as of December 31, 2009 and 2008. We do not normally obtain collateral on trade accounts receivable.

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 and services, we will be required to deliver large volumes of quality products and increased levels of services to customers on a timely basis at a reasonable cost to those customers. For example, the large contracts received from the U.S. military for our batteries using cylindrical cells could strain the current capacity capabilities of our manufacturing facilities and require additional equipment and time to build a sufficient support infrastructure. This demand could also create working capital issues for us, as we may need increased liquidity to fund purchases of raw materials and supplies. 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.

One of our strategies has been to strategically grow our business through the acquisition of complementary businesses or through business partnerships, for example joint ventures, in addition to organic growth. Our inability to acquire such businesses, or increased competition for such businesses which could increase our acquisition costs, could adversely affect our overall strategy and results of operations. In addition, our inability to improve the operating margins of businesses we acquire or operate such acquired businesses profitably or to effectively integrate or leverage the operations of those acquired businesses could also adversely affect our business, financial condition and results of operations.

We also will 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 key personnel could significantly harm our business, and the ability and technical competence of persons we hire will be critical to the success of our business.

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 have a material adverse effect on our business, financial condition and results of operations. During the latter half of 2009, we experienced unusually high turnover in our management ranks. Our Chief Operating Officer, our Vice-President of Finance and Chief Financial Officer, our Vice-President of Manufacturing, our Vice-President of Sales and our Director of Technology resigned. While these individuals have been replaced by qualified, experienced personnel, or through the restructuring of our operations, it is too early to determine the overall impact on our business of such turnover and the additional responsibilities placed on existing personnel.

We face risks related to general domestic and global economic conditions.

In general, our operating results can be significantly affected by negative economic conditions, high labor, material and commodity costs and unforeseen changes in demand for our products and services. These risks are heightened as economic conditions globally have deteriorated significantly and may not fully recover to historical levels in the short-term. The current economic conditions could continue to have a negative impact on demand for our products and services, which may have a direct negative impact on our sales and profitability, as well as our ability to generate sufficient internal cash flows or access credit at reasonable rates to meet future operating expenses, service debt and fund capital expenditures.

We face risks related to the effects of the credit crisis.

Recent disruption in credit markets may impact demand for our products and services, as well as our ability to manage normal relationships with our customers, suppliers and creditors. Tight credit markets could result in supplier or customer disruptions.

The potential bankruptcy of certain customers could leave us exposed to certain risks of collection of outstanding receivables. If any of our customers declare bankruptcy, this could have a material adverse effect on our business, financial condition and results of operations.

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/or 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 returns of the business or value of the intangible assets and triggers an evaluation of the recoverability of the recorded goodwill and intangible assets for such business. Future determinations of significant write-offs of goodwill or intangible assets as a result of an impairment test or any accelerated amortization of other intangible assets could have a negative impact on our results of operations and financial condition. We are constantly reviewing the costs and the benefits of retiring several of our current brands, the retirement of which could result in a non-cash impairment charge of the associated indefinite-lived intangible asset, reducing operating earnings by the associated amount or amounts on the balance sheet. We have completed our annual impairment analysis for goodwill and indefinite-lived intangible assets, in accordance with the applicable accounting guidance, and have concluded that we do not have any impairment of goodwill and indefinite-lived intangible assets for the year ended December 31, 2009. However, due to the narrow margin of passing the Step 1 goodwill impairment testing for 2009 in the Stationary Power reporting unit, there is potential for a partial or full impairment of the goodwill value in 2010 if our projected operational results are not achieved. One of the key assumptions for achieving the projected operational results includes revenue growth in the wireless services market. As of December 31, 2009, the Stationary Power reporting unit had a goodwill book value of $5,209.

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

Although we are involved with developing certain products for new commercial applications, we cannot provide assurance that acceptance of our products will occur due to the highly competitive nature of the business. There are many new product and technology entrants into the marketplace, and we must continually reassess the market segments in which our products can be successful and seek to engage customers in these segments that will adopt our products for use in their products. In addition, these companies 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.

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 due to product malfunction or workmanship for a period up to one year from the date of purchase. With respect to our communications systems products, we typically offer up to a four-year warranty. We also offer a 10-year warranty on our 9-volt batteries that are used in ionization-type smoke alarms. With respect to the installation of our standby power systems, we offer a warranty over the installation, generally restrictive to meeting the customers' performance specifications. 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. This could have a material adverse effect 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 and use 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. While we maintain what we believe to be sufficient casualty liability coverage to protect against such occurrences, these types of losses could have a material adverse effect on our business, financial condition and results of operation.

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. 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 how these regulations will affect us or our customers, that could have a material adverse effect on our business, financial condition and results of operations.

In conjunction with our purchase/lease of our Newark, New York facility in 1998, a consulting firm performed a Phase I and II Environmental Site Assessment, which revealed the existence of contaminated soil and ground water around one of the buildings. We have submitted various work plans to the New York State Department of Environmental Conservation ("NYSDEC") regarding further environmental testing and sampling in order to determine the scope of any additional remediation. We subsequently met with the NYSDEC in March 2006 to discuss the results. On June 30, 2006, the Final Investigation Report was delivered to the NYSDEC by our outside environmental firm. In November 2006, the NYSDEC completed its review of the Final Investigation Report and requested additional groundwater, soil and sediment sampling. A work plan to address the additional investigation was submitted to the NYSDEC in January 2007 and was approved in April 2007. Additional investigation work was performed in May 2007. A preliminary report of results was prepared by our outside environmental consulting firm in August 2007 and a meeting with the NYSDEC and the New York State Department of

Health ("NYSDOH") took place in September 2007. As a result of this meeting, NYSDEC and NYSDOH have requested additional investigation work. A work plan to address this additional investigation was submitted to and approved by the NYSDEC in November 2007. Additional investigation work was performed in December 2007. Our environmental consulting firm prepared and submitted a Final Investigation Report in January 2009 to the NYSDEC for review. The NYSDEC reviewed and approved the Final Investigation Report in June 2009 and requested the development of a Remedial Action Plan. Our environmental consulting firm developed and submitted the requested plan for review and approval by the NYSDEC. In October 2009, we received comments back from the NYSDEC regarding the content of the remediation work plan. Our environmental consulting firm has incorporated the requested changes and submitted a revised work plan to the NYSDEC in January 2010 for review and approval. The final Remedial Action Plan selected may increase the estimated remediation costs modestly. At December 31, 2009, we have reserved $49 for this matter. The ultimate resolution of this matter may result in us incurring costs in excess of what we have reserved.

The future regulatory direction of the European Union's Restriction of Hazardous Substances ("RoHS") and Waste Electrical and Electronic Equipment ("WEEE") Directives, as they pertain to our products, is uncertain. Their potential impact to our business would become material if battery packs were to be included in new guidelines and we were unable to procure materials in a timely manner. Other associated risks related to these directives include excess inventory risk due to a write off of non-compliant inventory. We continue to monitor the regulatory activity of the European Union to ascertain such risks.

China's "Management Methods for Controlling Pollution Caused by Electronic Information Products Regulation" ("China RoHS") provides a two-step, broad regulatory framework, including similar hazardous substance restrictions as are imposed by the European Union's RoHS Directive, and apply to methods for the control and reduction of pollution and other public hazards to the environment caused during the production, sale, and import of electronic information products ("EIP") in China affecting a broad range of electronic products and parts, which was implemented on March 1, 2007. Currently, only the first step of the regulatory framework of China RoHS, which details marking and labeling requirements under Standard SJT11364-2006 ("Marking Standard"), is in effect. However, the methods under China RoHS only apply to EIP placed in the marketplace in China. Additionally, the Marking Standard does not apply to components sold to OEMs for use in other EIP. Our sales in China are limited to sales to OEMs and to distributors who supply to OEMs. Should our sales strategy change to include direct sales to end-users, our compliance system is sufficient to meet our requirements under China RoHS. 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.

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.

The transportation of non-rechargeable and rechargeable 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. New regulations that pertain to all lithium battery shippers went into effect in October 2008 and January 2009, and additional regulations will go into effect in 2010. The 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 have a material adverse effect on our business, financial condition and results of operations.

Our RPS lead acid products have been tested and have been deemed to meet all requirements as specified in 49CFR 173.159 (d) for exception as hazardous material classification. Our RPS lead acid batteries have been tested and have been deemed to meet all requirements as specified in the special provision 238 for determination of "Non-Spillable" and are not subject to the provision of 49CFR 173.159 (d).

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 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. 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, and we cannot guarantee that we will not experience a material interruption of product deliveries from sole source suppliers in the future. 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 have a material effect on our business, financial condition and results of operations.

Any inability to protect our proprietary and intellectual property could allow our competitors and others to produce competing products based on our proprietary and intellectual property.

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. We claim proprietary rights in various unpatented technologies, know-how, trade secrets and trademarks relating to 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 pending applications, or that the claims allowed under any 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. If we are found to be infringing third party patents, there can be no assurance that we 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 shipment or the introduction of new products, and costly attempts to design around such patents could foreclose the development, manufacture or sale of products.

Our products could become obsolete.

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 are comprised of 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 at the present time. In addition, these companies are developing or have developed products using a variety of technologies that are expected to compete with our technologies. If these companies successfully market their products in a manner that renders our technologies obsolete, this could have a material adverse effect on our business, financial condition and results of operations.

We are subject to foreign currency fluctuations.

We maintain manufacturing operations in North America, Europe and Asia, 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. In addition, our foreign subsidiaries maintain their books in local currency, and the translation of those 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 relative to the U.S. dollar. Accordingly, currency fluctuations could have a material adverse effect on our business, financial condition and results of operations.

Our ability to use our Net Operating Loss Carryforwards in the future may be limited, which could have an adverse impact on our tax liabilities.

At December 31, 2009, we had approximately $61,257 of net operating loss carryforwards ("NOL's") available to offset future taxable income. We continually assess the carrying value of this asset based on the relevant accounting standards. As of December 31, 2009, we reflected a full valuation allowance against our deferred tax asset to the extent the asset is not able to be offset by future reversing temporary differences. As a result, we have reflected a net deferred tax liability of $3,812 in the U.S. We have reflected a net deferred tax asset of $-0- in the U. K. and China due to our current assessment that it is more likely than not to not be realized. As we continue to assess the realizability of our deferred tax assets, the amount of the valuation allowance could be reduced. In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. Achieving our business plan targets, particularly those relating to revenue and profitability, is integral to our assessment regarding the recoverability of our net deferred tax asset.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred in 2005 and 2006. As such, the domestic NOL carryforward will be subject to an annual limitation estimated to be in the range of approximately $12,000 to $14,500. This limitation did not have an impact on income taxes determined for 2009. Such a limitation could result in the possibility of a cash outlay for income taxes in a future year when earnings exceed the amount of NOL carryforwards that can be used by us. The use of our U.K. NOL carryforwards may be limited due to the change in the U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center.

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, 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 the 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 or even our own guidance 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. These fluctuations, as well as general economic, political and market conditions, may have a material adverse effect on the market price of our common stock.

The re-payment of the debt outstanding under our credit facility and the vesting of options under certain of our equity compensation plans may both be accelerated by the triggering of a "change in control" as defined in our credit facility and Long-Term Incentive Plan.

Our largest single shareholder is Grace Brothers, Ltd., which beneficially owns, along with Bradford T. Whitmore, 29.9% of our issued and outstanding shares of common stock. On June 6, 2007, Mr. Bradford T. Whitmore, general partner of Grace Brothers, Ltd., became a member of our Board of Directors. If Grace Brothers, Ltd. or any other beneficial owner were to increase its ownership to more than 30%, it would be deemed a "change in control" for purposes of our 2004 Amended and Restated Long Term Incentive Plan, or LTIP. If a "change in control" were to occur, the vesting of all outstanding options granted under our LTIP would be accelerated resulting in a significant expense being charged against our income for the period during which the "change in control" occurred. An increase in ownership to 49% or more by any beneficial owner with 5% ownership as of February 17, 2010, or to 30% by any new owner, or any owner with less than 5% ownership as of February 17, 2010, would result in a default under our new credit facility with RBS Capital. Either of these events could have a material, adverse effect on our business, financial condition and results of operations.

Our operations in China and India are subject to unique risks and uncertainties.

Our operating facility in China and our joint venture in India present risks including, but not limited to, political changes, civil unrest, labor disputes, currency restrictions and changes in currency exchange rates, taxes, duties, import and export laws and boycotts and other civil disturbances that are outside of our control. Any such disruptions could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2009, we own two buildings in Newark, New York comprising approximately 250,000 square feet, which serves all four of our operating segments. Our corporate headquarters are located in our Newark, New York facility. In addition, we lease approximately 35,000 square feet in a facility based in Abingdon, England, which serves operations primarily in the non-rechargeable and rechargeable operating segments, and approximately 130,000 square feet in four buildings on one campus in Shenzhen, China, which serves operations primarily in the non-rechargeable segment. The Shenzhen, China campus location includes dormitory facilities. In addition, we lease a separate sales office in Shenzhen, China. We also lease sales and administrative offices, as well as manufacturing and production facilities, in eleven separate facilities across the U.S. and one in India. Our research and development efforts for our non-rechargeable and rechargeable products are conducted at our Newark, New York, West Point, Mississippi and Shenzhen, China facilities, while our research and development efforts for our communications systems accessories are conducted at our Newark, New York facility and our research and development efforts for our amplifier products are conducted at our facility in Virginia Beach, Virginia. On occasion, we rent additional warehouse space to store inventory and non-operational equipment. 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 continues to grow.

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 or results of our operations.

In conjunction with our purchase/lease of our Newark, New York facility in 1998, we entered into a payment-in-lieu of tax agreement, which provided us with real estate tax concessions upon meeting certain conditions. In connection with this agreement, a consulting firm performed a Phase I and II Environmental Site Assessment, which revealed the existence of contaminated soil and ground water around one of the buildings. We retained an engineering firm, which estimated that the cost of remediation should be in the range of $230. In February 1998, we entered into an agreement with a third party which provides that we and this third party will retain an environmental consulting firm to conduct a supplemental Phase II investigation to verify the existence of the contaminants and further delineate the nature of the environmental concern. The third party agreed to reimburse us for fifty percent (50%) of the cost of correcting the environmental concern on the Newark property. We have fully reserved for our portion of the estimated liability. Test sampling was completed in the spring of 2001, and the engineering report was submitted to the New York State Department of Environmental Conservation (“NYSDEC”) for review. NYSDEC reviewed the report and, in January 2002, recommended additional testing. We responded by submitting a work plan to NYSDEC, which was approved in April 2002. We sought proposals from engineering firms to complete the remedial work contained in the work plan. A firm was selected to undertake the remediation and in December 2003 the remediation was completed, and was overseen by the NYSDEC. The report detailing the remediation project, which included the test results, was forwarded to NYSDEC and to the New York State Department of Health (“NYSDOH”). The NYSDEC, with input from the NYSDOH, requested that we perform additional sampling. A work plan for this portion of the project was written and delivered to the NYSDEC and approved. In November 2005, additional soil, sediment and surface water samples were taken from the area outlined in the work plan, as well as groundwater samples from the monitoring wells. We received the laboratory analysis and met with the NYSDEC

in March 2006 to discuss the results. On June 30, 2006, the Final Investigation Report was delivered to the NYSDEC by our outside environmental consulting firm. In November 2006, the NYSDEC completed its review of the Final Investigation Report and requested additional groundwater, soil and sediment sampling. A work plan to address the additional investigation was submitted to the NYSDEC in January 2007 and was approved in April 2007. Additional investigation work was performed in May 2007. A preliminary report of results was prepared by our outside environmental consulting firm in August 2007 and a meeting with the NYSDEC and NYSDOH took place in September 2007. As a result of this meeting, NYSDEC and NYSDOH have requested additional investigation work. A work plan to address this additional investigation was submitted to and approved by the NYSDEC in November 2007. Additional investigation work was performed in December 2007. Our environmental consulting firm prepared and submitted a Final Investigation Report in January 2009 to the NYSDEC for review. The NYSDEC reviewed and approved the Final Investigation Report in June 2009 and requested the development of a Remedial Action Plan. Our environmental consulting firm developed and submitted the requested plan for review and approval by the NYSDEC. In October 2009, we received comments back from the NYSDEC regarding the content of the remediation work plan. Our environmental consulting firm has incorporated the requested changes and submitted a revised work plan to the NYSDEC in January 2010 for review and approval. The final Remedial Action Plan selected may increase the estimated remediation costs modestly. Through December 31, 2009, total costs incurred have amounted to approximately $260, none of which has been capitalized. At December 31, 2009 and December 31, 2008, we had $49 and $52, respectively, reserved for this matter.

ITEM 4. RESERVED

PART II

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

Market Information

Our common stock is included for quotation 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 2008 and 2009:

	Closing Sales Prices	
	High	Low
2008:		
Quarter ended March 29, 2008	$ 22.69	$ 11.56
Quarter ended June 28, 2008	13.35	9.67
Quarter ended September 27, 2008	12.18	8.65
Quarter ended December 31, 2008	13.90	5.19
2009:		
Quarter ended March 29, 2009	$ 13.87	$ 6.89
Quarter ended June 28, 2009	8.47	6.30
Quarter ended September 27, 2009	7.17	5.80
Quarter ended December 31, 2009	6.06	3.50

Holders

As of March 8, 2010, there were 375 registered holders of record of our Common Stock.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer

None.

Dividends

We have never declared or paid any cash dividend on our capital stock. 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 the Board of Directors may deem relevant. Pursuant to our current credit facility, we are precluded from paying any dividends.

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ITEM 6. SELECTED FINANCIAL DATA

The financial results presented in this table include results from the last five fiscal years ended December 31, 2009, 2008, 2007, 2006 and 2005.

SELECTED FINANCIAL DATA
(In Thousands, Except Per Share Amounts)

	Year Ended December 31,				
	2009	2008	2007	2006	2005
Statement of Operations Data:					
Revenues	$ 172,109	$ 254,700	$ 137,596	$ 93,546	$ 70,501
Cost of products sold	135,249	197,757	108,822	76,103	58,243
Gross margin	36,860	56,943	28,774	17,443	12,258
Research and development expenses	9,540	8,138	7,000	5,097	3,751
Selling, general and administrative expenses	34,682	31,500	21,973	15,303	11,409
Total operating and other expenses	44,222	39,638	28,973	20,400	15,160
Operating income (loss)	(7,362)	17,305	(199)	(2,957)	(2,902)
Interest (expense) income, net	(1,465)	(930)	(2,184)	(1,298)	(636)
Gain on insurance settlement	—	39	—	191	—
Gain on McDowell settlement	—	—	7,550	—	—
Gain on debt conversion	—	313	—	—	—
Other income (expense), net	(13)	777	493	311	(318)
Income (loss) before income taxes	(8,840)	17,504	5,660	(3,753)	(3,856)
Income tax provision-current	31	582	—	—	3
Income tax provision/(benefit)-deferred	360	3,297	77	23,735	486
Total income taxes	391	3,879	77	23,735	489
Net income (loss)	$ (9,231)	$ 13,625	$ 5,583	$ (27,488)	$ (4,345)
Net (income) loss attributable to noncontroling interest	(10)	38	—	—	—
Net income (loss) attributable to Ultralife	$ (9,241)	$ 13,663	$ 5,583	$ (27,488)	$ (4,345)
Net income (loss) attributable to Ultralife common shares — basic	$ (0.54)	$ 0.79	$ 0.36	$ (1.84)	$ (0.30)
Net income (loss) attributable to Ultralife common shares — diluted	$ (0.54)	$ 0.78	$ 0.36	$ (1.84)	$ (0.30)
Weighted average shares outstanding — basic	16,989	17,230	15,316	14,906	14,551
Weighted average shares outstanding — diluted	16,989	17,681	15,538	14,906	14,551

	December 31,				
	2009	2008	2007	2006	2005
Balance Sheet Data:					
Cash and cash equivalents	$ 6,094	$ 1,878	$ 2,245	$ 720	$ 3,214
Working capital	$ 27,824	$ 42,937	$ 26,461	$ 18,070	$ 20,979
Total assets	$ 131,166	$ 129,587	$ 122,048	$ 97,758	$ 80,757
Total long-term debt and capital lease obligations	$ 267	$ 4,670	$ 16,224	$ 20,043	$ 25
Shareholders’ equity	$ 78,114	$ 88,153	$ 63,007	$ 39,589	$ 62,107

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

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, future demand for our products and services, addressing the process of U.S. defense procurement, the successful commercialization of our products, the successful integration of our acquired businesses, general domestic and global economic conditions, including the recent distress in the financial markets that has had an adverse impact on the availability of credit and liquidity resources generally, government and environmental regulation, finalization of non-bid government contracts, competition and customer strategies, technological innovations in the non-rechargeable and rechargeable battery industries, changes in our business strategy or development plans, capital deployment, business disruptions, including those caused by fires, raw material supplies, environmental regulations, and other risks and uncertainties, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those forward-looking statements described herein as anticipated, believed, estimated or expected or words of similar import. 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.

The following discussion and analysis should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto appearing elsewhere in this annual report.

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

General

We offer products and services ranging from portable and standby 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, standby power systems, communications and electronics systems and accessories, and custom engineered systems, solutions and services. We sell our products worldwide through a variety of trade channels, including original equipment manufacturers ("OEMs"), industrial and retail distributors, national retailers and directly to U.S. and international defense departments.

We report our results in four operating segments: Non-Rechargeable Products, Rechargeable Products, Communications Systems and Design and Installation Services. The Non-Rechargeable Products segment includes: lithium 9-volt, cylindrical and various other non-rechargeable batteries. The Rechargeable Products segment includes: rechargeable batteries, charging systems, uninterruptable power supplies and accessories, such as cables. The Communications Systems segment includes: power supplies, cable and connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment and integrated communication system kits. The Design and Installation Services segment includes: standby power and communications and electronics systems design, installation and maintenance activities and revenues and related costs associated with various development contracts. We look at our segment performance at the gross margin level, and we do not allocate research and development or selling, general and administrative costs against the segments. All other items that do not specifically relate to these four segments and are not considered in the performance of the segments are considered to be Corporate charges. (See Note 10 in the Notes to Consolidated Financial Statements.)

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 offerings.

On July 3, 2006, we finalized the acquisition of substantially all of the assets of McDowell, a manufacturer of military communications accessories. McDowell was located originally in Waco, Texas, with the operations having been relocated to the Newark, New York facility during the second half of 2007. Under the terms of the acquisition agreement, the purchase price of approximately $25,000 consisted of $5,000 in cash and a $20,000 non-transferable, subordinated convertible promissory note to be held by the sellers of McDowell. In addition, the purchase price was subject to a post-closing adjustment based on a final valuation of trade accounts receivable, inventory and trade accounts payable that were acquired or assumed on the date of the closing, using a base value of $3,000. The final net value of these assets, under our contractual obligation under the acquisition agreement, was $6,389, resulting in a revised purchase price of approximately $28,448. On November 16, 2007, we finalized a settlement agreement with the sellers of McDowell relating to various operational issues that arose during the first several months following the July 2006 acquisition that significantly reduced our profit margins. The settlement agreement amount was approximately $7,900. The settlement agreement reduced the principal amount on the convertible notes initially issued from $20,000 to $14,000, and eliminated a $1,889 liability related to a purchase price adjustment. In addition, the interest rate on the convertible notes was increased from 4% to 5% and we made prepayments totaling $3,500 on the convertible notes. In January 2008, the remaining $10,500 principal balance on the convertible notes was converted in full into 700,000 shares of our common stock. (See Note 2 in Notes to Consolidated Financial Statements for additional information.)

On September 28, 2007, we finalized the acquisition of all the issued and outstanding shares of common stock of RedBlack, a provider of a wide range of engineering and technical services for communication electronic systems to government agencies and prime contractors. RedBlack is located in Hollywood, Maryland. The initial cash purchase price was $943 (net of $57 in cash acquired), with up to $2,000 in additional cash consideration contingent on the achievement of certain sales milestones. The additional cash consideration was payable in up to three annual payments and subject to possible adjustments as set forth in the stock purchase agreement. On February 9, 2009, we entered into Amendment No. 1 to the RedBlack stock purchase agreement, which eliminated the up to $2,000 in additional cash consideration contingent on the achievement of certain sales milestones provision, in exchange for a one time final payment of $1,020. (See Note 2 to Consolidated Financial Statements for additional information.)

On November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Stationary Power, an infrastructure power management services firm specializing in engineering, installation and preventative maintenance of standby power systems, uninterruptible power supply systems, DC power systems and switchgear/control systems for the telecommunications, aerospace, banking and information services industries. Stationary Power is located in Clearwater, Florida. Under the terms of the stock purchase agreement, the initial purchase price of $10,000 consisted of $5,889 (net of $111 in cash acquired) in cash and a $4,000 subordinated convertible promissory note that is held by the previous owner of Stationary Power. In addition, on the achievement of certain post-acquisition sales milestones, we will issue up to an aggregate amount of 100,000 shares of our common stock. Through December 31, 2009, no shares of common stock have been issued. (See Note 2 in the Notes to Consolidated Financial Statements for additional information.)

On November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of RPS, an affiliate of Stationary Power, and a supplier of lead acid batteries primarily for use by Stationary Power in the design and installation of standby power systems. Under the terms of the stock purchase agreement, the initial purchase price consisted of 100,000 shares of our common stock, valued at $1,383. In addition, on the achievement of certain post-acquisition sales milestones, we will pay the sellers, in cash, 5% of sales up to the sales in the operating plan, and 10% of sales that exceed the sales in the operating plan, for the remainder of the calendar year 2007 and for calendar years 2008, 2009 and 2010. The additional contingent cash consideration is payable in annual installments, and excludes sales made to Stationary Power, which historically have comprised substantially all of RPS's sales. No contingent cash consideration was recorded for 2007. During 2008, we accrued $49 for the 2008 portion of the contingent cash consideration, which is included in the other current liabilities line on our Consolidated Balance Sheet, which was paid to the sellers in March 2009. During 2009, we accrued $118 for the 2009 portion of the contingent cash consideration, which is included in the other current liabilities line on our Consolidated Balance Sheet, which was paid to the sellers during the first quarter of 2010. (See Note 2 in the Notes to Consolidated Financial Statements for additional information.)

In March 2008, we formed a joint venture, the 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 $86 in cash into the India JV, as consideration for our 51% ownership stake in the India JV.

In June 2008, we changed our corporate name from Ultralife Batteries, Inc. to Ultralife Corporation. The purpose of the name change was to align our corporate name more closely with the business now being conducted by us, as we are no longer exclusively a battery manufacturing company.

On November 10, 2008, we acquired certain assets of USE, a nationally recognized standby power installation and power management services business. USE is located in Riverside, California. Under the terms of the agreement, the initial purchase price consisted of $2,865 in cash. In addition, on the achievement of certain post-acquisition financial milestones, we will issue up to an aggregate amount of 200,000 unregistered shares of our common stock, over a period of four years. Through December 31, 2009, no shares of common stock have been issued. (See Note 2 in the Notes to Consolidated Financial Statements for additional information.)

On March 20, 2009, we acquired substantially all of the assets and assumed substantially all of the liabilities of the tactical communications products business of Science Applications International Corporation. The tactical communications products business ("AMTI"), located in Virginia Beach, Virginia, designs, develops and manufactures tactical communications products including amplifiers, man-portable systems, cables, power solutions and ancillary communications equipment. Under the terms of the asset purchase agreement for AMTI, the purchase price consisted of $5,717 in cash. (See Note 2 in the Notes to Condensed Consolidated Financial Statements for additional information.)

On June 1, 2009, the Board of Directors appointed John C. Casper as our Vice-President of Finance and Chief Financial Officer, succeeding Robert W. Fishback. In November 2009, Mr. Casper resigned from his position. In December 2009, Philip A. Fain was appointed Chief Financial Officer and Treasurer, succeeding Mr. Casper.

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.

Overview

For the year ended December 31, 2009, revenue totaled $172,109 compared to $254,700 for 2008. We incurred an operating loss of $7,362 for 2009 compared to operating income of $17,305 for 2008. Net loss attributable to Ultralife for 2009 was $9,241 compared to net income attributable to Ultralife of $13,663 for the prior year.

The decrease in sales in 2009 versus 2008 was due to the 2008 fulfillment of some large SATCOM-On-The-Move orders that did not reoccur as we had expected in 2009. We did not receive the expected large order in 2009 for our SATCOM-On-The-Move system under the MRAP All-Terrain Vehicle Program, because the prime contractor through whom our system is sold did not have a contract in place with the U.S. Government in time to meet the U.S. Defense Department's delivery schedule. Therefore, the order was awarded to another company. The reduction in sales was partially offset by higher shipments of our BA-5390 batteries to government defense contractors and stronger demand for batteries and charging systems from U.S. defense customers versus 2008, as well as the acquisition of AMTI in March 2009.

The reduction in operating profit in 2009 was attributable to the sales decrease as noted above and an increase in operating expenses from $39,638 in 2008 to $44,222 in 2009. The increase in spending was attributable to higher research and development costs due to greater investments in product design and development activity and higher selling and administrative costs resulting from costs related to our recently acquired companies and generally higher administrative expenses. Our net loss for 2009 was also impacted by higher interest expense due to higher average levels of borrowings and the impact of a weaker US dollar on our foreign currency transactions.

We reported revenue of $50,350 for the fourth quarter of 2009 and an operating profit of $1,624. Quarter over quarter, revenue was up from the third quarter revenue of $42,363.

The operating profit in the fourth quarter of 2009 was a result of continued growth in gross margin and decreased operating costs as a result of the initiatives that we started earlier in 2009. It was hampered by a $600 provision connected with inventory of our older amplifier products that are now considered to be slow moving because of the strong market reception for our new amplifier line, added following our AMTI acquisition. Fourth quarter of 2009 revenue growth was led by strong battery sales in both defense and commercial markets and by the initiation of shipments on the communications systems orders that we announced in mid-October.

Fourth quarter of 2009 gross margin improved as a result of a favorable mix of engineered products and strong operating performance in both our US and China battery production facilities. The amplifier products that we acquired when we purchased AMTI are now an important part of our offerings both as components and as part of our advanced communications systems. Although we have only owned that operation for the last three quarters of 2009, sales levels for the year were more than three times the sales level of the previous year and we expect to further expand this business in 2010. We expect that the further integration of the AMTI products, processes and resources into our communication systems business will offer additional enhancements to our product portfolio and operating efficiencies.

As reflected in our fourth quarter operating performance, we completed cost reduction and consolidation actions in the latter half of 2009 to help offset the increased expenses resulting from our acquisitions of USE in November 2008 and AMTI in March 2009 and to improve our operational efficiencies. In 2009, we substantially completed the consolidation of our standby power acquisitions to operate as one national business. Our actions included the appointment of a single management team responsible for all business operations, the consolidation of backroom functions and the implementation of our corporate information technology systems. During 2009, our AMTI acquisition benefitted from the synergies of our global sales force and our communications products utilizing AMTI products and engineering expertise. We expect further synergies to result in 2010.

In addition, we significantly improved our balance sheet in the fourth quarter of 2009 as reflected in the reduction in both our accounts receivables and inventories over the second and third quarters of 2009. We believe that our entering into a senior secured asset based revolving credit facility in February 2010 with RBS Business Capital further strengthens our financial position for the future.

At the end of the fourth quarter of 2009, we commenced shipments of lithium ion batteries to the U.K. Ministry of Defence under a contract with General Dynamics UK. We believe this new line of products has the potential to be a strong contributor to revenue growth in 2010.

In the first half of 2010, we also expect to be shipping initial units of the new version of our tactical repeater for handheld radios. By incorporating one of AMTI's new compact amplifier products, the new version increases the power and range of our existing products by 30-50%.

We also expect to be starting trials on a new lithium ion backup product. Based on scalable 1KW modules, we believe it is able to be managed and monitored remotely and operates over a wide temperature range for approximately 3-5 times the lifetime of traditional lead acid products. It is expected that utilization of these capabilities will enable reductions in total cost of ownership by 20-50% in the applications that we have targeted.

During the second quarter of 2010, we also expect to have fully qualified the new version of our 9-volt product. Designed and manufactured in our China facility, it has improved performance over our current product and by the end of 2010 we expect to be producing half of our 9-volt demand in China and ultimately producing 75% of our 9-volt product there.

Our China operation continues to see revenue growth in our line of lithium thionyl chloride products. Much of the growth has been from the growing market for automated meter reading in China, a key focus of their economic stimulus program. We expect to see this market growing in 2010, and we also expect to see opportunities for growth for our thionyl chloride products in Europe and the U.S.

We believe that new offerings and geographic expansion are our keys to revenue growth in 2010 and beyond. In our battery products, we expect that our major initiative will be in deploying larger scale lithium ion products for energy storage. We anticipate that our energy services segment will complement this by providing a channel through which to deliver complete solutions based on a total cost of ownership model. In communications systems we expect to see further expansion of SATCOM systems in mobile communications. We also expect to expand this market internationally as U.S. allies see the importance of extended communications capability beyond line of sight. And we expect our pocket amplifiers and tactical repeaters to bring portable and instantly deployable range extension to the fast expanding world of handheld radios.

One of the issues that we have faced in growing our company has been the variability of orders. The markets that we serve, government/defense, commercial and standby power, all have elements that contribute to fluctuating revenues in reporting periods. Diversifying our business and increasing our service component helps, but will not eliminate this variability. We also recognize the ongoing potential impact of competition within the industries we serve. We believe that we have or will be making the necessary investments to best position our product and service offerings to meet or exceed that of our competitors. This however, in itself, may not guarantee that our products and services will be selected to fulfill the orders and/or contracts we pursue, as other factors such as competitive pricing below our gross margin requirements or small business preferences may prevail.

Over the past year, dealing with this effect, together with the general economic slowdown, has caused us to change our approach to budgeting and planning for 2010. We have consolidated operations and focused our business planning and management around the models of three operating segments for 2010. We have reduced our overhead to match the revenue level of our sustainable base while retaining the controls required of a public corporation and sustaining important investments. And we have sharpened our disciplines to ensure that as we generate higher returns on the investments we are making in operations, products and markets, the greatest amount possible flows to profitability.

Results of Operations

Twelve Months Ended December 31, 2009 Compared With the Twelve Months Ended December 31, 2008

	12 Months Ended		Increase /
	12/31/2009	12/31/2008	(Decrease)
Revenues	$ 172,109	$ 254,700	$ (82,591)
Cost of products sold	135,249	197,757	(62,508)
Gross margin	36,860	56,943	(20,083)
Operating and other expenses	44,222	39,638	4,584
Operating income (loss)	(7,362)	17,305	(24,667)
Other income (expense), net	(1,478)	199	(1,677)
Income before taxes	(8,840)	17,504	(26,344)
Income tax provision	391	3,879	(3,488)
Net income (loss)	$ (9,231)	$ 13,625	$ (22,856)
Net (income) loss attributable to noncontrolling interest	(10)	38	(48)
Net income (loss) attributable to Ultralife	$ (9,241)	$ 13,663	(22,904)
Net income (loss) attributable to Ultralife common shares — basic	$ (0.54)	$ 0.79	$ (1.33)
Net income (loss) attributable to Ultralife common shares — diluted	$ (0.54)	$ 0.78	$ (1.32)
Weighted average shares outstanding — basic	16,989	17,230	(241)
Weighted average shares outstanding — diluted	16,989	17,681	(692)

Revenues. Total revenues for the twelve months ended December 31, 2009 amounted to $172,109, a decrease of $82,591, or 32.4% from the $254,700 reported for the twelve months ended December 31, 2008.

Non-Rechargeable product sales decreased $2,379, or 3.5%, from $68,076 last year to $65,697 this year. The decrease in Non-Rechargeable revenues was mainly attributable to a decline in sales to automotive telematics customers due to the recession, offset in part by higher shipments of our BA-5390 batteries to government/defense customers.

Rechargeable product revenues increased $7,604, or 21.9%, from $34,691 last year to $42,295 this year. The increase in Rechargeable revenues was mainly attributable to strong demand for batteries and charging systems from U.S. defense customers.

Communications Systems revenues decreased $92,624, or 68.1%, from $136,072 last year to $43,448 this year. The decrease in Communications Systems revenues was mainly attributable to large deliveries of SATCOM-On-The-Move and other advanced communications systems in 2008, which did not reoccur in 2009. This decrease was partially offset by the acquisition of AMTI in March 2009.

Design and Installation Services revenues increased $4,808, or 30.3%, from $15,861 last year to $20,669 this year. The increase in Design and Installation Services revenues was mainly attributable to the added revenue base provided from the acquisition of USE in November 2008.

Cost of Products Sold. Cost of products sold decreased $62,508, or 31.6%, from $197,757 for the year ended December 31, 2008 to $135,249 for the year ended December 31, 2009, primarily as a result of the decrease in revenues. Consolidated cost of products sold as a percentage of total revenue increased from 77.6% for the twelve months ended December 31, 2008 to 78.6% for the year ended December 31, 2009. Correspondingly, consolidated gross margins was 21.4% for the year ended December 31, 2009, compared with 22.4% for the year ended December 31, 2008, generally attributable to the margin decrease in the Design and Installation Services segment, offset by improvements in the Non-Rechargeable Products, Rechargeable Products and Communications Systems segments.

In our Non-Rechargeable Products segment, the cost of products sold decreased $3,992, from $57,285 in the year ended December 31, 2008 to $53,293 in 2009. Non-Rechargeable gross margin for 2009 was $12,404, or 18.9%, an increase of $1,613 from 2008's gross margin of $10,791, or 15.9%. Non-Rechargeable gross margin and gross margin as a percentage of revenues both increased for the year ended December 31, 2009, primarily as a result of favorable product mix, in comparison to the year ended December 31, 2008. Also, the approximate $750 restructuring charge that was recorded relating to the transition of our U.K. operations from a manufacturing and distribution facility to a distribution and service center designed to enhance our ability to serve our customers, including the U.K. Ministry of Defence, resulting in employee termination costs and certain asset valuation adjustments in 2008, did not reoccur in 2009.

In our Rechargeable Products segment, the cost of products sold increased $5,305, from $27,873 in 2008 to $33,178 in 2009. Rechargeable gross margin for 2009 was $9,117, or 21.6%, an increase of $2,299 from 2008's gross margin of $6,818, or 19.7%. Rechargeable gross margin improved primarily as a result of higher sales volumes and favorable product mix, as well as lower costs for material and component parts.

In our Communications Systems segment, the cost of products sold decreased $68,876, from $99,267 in 2008 to $30,391 in 2009. Communications Systems gross margin for 2009 was $13,057, or 30.1%, a decrease of $23,748 from 2008's gross margin of $36,805, or 27.0%. The increase in the gross margin percentage for Communications Systems resulted from the recognition of a gain on litigation settlement totaling $1,256, in relation to the settlement of an ongoing litigation with a vendor, which was partially offset by the overall sales mix and lower sales volume in this segment. We also implemented a four-day work week for production personnel in our Newark operations, which included a significant portion of our communications systems manufacturing operations, in the third quarter of 2009, to align production levels with current sales levels. For the fourth quarter of 2009, we resumed a full five-day work week for production personnel in our Newark operations in response to increased production demand.

In our Design and Installation Services segment, the cost of sales increased $5,055, from $13,332 for the year ended December 31, 2008, to $18,387 in 2009. Design and Installation Services gross margin for 2009 was $2,282, or 11.0%, compared to 2008's gross margin of $2,529, or 15.9%. Gross margin in this particular segment was weaker than expected due to continued intense price competition with component suppliers, relatively low margin jobs that carried over from 2008 into 2009, and ongoing integration efforts related to the USE acquisition. The intense price competition with component suppliers is expected to continue into 2010, which we expect to mitigate with greater emphasis on higher margin services, including wireless cell tower projects.

Operating Expenses. Total operating expenses increased $4,584, from $39,638 for the year ended December 31, 2008 to $44,222 for the year ended December 31, 2009. Overall, operating expenses as a percentage of sales increased to 25.7% in 2009 from 15.6% reported the prior year, due to the overall expense increase over a lower revenue base. In response to this unfavorable change to the percentage of sales, we have consolidated some of our operations to lower the fixed costs basis of our operations, performed an overall cost reduction analysis and tightened our cost controls, along with deferring some of our discretionary spending. Amortization expense associated with intangible assets related to our acquisitions was $1,683 for 2009 ($1,146 in selling, general and administrative expenses and $537 in research and development costs), compared with $2,119 for 2008 ($1,486 in selling, general, and administrative expenses and $633 in research and development costs). Research and development costs were $9,540 in 2009, an increase of $1,402, or 17.2%, over the $8,138 reported in 2008, as we increased our investment on product development and design activity. Selling, general, and administrative expenses increased $3,182, or 10.1%, to $34,682. This increase was comprised of costs related to recently acquired companies, in addition to higher sales and marketing expenses related to development of new territories for the standby power business and generally higher administrative costs.

Other Income (Expense). Other income (expense) totaled ($1,478) for the year ended December 31, 2009, compared to $199 for the year ended December 31, 2008. Interest expense, net of interest income, increased $535, from $930 for 2008 to $1,465 for 2009, mainly as a result of higher average borrowings under our revolving credit facility. In 2008, we recognized a gain of $313 on the early conversion of the $10,500 convertible notes held by the sellers of McDowell, which related to an increase in the interest rate on the notes from 4.0% to 5.0% in October 2007. Miscellaneous income/expense amounted to expense of $13 for 2009 compared with income of $816 for 2008. The income in 2008 was primarily due to the recognition of $300 in grant revenue from the satisfaction of all the requirements from a government grant in 2008 and the transactions impacted by changes in foreign currencies relative to the U.S. dollar.

Income Taxes. We reflected a tax provision of $391 for the twelve-month period ended December 31, 2009 compared with $3,879 in the same period of 2008. The 2008 tax provision included an approximate $3,100 non-cash charge to record a deferred tax liability for liabilities generated from goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carryforward periods. Substantially all of this adjustment related to book/tax differences that occurred during 2007 and were identified during the second quarter of 2008. In connection with this adjustment, we reviewed the illustrative list of qualitative considerations provided in SEC Staff Accounting Bulletin No. 99 and other qualitative factors in our determination that this adjustment was not material to the 2007 consolidated financial statements.

The effective consolidated tax rate for the twelve-month periods ended December 31, 2009 and 2008 was:

	Twelve-Month Periods Ended December 31,	
	2009	2008
Income (Loss) before Incomes Taxes (a)	$ (8,840)	$ 17,504
Total Income Tax Provision (b)	$ 391	$ 3,879
Effective Tax Rate (b/a)	4.4%	22.2%

During the fiscal quarter ended December 31, 2006, we recorded a full valuation allowance on our net deferred tax asset, due to the determination, at that time, that it was more likely than not that we would not be able to utilize our U.S. and U.K. net operating loss carryforwards (“NOL’s”) that had accumulated over time. At December 31, 2009, we continue to recognize a valuation allowance on our U.S. deferred tax asset, to the extent that we believe, that it is more likely than not that we will not be able to utilize that portion of our U.S. NOL’s that had accumulated over time. A U.S. valuation allowance is not required for the portion of the deferred tax asset that will be realized by the reversal of temporary differences related to deferred tax liabilities to the extent those temporary differences are expected to reverse in our carryforward period. At December 31, 2009, we continue to recognize a full valuation allowance on our U.K. and China net deferred tax assets, as we believe, at this time, that it is more likely than not that we will not be able to utilize our U.K. and China NOL’s that have accumulated over time. (See Notes 1 and 8 in the Notes to Consolidated Financial Statements for additional information.) We continually monitor the assumptions and performance results to assess the realizability of the tax benefits of the U.S. and U.K. NOL’s and other deferred tax assets, in accordance with the accounting standards.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred in 2005 and 2006. As such, the domestic NOL carryforward will be subject to an annual limitation estimated to be in the range of approximately $12,000 to $14,500. The unused portion of the annual limitation can be carried forward to subsequent periods. Our ability to utilize NOL carryforwards due to the successive ownership changes is currently limited to a minimum of approximately $12,000 annually, plus the carryover from unused portions of the annual limitations. We believe such limitation will not impact our ability to realize the deferred tax asset.

In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. This limitation did not have an impact on income taxes determined for 2009. However, this limitation did have an impact of $559 on income taxes determined for 2008. The use of our U.K. NOL carryforwards may be limited due to the change in the U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center. For further discussion, see “Risk Factors” in Item 1A of this annual report.

Net Income (Loss) Attributable to Ultralife. Net loss attributable to Ultralife and loss attributable to Ultralife common shareholders per diluted share were $9,241 and $0.54, respectively, for the year ended December 31, 2009, compared to net income attributable to Ultralife and earnings attributable to Ultralife common shareholders per diluted share of $13,663 and $0.78, respectively, for the year ended December 31, 2008, primarily as a result of the reasons described above. Average common shares outstanding used to compute diluted earnings per share decreased from 17,681 in 2008 to 16,989 in 2009, mainly due to the share repurchase program we initiated in the fourth quarter of 2008, offset by stock option and warrant exercises, restricted stock grants, and potentially dilutive shares from unexercised options and convertible notes.

Twelve Months Ended December 31, 2008 Compared With the Twelve Months Ended December 31, 2007

	12 Months Ended		Increase /
	12/31/2008	12/31/2007	(Decrease)
Revenues	$ 254,700	$ 137,596	$ 117,104
Cost of products sold	197,757	108,822	88,935
Gross margin	56,943	28,774	28,169
Operating and other expenses	39,638	28,973	10,665
Operating income (loss)	17,305	(199)	17,504
Other income (expense), net	199	5,859	(5,660)
Income (loss) before taxes	17,504	5,660	11,844
Income tax provision	3,879	77	3,802
Net income (loss)	$ 13,625	$ 5,583	$ 8,042
Net (income) loss attributable to noncontrolling interest	38	—	38
Net income (loss) attributable to Ultralife	$ 13,663	$ 5,583	8,080
Net income (loss) attributable to Ultralife common shares — basic	$ 0.79	$ 0.36	$ 0.43
Net income (loss) attributable to Ultralife common shares — diluted	$ 0.78	$ 0.36	$ 0.42
Weighted average shares outstanding — basic	17,230	15,316	1,914
Weighted average shares outstanding — diluted	17,681	15,538	2,143

Revenues. Total revenues for the twelve months ended December 31, 2008 amounted to $254,700, an increase of $117,104, or 85% from the $137,596 reported for the twelve months ended December 31, 2007.

Non-Rechargeable product sales decreased $12,186, or 15%, from $80,262 last year to $68,076 this year. The decrease in Non-Rechargeable revenues was mainly attributable to the non-recurrence in 2008 of the fulfillment of battery orders to international defense customers that occurred in 2007. Offsetting this decrease, in part, were increases in BA-5390 and other military battery sales, as well as higher sales of backup battery systems for automotive telematics customers.

Rechargeable product revenues increased $17,935, or 107%, from $16,756 last year to $34,691 this year. The increase in Rechargeable revenues was mainly attributable to higher sales of lithium-ion battery packs and charging systems primarily to government/defense customers.

Communications Systems revenues increased $98,932, or 266%, from $37,140 last year to $136,072 this year. The increase in Communications Systems revenues was mainly attributable to deliveries of SATCOM-On-The-Move and other advanced communications systems related to the sizeable orders we received during the latter part of 2007.

Design and Installation Services revenues increased $12,423, or 361%, from $3,438 last year to $15,861 this year. The increase in Design and Installation Services revenues was mainly attributable to the full year impact of the acquisitions of RedBlack and Stationary Power that were completed in the second half of 2007, as well as the acquisition of USE in November 2008.

Cost of Products Sold. Cost of products sold increased $88,935, or 82%, from $108,822 for the year ended December 31, 2007 to $197,757 for the year ended December 31, 2008, primarily as a result of the increase in revenues. Consolidated cost of products sold as a percentage of total revenue decreased from 79% for the twelve months ended December 31, 2007 to 78% for the year ended December 31, 2008. Correspondingly, consolidated gross margins was 22% for the year ended December 31, 2008, compared with 21% for the year ended December 31, 2007, generally attributable to higher sales and production volumes and a more favorable sales mix of higher margin products.

In our Non-Rechargeable Products segment, the cost of products sold decreased $5,230, from $62,515 in the year ended December 31, 2007 to $57,285 in 2008. Non-Rechargeable gross margin for 2008 was $10,791, or 16%, a decrease of $6,956 from 2007’s gross margin of $17,747, or 22%. Non-Rechargeable gross margin declined primarily as a result of lower overhead absorption from lower sales volumes, an unfavorable product shift which was partially impacted by lower margin telematics products, and higher costs of raw materials related to increasing energy and transportation costs. The decrease was also attributable to the costs incurred to transition our U.K. manufacturing and assembly operation to a distribution and service center, including a second quarter restructuring charge of approximately $750 for employee termination costs and certain asset valuation adjustments.

In our Rechargeable Products segment, the cost of products sold increased $14,695, from $13,178 in 2007 to $27,873 in 2008. Rechargeable gross margin for 2008 was $6,818, or 20%, an increase of $3,240 from 2007's gross margin of $3,578, or 21%. The decrease in Rechargeable gross margin percentage was primarily attributable to an increase in component costs, acceptance of lower margin projects to develop new customers and product mix.

In our Communications Systems segment, the cost of products sold increased $68,820, from $30,447 in 2007 to $99,267 in 2008. Communications Systems gross margin for 2008 was $36,805, or 27%, an increase of $30,112 from 2007's gross margin of $6,693, or 18%. The increase in the Communications Systems gross margin primarily resulted from higher overall sales, production volumes and a favorable product mix, as well as improvements in our supply chain management and lower material costs.

In our Design and Installation Services segment, the cost of sales increased $10,650, from $2,682 for the year ended December 31, 2007, to $13,332 in 2008. Design and Installation Services gross margin for 2008 was $2,529, or 16%, compared to 2007's gross margin of $756, or 22%. The gross margin percentage in this particular segment declined in 2008 due primarily to investments we are making and associated start-up costs to grow this segment, including the addition of new sales/service centers and certain integration costs associated with the acquisition of USE. Previous to the acquisitions of RedBlack and Stationary Power, this segment was comprised mainly of technology contracts which had varying margins dependent on the progress of individual contracts.

Operating Expenses. Total operating expenses increased $10,665, from $28,973 for the year ended December 31, 2007 to $39,638 for the year ended December 31, 2008. Overall, operating expenses as a percentage of sales decreased to 16% in 2008 from 21% reported the prior year, as we were able to leverage our operating expense base against the increase in revenues. Amortization expense associated with intangible assets related to our acquisitions was $2,119 for 2008 ($1,486 in selling, general and administrative expenses and $633 in research and development costs), compared with $2,317 for 2007 ($1,290 in selling, general, and administrative expenses and $1,027 in research and development costs). Research and development costs were $8,138 in 2008, an increase of $1,138, or 16%, over the $7,000 reported in 2007. This increase was mainly due to an increase in overall product development and design activity. Selling, general, and administrative expenses increased $9,527, or 43%, to $31,500. This increase was comprised of approximately $4,700 associated with costs related to acquired companies, in addition to higher sales-based commissions, enhanced sales and marketing efforts and higher administrative costs required to operate a more diverse organization.

Other Income (Expense). Other income (expense) totaled $199 for the year ended December 31, 2008, compared to $5,859 for the year ended December 31, 2007. Interest expense, net of interest income, decreased $1,254, from $2,184 for 2007 to $930 for 2008, mainly as a result of the conversion, in the first quarter of 2008, of convertible notes into shares of common stock related to the McDowell acquisition, as well as lower borrowings under our revolving credit facility. In 2008, we recognized a gain of $313 on the early conversion of the $10,500 convertible notes held by the sellers of McDowell, which related to an increase in the interest rate on the notes from 4% to 5% in October 2007. In 2007, we recorded a gain on the McDowell settlement of $7,550 as a result of a negotiated reduction in the purchase price that was finalized in November 2007 (see Note 2 for additional information). Miscellaneous income/expense amounted to income of $816 for 2008 compared with income of $493 for 2007. This income was primarily due to the recognition of $300 in grant revenue from the satisfaction of all the requirements from a government grant in 2008 and the transactions impacted by changes in foreign currencies relative to the U.S. dollar.

Income Taxes. We reflected a tax provision of $3,879 for the twelve-month period ended December 31, 2008 compared with $77 in the same period of 2007. The 2008 tax provision included an approximate $3,100 non-cash charge to record a deferred tax liability for liabilities generated from book/tax differences pertaining to goodwill and certain intangible assets that cannot be predicted to reverse during our loss carryforward periods. Substantially all of this adjustment related to book/tax differences that occurred during 2007 and were identified during the second quarter of 2008. In connection with this adjustment, we reviewed the illustrative list of qualitative considerations provided in SEC Staff Accounting Bulletin No. 99 and other qualitative factors in our determination that this adjustment was not material to the 2007 consolidated financial statements.

The effective consolidated tax rate for the twelve-month periods ended December 31, 2008 and 2007 was:

	Twelve-Month Periods Ended December 31,	
	2008	2007
Income (Loss) before Incomes Taxes (a)	$ 17,504	$ 5,660
Total Income Tax Provision (b)	$ 3,879	$ 77
Effective Tax Rate (b/a)	22.2%	1.4%

During the fiscal quarter ended December 31, 2006, we recorded a full valuation allowance on our net deferred tax asset, due to the determination, at that time, that it was more likely than not that we would not be able to utilize our U.S. and U.K. net operating loss carryforwards ("NOL's") that had accumulated over time. At December 31, 2008, we continue to recognize a valuation allowance on our U.S. deferred tax asset, to the extent that we believe, that it is more likely than not that we will not be able to utilize that portion of our U.S. NOL's that had accumulated over time. A U.S. valuation allowance is not required for the portion of the deferred tax asset that will be realized by the reversal of temporary differences related to deferred tax liabilities to the extent those temporary differences are expected to reverse in our carryforward period. At December 31, 2008, we continue to recognize a full valuation allowance on our U.K. net deferred tax asset, as we believe, at this time, that it is more likely than not that we will not be able to utilize our U.K. NOL's that had accumulated over time. (See Notes 1 and 8 in the Notes to Consolidated Financial Statements for additional information.) We continually monitor the assumptions and performance results to assess the realizability of the tax benefits of the U.S. and U.K. NOL's and other deferred tax assets, in accordance with the accounting standards.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred in 2005 and 2006. As such, the domestic NOL carryforward will be subject to an annual limitation estimated to be in the range of approximately $12,000 to $14,500. The unused portion of the annual limitation can be carried forward to subsequent periods. Our ability to utilize NOL carryforwards due to the successive ownership changes is currently limited to a minimum of approximately $12,000 annually, plus the carryover from unused portions of the annual limitations. We believe such limitation will not impact our ability to realize the deferred tax asset.

In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. This limitation did not have an impact on income taxes determined for 2007. However, this limitation did have an impact of $559 on income taxes determined for 2008. The use of our U.K. NOL carryforwards may be limited due to the change in the U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center. For further discussion, see "Risk Factors" in Item 1A of this annual report.

Net Income (Loss) Attributable to Ultralife. Net income and earnings per diluted share were $13,663 and $0.78, respectively, for the year ended December 31, 2008, compared to net income and earnings per diluted share of $5,583 and $0.36, respectively, for the year ended December 31, 2007, primarily as a result of the reasons described above. Average common shares outstanding used to compute diluted earnings per share increased from 15,538,000 in 2007 to 17,681,000 in 2008, mainly due to the 1,000,000 share issuance in the fourth quarter of 2007 from our limited public offering, conversion of the McDowell convertible notes into 700,000 shares of our common stock during the first quarter of 2008, stock option and warrant exercises, restricted stock grants, and potentially dilutive shares from unexercised options and convertible notes.

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) 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-cash, non-operating expenses or income. We also present Adjusted EBITDA because we believe it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. We reconcile Adjusted EBITDA to net income (loss) attributable to Ultralife, the most comparable financial measure under U.S. generally accepted accounting principles ("U.S. GAAP").

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

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

- Adjusted EBITDA (1) does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; (2) does not reflect changes in, or cash requirements for, our working capital needs; (3) does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; (4) does not reflect income taxes or the cash requirements for any tax payments; and (5) does not reflect all of the costs associated with operating our business;

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;

- while stock-based compensation is a component of cost of products sold and operating expenses, the impact on our consolidated financial statements compared to other companies can vary significantly due to such factors as assumed life of the stock-based awards and assumed volatility of our common stock; and

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

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

	Years ended December 31,		
	2009	**2008**	**2007**
Net income (loss) attributable to Ultralife	$ (9,241)	$ 13,663	$ 5,583
Add: interest expense, net	1,465	930	2,184
Add: income tax provision	391	3,879	77
Add: depreciation expense	4,044	3,851	3,861
Add: amortization expense	1,683	2,119	2,317
Add: stock-based compensation expense	1,330	2,266	2,149
Less: gain on McDowell settlement	—	—	(7,550)
Less: gain on debt conversion	—	(313)	—
Adjusted EBITDA	$ (328)	$ 26,395	$ 8,621

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Liquidity and Capital Resources

Cash Flows and General Business Matters

As of December 31, 2009, cash and cash equivalents totaled $6,094, an increase of $4,216 from the beginning of the year. During the twelve months ended December 31, 2009, we generated $2,032 of cash from operating activities as compared to generating $19,058 of cash for the twelve months ended December 31, 2008. The cash from operating activities used during 2009 was mainly attributable to our pre-tax loss of $8,840, plus an addback of $7,057 for non-cash expenses including depreciation, amortization and stock-based compensation and a gain on litigation settlement of $1,256. Approximately $3,106 of cash was generated for working capital due mainly to a decrease in inventories, offset by increases in accounts receivable due to timing of orders and a decrease in accounts payable. For 2008, the cash generated from operating activities of $19,058 was mainly attributable to a pre-tax income of $17,504, plus an addback of $8,236 for non-cash expenses of depreciation, amortization and stock-based compensation. Approximately $10,499 of cash was used for working capital due mainly to increases in accounts receivable and inventories, offset by an increase in accounts payable and a decrease in prepaid expenses.

We used $8,801 in cash for investing activities during 2009 compared with $6,958 in cash used for investing activities in 2008. In 2009, we spent $2,035 to purchase plant, property and equipment, and $6,766 was used in connection with the acquisition of AMTI, as well as contingent purchase price payouts related to RedBlack and RPS. In 2008, we spent $3,787 to purchase plant, property and equipment, and $3,171 of which was used in connection with the acquisition of USE, as well as a contingent purchase price payout related to the ABLE acquisition.

During 2009, we generated $10,761 in funds from financing activities compared to the usage of $12,723 in funds in 2008. The financing activities in 2009 included a $15,500 inflow from drawdowns on the revolver portion of our primary credit facility, an inflow of $751 for proceeds from the issuance of debt, and an inflow of cash from stock option and warrant exercises of $349, offset by an outflow of $2,519 for principal payments on term debt under our primary credit facility and capital lease obligations, and an outflow of $3,326 for the purchase of treasury shares related to our share repurchase program. The financing activities in 2008 included outflows of $11,204 for revolver loan repayments, $2,230 for principal payments on our term loan, capital leases, and debt we assumed from acquisitions, and purchase of treasury shares of $1,815, offset by inflows of $2,526 from stock option and warrant exercises.

Although we booked a full reserve for our deferred tax asset during the fourth quarter of 2006 and continued to carry this reserve as of December 31, 2008 and 2009, we continue to have significant U.S. NOL's available to us to utilize as an offset to taxable income. As of December 31, 2009, none of our U.S. NOL's have expired. During 2008, we utilized $27,682 of our U.S. NOL carryforwards such that over the next five years, there are no scheduled expirations of our U.S. NOL's. (See Note 8 in the Notes to the Consolidated Financial Statements for additional information.)

Inventory turnover for the year ended December 31, 2009 averaged 2.7 turns compared to 4.6 turns for 2008. The decrease in this metric is mainly due to a buildup in inventory in anticipation of certain orders from the U.S. Government that were delayed and ultimately awarded to another contractor, as well as the decrease in the sales volumes during 2009. Our Days Sales Outstanding (DSOs) was an average of 69 days for 2009, an increase from the 2008 average of 53 days, mainly due to the overall domestic and global recessionary economic conditions.

Our order backlog at December 31, 2009 was approximately $42,700. The majority of the backlog was related to orders that are expected to ship throughout 2010.

As of December 31, 2009, we had made commitments to purchase approximately $201 of production machinery and equipment, which we expect to fund through operating cash flows or the use of debt.

Potential Commitments

We have had certain "exigent" non-bid contracts with the U.S. government, which have been subject to an audit and final price adjustment, which have resulted in decreased margins compared with the original terms of the contracts. As of December 31, 2009, there were no outstanding exigent contracts with the government. As part of its due diligence, the government has conducted post-audits of the completed exigent contracts to ensure that information used in supporting the pricing of exigent contracts did not differ materially from actual results. In September 2005, the Defense Contracting Audit Agency ("DCAA") presented its findings related to the audits of three of the exigent contracts, suggesting a potential pricing adjustment of approximately $1,400 related to reductions in the cost of materials that occurred prior to the final negotiation of these contracts. We have reviewed these audit reports, have submitted our response to these audits and believe, taken as a whole,

the proposed audit adjustments can be offset with the consideration of other compensating cost increases that occurred prior to the final negotiation of the contracts. While we believe that potential exposure exists relating to any final negotiation of these proposed adjustments, we cannot reasonably estimate what, if any, adjustment may result when finalized. In addition, in June 2007, we received a request from the Office of Inspector General of the Department of Defense (“DoD IG”) seeking certain information and documents relating to our business with the Department of Defense. We continue to cooperate with the DCAA audit and DoD IG inquiry by making available to government auditors and investigators our personnel and furnishing the requested information and documents. At this time we have no basis for assessing whether we might face any penalties or liabilities on account of the DoD IG inquiry. The aforementioned DCAA-related adjustments could reduce margins and, along with the aforementioned DoD IG inquiry, could have an adverse effect on our business, financial condition and results of operation.

From August 2002 through August 2006, we participated in a self-insured trust to manage our workers’ compensation activity for our employees in New York State. All members of this trust have, by design, joint and several liability during the time they participate in the trust. In August 2006, we left the self-insured trust and have obtained alternative coverage for our workers’ compensation program through a third-party insurer. In the third quarter of 2006, we confirmed that the trust was in an underfunded position (i.e. the assets of the trust were insufficient to cover the actuarially projected liabilities associated with the members in the trust). In the third quarter of 2006, we recorded a liability and an associated expense of $350 as an estimate of our potential future cost related to the trust’s underfunded status based on our estimated level of participation. On April 28, 2008, we, along with all other members of the trust, were served by the State of New York Workers’ Compensation Board (“Compensation Board”) with a Summons with Notice that was filed in Albany County Supreme Court, wherein the Compensation Board put all members of the trust on notice that it would be seeking approximately $1,000 in previously billed and unpaid assessments and further assessments estimated to be not less than $25,000 arising from the accumulated estimated under-funding of the trust. The Summons with Notice did not contain a complaint or a specified demand. We timely filed a Notice of Appearance in response to the Summons with Notice. On June 16, 2008, we were served with a Verified Complaint. Subject to the results of a deficit reconstruction that was pending, the Verified Complaint estimated that the trust was underfunded by $9,700 during the period of December 1, 1997 — November 30, 2003 and an additional $19,400 for the period December 1, 2003 — August 31, 2006. The Verified Complaint estimated our pro-rata share of the liability for the period of December 1, 1997 — November 30, 2003 to be $195. The Verified Complaint did not contain a pro-rata share liability estimate for the period of December 1, 2003-August 31, 2006. Further, the Verified Complaint stated that all estimates of the underfunded status of the trust and the pro-rata share liability for the period of December 1, 1997-November 30, 2003 were subject to adjustment based on a forensic audit of the trust that was being conducted on behalf of the Compensation Board by a third-party audit firm. We timely filed our Verified Answer with Affirmative Defenses on July 24, 2008. In November 2009, the New York Attorney General’s office presented the results of the deficit reconstruction of the trust. As a result of the deficit reconstruction, the State of New York has determined that the trust was underfunded by $19,100 instead of $29,100. Our pro-rata share of the liability was determined to be $452. The Attorney General’s office has proposed a settlement by which we may avoid joint and several liability in exchange for settlement payment of $520. Under the terms of the settlement agreement, we can satisfy our obligations by either paying (i) a lump sum of $468, representing a 10% discount, (ii) paying the entire amount in twelve monthly installments of $43 commencing the month following execution of the settlement agreement, or (iii) paying the entire amount in monthly installments over a period of up to five years, with interest of 6.0, 6.5, 7.0, and 7.5% for the two, three, four and five year periods, respectively. The proposed settlement is potentially contingent on the Compensation Board receiving sufficient commitments from the defendants of the desired settlement amount of $14,500. As of December 31, 2009, we have adjusted our reserve to $520 to account for the twelve monthly installments settlement amount.

In connection with our acquisition of Stationary Power on November 16, 2007, the purchase agreement specified an adjustment mechanism based upon Stationary Power’s closing date net worth balance relative to a previously-agreed amount of $500. The final net value of the “Net Worth”, under the stock purchase agreement, was $339, resulting in a revised initial purchase price of $9,839. In addition, there is a contingent payout of up to 100,000 shares of our common stock to be earned upon the achievement of certain post-acquisition sales milestones. Through the year ended December 31, 2009, we have issued no shares of our common stock relating to this contingent consideration.

In connection with our acquisition of RPS on November 16, 2007, on the achievement of certain post-acquisition sales milestones, we will pay the previous owners of RPS, in cash, 5% of sales up to the sales in the operating plan, and 10% of sales that exceed the sales in the operating plan, for the remainder of the calendar year 2007 and for calendar years 2008, 2009 and 2010. The additional contingent cash consideration is payable in annual installments, and excludes sales made to Stationary Power, which historically have comprised substantially all of RPS’s sales. During 2009, we made cash payments of $49 for contingent consideration earned through the year ended December 31, 2008. For the year ended December 31, 2009, we have recorded an additional $118 in contingent cash consideration.

In connection with our acquisition of USE on November 10, 2008, there is a contingent payout of up to 200,000 unregistered shares of our common stock to be earned upon the achievement of certain post-acquisition financial milestones. Through the year ended December 31, 2009, we have issued no shares of our common stock relating to this contingent consideration.

Debt and Lease Commitments

At December 31, 2009, we had outstanding capital lease obligations of $294.

As of December 31, 2009, our primary credit facility consisted of both a term loan component and a revolver component, and the facility was collateralized by essentially all of our assets, including all of our subsidiaries. The lenders of the credit facility were JP Morgan Chase Bank, N.A. and Manufacturers and Traders Trust Company (together, the “Lenders”), with JP Morgan Chase Bank acting as the administrative agent (“Agent”). Availability under the revolving credit component was subject to meeting certain financial covenants, including a debt to earnings ratio and a fixed charge coverage ratio. In addition, we were required to meet certain non-financial covenants. The rate of interest, in general, was based upon either the Prime Rate plus 200 basis points or LIBOR plus 500 basis points.

As of December 31, 2009, we had $-0- outstanding under the term loan component of our credit facility with our primary lending bank and $15,500 was outstanding under the revolver component. At December 31, 2009, the interest rate on the revolver component was 5.25%. As of December 31, 2009, the revolver arrangement provided for up to $35,000 of borrowing capacity, including outstanding letters of credit. At December 31, 2009, we had $335 of outstanding letters of credit related to this facility, leaving $19,165 of additional borrowing capacity.

In July 2009, we paid the final monthly installment for the term loan under the credit facility and had no further obligations relating to the term loan portion of the credit facility. Correspondingly, the interest rate swap arrangement we entered into in connection with the term loan under our credit facility expired and we had no further obligations under the interest rate swap arrangement.

On January 27, 2009, we entered into an Amended and Restated Credit Agreement (the “Restated Credit Agreement”) with the Lenders. The Restated Credit Agreement reflected the previous ten amendments to the original Credit Agreement dated June 30, 2004 between us and the Lenders and modifies certain of those provisions. The Restated Credit Agreement among other things (i) increased the current revolver loan commitment from $22,500 to $35,000, (ii) extended the maturity date of the revolving credit component from January 31, 2009 to June 30, 2010, (iii) modified the interest rate, and (iv) modified certain covenants. The rate of interest was based, in general, upon either a LIBOR rate plus a Eurodollar spread or an Alternate Base Rate plus an ABR spread, as that term was defined in the Restated Credit Agreement, within a predetermined grid, which was dependent upon whether Earnings Before Interest and Taxes for the most recently completed fiscal quarter was greater than or less than zero. Generally, borrowings under the Restated Credit Agreement bear interest based primarily on the Prime Rate plus 50 to 200 basis points or LIBOR plus 300 to 500 basis points. Additionally, among other covenant modifications, the Restated Credit Agreement modified the financial covenants by (i) revising the debt to earnings ratio and fixed charge coverage ratio and (ii) deleting the current assets to liabilities ratio.

Effective June 28, 2009, we entered into Waiver and Amendment Number One to Amended and Restated Credit Agreement (“Waiver and Amendment”) with the Lenders and Agent. The Waiver and Amendment provided that the Lenders and Agent would waive their right to exercise their respective rights and remedies under the credit facility arising from our failure to comply with the financial covenants in the credit facility with respect to the fiscal quarter ended June 28, 2009. In addition to a number of revisions to non-financial covenants, the Waiver and Amendment revised the applicable revolver rate under the Restated Credit Agreement to an interest rate structure based on the Prime Rate plus 200 basis points or LIBOR plus 500 basis points.

As stated in the Restated Credit Agreement, as amended by the Waiver and Amendment, we were required to maintain a debt to earnings ratio at or below 2.75 to 1 and a fixed charge ratio at or above 1.25 to 1. As of December 31, 2009, our debt to earnings ratio was (58.99) to 1 and our fixed charge ratio was (0.03) to 1. Accordingly, we were not in compliance with the financial covenants of our credit facility. This constituted an event of default under the terms of our existing credit facility which entitled our Lenders to provide us with notice that they were exercising their rights under the credit facility.

On January 15, 2010, we received a demand letter from the Agent in connection with the Restated Credit Agreement ("Demand Letter"). In the Demand Letter, the Agent claimed that we had (i) failed to satisfy and comply with the financial covenants set forth in Section 6.09 of the Restated Credit Agreement, and (ii) failed to pay interest and expenses when due as set forth in Section 7(b) of the Restated Credit Agreement. The Agent declared the outstanding principal, unpaid interest and unpaid fees in the aggregate amount of $15,914 immediately due and payable in full. The Agent demanded payment of such amount by January 22, 2010. The Agent also terminated the Lender's commitment to lend additional funds to us under the Restated Credit Agreement and increased the interest rate on the outstanding principal to the default rate set under Section 2.13(c) of the Restated Credit Agreement.

On January 22, 2010, we entered into a Forbearance and Amendment Number Two to the Restated Credit Agreement with the Lenders ("Forbearance Agreement"). Under the Forbearance Agreement, the Lenders agreed to forbear until February 18, 2010 from exercising their respective rights and remedies under the Restated Credit Agreement and delayed the date by which we were to pay the Lenders the amount declared due and payable under the Demand Letter.

Under the Forbearance Agreement, we were required to make payments on the outstanding principal owed under the Restated Credit Agreement pursuant to the following schedule: (i) $1,500 on January 22, 2010; (ii) $3,500 on or before January 29, 2010; and (iii) $500 commencing February 5, 2010 and continuing on each Friday through the term of the Forbearance Agreement. We were also required to pay a forbearance fee of $63 and all of the fees and expenses incurred by the Lenders. The Forbearance Agreement also reaffirmed the Lenders' termination of their commitment to lend additional funds to us under the Restated Credit Agreement and the increased interest rate on the outstanding principal to the default rate set under Section 2.13(c) of the Restated Credit Agreement. We made all payments required by and complied with all provisions of the Forbearance Agreement.

On February 17, 2010, we entered into a senior secured asset based revolving credit facility ("Credit Facility") of up to $35,000 with RBS Business Capital, a division of RBS Asset Finance, Inc. ("RBS"). The proceeds from the Credit Facility can be used for general working capital purposes, general corporate purposes, letter of credit foreign exchange support and to repay existing indebtedness under the Restated Credit Agreement ("Previous Credit Facility"). The Credit Facility has a maturity date of February 17, 2013 ("Maturity Date"). The Credit Facility is secured by substantially all of our assets. We paid RBS a facility fee of $263.

On February 18, 2010, we drew down $9,870 from the Credit Facility to repay all outstanding amounts due under the Previous Credit Facility with the Lenders. Our available borrowing under the Credit Facility fluctuates from time to time based upon amounts of eligible accounts receivable and eligible inventory. Available borrowings under the Credit Facility equals the lesser of (1) $35,000 or (2) 85% of eligible accounts receivable plus the lesser of (a) up to 70% of the book value of our eligible inventory or (b) 85% of the appraised net orderly liquidation value of our eligible inventory. The borrowing base under the Credit Facility is further reduced by (1) the face amount of any letters of credit outstanding, (2) any liabilities of ours under hedging contracts with RBS and (3) the value of any reserves as deemed appropriate by RBS. We are required to have at least $3,000 available under the Credit Facility at all times.

Interest will accrue on outstanding indebtedness under the Credit Facility at one of two LIBOR rates plus 4.50%. Upon delivery of our audited financial statements for the fiscal year ended December 31, 2010 to RBS, and assuming no events of default exist at such time, the rate of interest under the Credit Facility can fluctuate based on the available borrowings remaining under the Credit Facility as set forth in the following table:

Excess Availability	LIBOR Rate Plus
Greater than $10,000	4.00%
Greater than $7,500 but less than or equal to $10,000	4.25%
Greater than $5,000 but less than or equal to $7,500	4.50%
Greater than $3,000 but less than or equal to $5,000	4.75%

In addition to paying interest on the outstanding principal under the Credit Facility, we are required to pay an unused line fee of 0.50% on the unused portion of the $35,000 Credit Facility. We must also pay customary letter of credit fees equal to the LIBOR rate and the applicable margin and any other customary fees or expenses of the issuing bank. Interest that accrues under the Credit Facility is to be paid monthly with all outstanding principal, interest and applicable fees due on the Maturity Date.

We are required to maintain a fixed coverage ratio of 1.20 to 1.00 or greater at all times after March 28, 2010. All borrowings under the Credit Facility are subject to the satisfaction of customary conditions, including the absence of an event of default and accuracy of the Borrowers' representations and warranties. The Credit Facility also includes customary representations and warranties, affirmative covenants and events of default. If an event default occurs, RBS would be entitled to take various actions, including accelerating the amount due under the Credit Facility, and all actions permitted to be taken by a secured creditor.

Previously our wholly-owned U.K. subsidiary, Ultralife Batteries (UK) Ltd. ("Ultralife UK"), had a revolving credit facility with a commercial bank in the U.K. This credit facility provided our U.K. operation with additional financing flexibility for its working capital needs. Any borrowings against this credit facility were collateralized with that company's outstanding accounts receivable balances. During the second quarter of 2008, this credit facility was terminated. The Ultralife UK operations will be funded by operating cash flows and cash advances from Ultralife Corporation, if necessary.

See Note 5 in the Notes to Consolidated Financial Statements for additional information.

Equity Transactions

In November 2007, we completed a limited public offering, whereby 1,000,000 shares of our common stock were issued. Total net proceeds from the offering were approximately $12,600, of which $6,000 was used for the Stationary Power acquisition cash payment, $3,500 was used as a prepayment on the subordinated convertible notes that were issued as partial consideration for the McDowell acquisition, and $1,000 was used as a repayment of borrowings outstanding under our credit facility used to fund the RedBlack acquisition. The remainder of the proceeds was used for general working capital purposes.

In October 2008, the Board of Directors authorized a share repurchase program of up to $10,000 to be implemented over the course of a six-month period. Repurchases were made from time to time at management's discretion, either in the open market or through privately negotiated transactions. The repurchases were made in compliance with Securities and Exchange Commission guidelines and were subject to market conditions, applicable legal requirements, and other factors. We have no obligation under the program to repurchase shares and the program could have been suspended or discontinued at any time without prior notice. We funded the purchase price for shares acquired primarily with current cash on hand and cash generated from operations, in addition to borrowing from our credit facility, as necessary. We spent $5,141 to repurchase 628,413 shares of common stock, at an average price of approximately $8.15 per share, under this share repurchase program. During the first quarter of 2009, we repurchased 416,305 shares of common stock at an average price of approximately $7.99 per share, under this share repurchase program; all other share repurchases were made in the fourth quarter of 2008. In April 2009, this share repurchase program expired.

In some of our recent acquisitions, we utilized securities as consideration in these transactions in part to reduce the need to draw on the liquidity provided by our cash and cash equivalents and revolving credit facility.

See Note 7 in the Notes to Consolidated Financial Statements for additional information.

Other Matters

We continually explore various sources of liquidity to ensure financing flexibility, including leasing alternatives, issuing new or refinancing existing debt, and raising equity through private or public offerings. Although we stay abreast of such financing alternatives, we believe we have the ability during the next 12 months to finance our operations primarily through internally generated funds or through the use of additional financing that currently is available to us. In the event that we are unable to finance our operations with the internally generated funds or through the use of additional financing that currently is available to us, we may need to seek additional credit or access capital markets for additional funds. We can provide no assurance, given the current state of credit markets, that we would be successful in this regard, especially in light of our recent operating performance.

If we are unable to achieve our plans or unforeseen events occur, we may need to implement alternative plans in addition to plans that we have already initiated. While we believe we can complete our original plans or alternative plans, if necessary, there can be no assurance that such alternatives would be available on acceptable terms and conditions or that we would be successful in our implementation of such plans.

As described in Part I, Item 3, "Legal Proceedings" of this report, we are involved in certain environmental matters with respect to our facility in Newark, New York. Although we have reserved for expenses related to this potential exposure, there can be no assurance that such reserve will be adequate. The ultimate resolution of this matter may have a significant adverse impact on the results of operations in the period in which it is resolved.

With respect to our battery products, we typically offer warranties against any defects due to product malfunction or workmanship for a period up to one year from the date of purchase. With respect to our communications accessory products, we typically offer a four-year warranty. We also offer a 10-year warranty on our 9-volt batteries that are used in ionization-type smoke detector applications. 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.

Contractual Obligations

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations:					
Long-Term Debt Obligations	$ 19,055	$ 18,988	$ 67	$ —	$ —
Expected Interest Payments	667	639	28	—	—
Capital Lease Obligations	294	94	192	8	—
Operating Lease Obligations	2,185	1,178	870	137	—
Purchase Obligations	22,418	22,418	—	—	—
Total	$ 44,619	$ 43,317	$ 1,157	$ 145	$ —

Expected interest payments are calculated assuming a 5.25% annual rate on the outstanding revolver balance, plus associated fees related to our credit facility; the applicable annual interest rates ranging from 0.00% to 7.13% for various notes payable for equipment and vehicles; and a 5.00% annual rate on the outstanding principal related to the subordinated convertible notes payable. Purchase obligations consist of commitments for property, plant and equipment, open purchase orders for materials and supplies, and other general commitments for various service contracts.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Outlook

Our 2010 operating plan calls for us to generate revenue of $177,000 and operating income of approximately $4,600 on the base business. Management cautions that the timing of orders and shipments may cause some variability in quarterly results.

See Overview section for additional information.

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 generally accepted accounting principles in the U.S. 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. A provision is made 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.

Service Contracts — Revenue from the sale of installation services is recognized upon customer acceptance, generally the date of installation. Revenue from fixed price engineering contracts is recognized on a proportional method, measured by the percentage of actual costs incurred to total estimated costs to complete the contract. Revenue from time and material engineering contracts is recognized as work progresses through monthly billings of time and materials as they are applied to the work pursuant to the terms in the respective contract. Revenue from customer maintenance agreements is recognized using the straight-line method over the term of the related agreements, which range from six months to three years.

Technology Contracts — We recognize revenue using the proportional method, measured by the percentage of actual costs incurred to date to the total estimated costs to complete the contract. Elements of cost include direct material, labor and overhead. If a loss on a contract is estimated, the full amount of the loss is recognized immediately. We allocate costs to all technology contracts based upon actual costs incurred including an allocation of certain research and development costs incurred.

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 market, 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 to 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 approximates our 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.

Environmental Issues:

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate, in accordance with FASB’s guidance on environmental remediation liabilities. 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:

In accordance with the revised FASB guidance for business combinations, the purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value. In accordance with FASB’s guidance for the accounting of goodwill and other intangible assets, we do not amortize goodwill and intangible assets with indefinite lives, but instead measure 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 impairment test for goodwill consists of a comparison of the fair value of the goodwill 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 shall be 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 intangible assets exceeds their fair value, an impairment loss shall be recognized in an amount equal to that excess. We determine the fair value of the reporting unit for goodwill impairment testing based on a discounted cash flow model. We determine the fair value of our intangibles assets with indefinite lives (trademarks) through the relief from a royalty income valuation approach.

We conduct our annual impairment analysis for goodwill and intangible assets with indefinite lives in October of each fiscal year. For 2009, we have identified seven goodwill reporting units for testing, and based on our results of the Step 1 testing, no impairment charge resulted from such analysis. For 2009, we have identified four trademarks for testing, and based on our results of the testing, no impairment charge resulted from such analysis. Therefore, no impairment of goodwill and intangible assets with indefinite lives is indicated for 2009. However, due to the narrow margin of passing the Step 1 goodwill impairment testing for 2009 in the Stationary Power reporting unit, there is potential for a partial or full impairment of the goodwill value in 2010 if the projected operational results are not achieved. One of the key assumptions for achieving the projected operational results includes revenue growth in the wireless services market. As of December 31, 2009, the Stationary Power reporting unit had a goodwill carrying value of $5,209.

Stock-Based Compensation:

We follow the provisions of FASB's guidance on share-based payments, which requires that compensation cost relating to share-based payment transactions be 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). 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. A blended volatility factor was deemed to be more appropriate as we believe that implied volatility, a forward-looking measure, provides a more market-driven valuation related to investors' expectations of the volatility of our business, and provides a balance against focusing only on a historical measure. 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.

Income Taxes:

We apply FASB's guidance in accounting for income taxes. 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 2009, 2008 and 2007, we continued to report a valuation allowance for our deferred tax assets that cannot be offset by reversing temporary differences in the U.S., the U.K. and China arising from the conclusion that we would not be able to utilize our U.S., U.K. and China NOL's that had accumulated over time. The recognition of the valuation allowance on our deferred tax asset resulted from our evaluation of all available evidence, both positive and negative. The assessment of the realizability of the NOL's was based on a number of factors including, our history of net operating losses, the volatility of our earnings, our historical operating volatility, our historical ability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate as of the end of 2009. We concluded that these factors represent sufficient negative evidence and have concluded that we should record a full valuation allowance under FASB's guidance on the accounting for income taxes. We continually assess the carrying value of this asset based on relevant accounting standards.

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-02, “Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary — a Scope Clarification”, to address implementation issues related to the changes in ownership provisions in Accounting Standards Codification (“ASC”) 810-10. ASU No. 2010-02 amends ASC 810-10 and related guidance to clarify that the scope of the decrease in ownership provisions applies to the following: a subsidiary or group of assets that is a business or nonprofit activity; a subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture; or an exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity, including an equity method investee or joint venture. The amendments also clarify that the decrease in ownership provisions do not apply to the following transactions even if they involve businesses: sales of in substance real estate; and conveyances of oil and gas mineral rights. If a decrease in ownership occurs in a subsidiary that is not a business or nonprofit activity, entities first need to consider whether the substance of the transaction is addressed in other U.S. GAAP, such as transfers of financial assets, revenue recognition, etc., and apply that guidance. If no other guidance exists, an entity should apply ASC 810-10. Lastly, ASU No. 2010-02 expands existing disclosure requirements for transactions within the scope of ASC 810-10, and adds several new ones that address fair value measurements and related techniques, the nature of any continuing involvement after the transaction, and whether related parties are involved. ASU No. 2010-02 is effective beginning in the period that an entity adopts ASC 810-10. If an entity had previously adopted ASC 810-10, the amendments are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments must be applied retrospectively to the date ASC 810-10 was adopted. The adoption of ASU No. 2010-02, with retrospective application to January 1, 2009, did not have a significant impact on our financial statements.

In October 2009, the FASB issued ASU No. 2009-13, “Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements — a consensus of the FASB Emerging Issues Task Force (“EITF”)”. ASU No. 2009-13 eliminates the residual method of accounting for revenue on undelivered products and instead, requires companies to allocate revenue to each of the deliverable products based on their relative selling price. In addition, this ASU expands the disclosure requirements surrounding multiple-deliverable arrangements. ASU No. 2009-13 will be effective for revenue arrangements entered into for fiscal years beginning on or after June 15, 2010. We are currently evaluating the impact that ASU No. 2009-13 will have on our financial statements.

In June 2009, the FASB issued amended guidance for the accounting for transfers of financial assets. The amended guidance removes the concept of a qualifying special-purpose entity. The amended guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. Earlier application is prohibited. We do not expect the adoption of this pronouncement to have a significant impact on our financial statements.

In June 2009, the FASB issued amended guidance for the accounting for variable interest entities. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. The amended guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. Earlier adoption is prohibited. We do not expect the adoption of this pronouncement to have a significant impact on our financial statements.

In June 2009, the FASB issued the FASB ASC and the Hierarchy of Generally Accepted Accounting Principles. The FASB ASC is intended to be the source of authoritative U.S. generally accepted accounting principles (“GAAP”) and reporting standards as issued by the FASB. Its primary purpose is to improve clarity and use of existing standards by grouping authoritative literature under common topics. The ASC is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. The ASC does not change or alter existing GAAP and did not have an impact on our consolidated financial position or results of operations.

In May 2009, the FASB issued guidance for the accounting for subsequent events. The guidance incorporates guidance into the accounting literature that was previously addressed only in auditing standards about management’s requirement to evaluate subsequent events for potential recognition or disclosure. The guidance refers to subsequent events that provide additional evidence about conditions that existed at the balance-sheet date as “recognized subsequent events”. Subsequent events which provide evidence about conditions that arose after the balance-sheet date but prior to the issuance of the financial statements are referred to as “non-recognized subsequent events”. The adoption of this pronouncement did not have a significant impact on our financial statements.

In April 2009, the FASB issued new guidance related to the disclosures about fair value of financial instruments. The new guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The new guidance requires those disclosures in summarized financial information at interim reporting periods. The new guidance is effective for interim reporting periods ending after June 15, 2009. The new guidance does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, the new guidance requires comparative disclosures only for periods ending after initial adoption. The adoption of this pronouncement did not have a significant impact on our financial statements.

In June 2008, the FASB ratified the consensus reached by the EITF on determining whether an instrument (or embedded feature) is indexed to an entity's own stock. The consensus clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under the FASB's guidance for accounting for derivative instruments and hedging activities. The consensus is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument was not permitted. The adoption of this pronouncement did not have a significant impact on our financial statements.

In May 2008, the FASB issued guidance on the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). The guidance clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by the FASB's guidance on accounting for convertible debt and debt issued with stock purchase warrants. Additionally, the guidance specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

In April 2008, the FASB issued guidance on the determination of the useful life of intangible assets. The guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB's accounting for goodwill and other intangible assets. The guidance intends to improve the consistency between the useful life of a recognized intangible asset under FASB's accounting for goodwill and other intangible assets and the period of expected cash flows used to measure the fair value of the asset under the revised FASB guidance on business combinations, and other U.S. generally accepted accounting principles. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

In March 2008, the FASB issued new guidance on the disclosures about derivative instruments and hedging activities. The statement amends and expands the disclosure requirements to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. The statement also requires (i) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure, (ii) information about the volume of derivative activity, (iii) tabular disclosures about balance sheet location and gross fair value amounts of derivative instruments, income statement, and other comprehensive income location and amounts of gains and losses on derivative instruments by type of contract, and (iv) disclosures about credit-risk-related contingent features in derivative agreements. The new guidance is effective for financial statements issued for fiscal years or interim periods beginning after November 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

In December 2007, the FASB issued revised guidance on business combinations. The guidance retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The revised guidance is effective for fiscal years beginning on or after December 15, 2008 and will apply prospectively to business combinations completed on or after that date. The adoption of this pronouncement did not have a significant impact on our financial statements. The future impact of adopting the revised guidance will depend on the future business combinations that we may pursue.

In December 2007, the FASB issued amended guidance on noncontrolling interests in consolidated financial statements, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. The amended guidance is effective for fiscal years beginning on or after December 15, 2008 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The adoption of this pronouncement did not have a significant impact on our financial statements, except for the revised presentation and disclosures that are required. The future impact of adopting the amended guidance will depend on the structure of future business combinations or partnerships that we may pursue.

In September 2006, the FASB issued new guidance on fair value measurements. The new guidance provides enhanced guidance for using fair value to measure assets and liabilities. It does not require any new fair value measurements, but does require expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. The new guidance is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption encouraged. In February 2008, the FASB issued guidance delaying, for one year, the effective date of the new guidance for all nonfinancial assets and liabilities, except those that are recognized or disclosed in the financial statements on at least an annual basis. As such, we partially adopted the provisions of the new guidance effective January 1, 2008. The partial adoption of this statement did not have a material impact on our financial statements. We adopted the deferred provisions of the new guidance effective January 1, 2009, which impacts the way in which we calculate fair value for assets and liabilities initially measured at fair value in a business combination, our annual impairment review of goodwill and non-amortizable intangible assets, and when conditions exist that require us to calculate the fair value of long-lived assets. The adoption of this pronouncement did not have a significant impact on our financial statements, except for the additional disclosures that are required.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Dollars in thousands)

We are exposed to various market risks in the normal course of business, primarily interest rate risk and foreign currency risk. Our primary interest rate risk is derived from our outstanding variable-rate debt obligation. In July 2004, we hedged this risk by entering into an interest rate swap arrangement in connection with the term loan component of our previous credit facility. Under the swap arrangement, effective August 2, 2004, we received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years and is adjusted accordingly for a Eurodollar spread incorporated in the agreement. Correspondingly, the interest rate swap arrangement we entered into in connection with the term loan under our previous credit facility has expired and we have no further obligations under the interest rate swap arrangement. (See Note 5 in Notes to Consolidated Financial Statements for additional information.)

In connection with our new credit facility with RBS, the interest rate is variable based on one of two LIBOR rates plus 4.50%. The impact of a one percentage point change in the interest rate associated with the RBS credit facility would not have a material impact on our interest expense.

We are subject to foreign currency risk, due to fluctuations in currencies relative to the U.S. dollar. In the year ended December 31, 2009, approximately 94.9% of our sales were denominated in U.S. dollars. The remainder of our sales was denominated in U.K. pounds sterling, euros, Australian dollars, Canadian dollars, Indian rupee and Chinese yuan renminbi. A 10% change in the value of the pound sterling, the euro, Australian dollar, Canadian dollar, the rupee or the yuan renminbi to the U.S. dollar would have impacted our revenues in that period by less than 1.0%. We monitor the relationship between the U.S. dollar and other currencies on a continuous basis and adjust sales prices for products and services sold in these foreign currencies as appropriate to safeguard against the fluctuations in the currency relative to the U.S. dollar.

We maintain manufacturing operations in North America, Europe and Asia, and export products internationally. We purchase materials and sell our products in foreign currencies, and therefore currency fluctuations may impact our pricing of products sold and materials purchased. In addition, our foreign subsidiaries maintain their books in local currency, which is translated into U.S. dollars for our consolidated financial statements. A 10% change in local currency relative to the U.S. dollar would have impacted our consolidated income before taxes by approximately $250, or approximately 2.8%.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and schedules listed in Item 15(a)(1) and (2) are included in this Report beginning on page 53.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Ultralife Corporation
Newark, New York

We have audited the accompanying consolidated balance sheets of Ultralife Corporation as of December 31, 2009 and 2008 and the related consolidated statements of operations, changes in shareholders' equity and accumulated other comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2009. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of Ultralife Corporation's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ultralife Corporation at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ultralife Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2010 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Troy, Michigan
March 16, 2010

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ULTRALIFE CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,094	$ 1,878
Trade accounts receivable, net of allowance for doubtful accounts of $1,024 and $1,086, respectively	32,449	30,588
Inventories	35,503	40,465
Deferred tax asset — current	288	441
Prepaid expenses and other current assets	1,624	1,801
Total current assets	75,958	75,173
Property, plant and equipment, net	16,648	18,465
Other assets:		
Goodwill	25,436	22,943
Intangible assets, net	13,064	12,925
Security deposits	60	81
	38,560	35,949
Total Assets	$ 131,166	$ 129,587
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and capital lease obligations	$ 19,082	$ 1,425
Accounts payable	19,177	20,255
Income taxes payable	28	582
Accrued compensation	1,526	917
Accrued vacation	704	627
Deferred revenue	3,343	4,534
Other current liabilities	4,274	3,896
Total current liabilities	48,134	32,236
Long-term liabilities:		
Debt and capital lease obligations	267	4,670
Deferred tax liability	4,100	3,894
Other long-term liabilities	551	634
Total long-term liabilities	4,918	9,198
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Ultralfe equity:		
Preferred stock, par value $0.10 per share, authorized 1,000,000 shares; none issued and outstanding	—	—
Common stock, par value $0.10 per share, authorized 40,000,000 shares; issued — 18,384,916 and 18,227,009, respectively	1,831	1,815
Capital in excess of par value	169,064	167,259
Accumulated other comprehensive income (loss)	(1,256)	(1,930)
Accumulated deficit	(84,021)	(74,780)
	85,618	92,364
Less —Treasury stock, at cost — 1,358,507 and 942,202 shares outstanding, respectively	7,558	4,232
Total Ultralife equity	78,060	88,132
Noncontrolling interest	54	21
Total shareholders' equity	78,114	88,153
Total Liabilities and Shareholders' Equity	$ 131,166	$ 129,587

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ULTRALIFE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)

	Years Ended December 31,		
	2009	2008	2007
Revenues	$ 172,109	$ 254,700	$ 137,596
Cost of products sold	135,249	197,757	108,822
Gross margin	36,860	56,943	28,774
Operating expenses:			
Research and development (including $537, $633 and $1,027 of amortization of intangible assets, respectively)	9,540	8,138	7,000
Selling, general, and administrative (including $1,146, $1,486 and $1,290 of amortization of intangible assets, respectively)	34,682	31,500	21,973
Total operating expenses	44,222	39,638	28,973
Operating income (loss)	(7,362)	17,305	(199)
Other income (expense):			
Interest income	27	37	50
Interest expense	(1,492)	(967)	(2,234)
Gain on insurance settlement	—	39	—
Gain on McDowell settlement	—	—	7,550
Gain on debt conversion	—	313	—
Miscellaneous	(13)	777	493
Income (loss) before income taxes	(8,840)	17,504	5,660
Income tax provision — current	31	582	—
Income tax provision — deferred	360	3,297	77
Total income taxes provision	391	3,879	77
Net income (loss)	(9,231)	13,625	5,583
Net (income) loss attributable to noncontrolling interest	(10)	38	—
Net income (loss) attributable to Ultralife	$ (9,241)	$ 13,663	$ 5,583
Net income (loss) attributable to Ultralife common shares — basic	$ (0.54)	$ 0.79	$ 0.36
Net income (loss) attributable to Ultralife common shares — diluted	$ (0.54)	$ 0.78	$ 0.36
Weighted average shares outstanding — basic	16,989	17,230	15,316
Weighted average shares outstanding — diluted	16,989	17,681	15,538

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ULTRALIFE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands, Except Per Share Amounts)

	Common Stock			Accumulated Other Comprehensive Income (Loss)					
	Number of Shares	Amount	Capital in excess of Par Value	Foreign Currency Translation Adjustment	Other Unrealized Net Gain (Loss)	Accumulated Deficit	Treasury Stock	Noncontrolling Interest	Total
Balance as of December 31, 2006	15,853,306	$ 1,578	$ 134,736	$ (371)	$ 50	$ (94,026)	$ (2,378)	$ —	$ 39,589
Comprehensive income:									
Net income						5,583		—	5,583
Other comprehensive income (loss):									
Foreign currency translation adjustments				437					437
Unrealized loss on interest rate swap arrangements					(47)				(47)
Other comprehensive income									390
Comprehensive income									5,973
Stock-based compensation related to stock options			1,648						1,648
Shares issued and compensation under restricted stock grants	51,548	4	497				(23)		478
Shares issued in connection with RPS acquisition	100,000	10	1,373						1,383
Shares issued in connection with limited public offering, net of expenses	1,000,000	100	12,522						12,622
Shares issued under stock option exercises	204,008	20	1,294						1,314
Balance as of December 31, 2007	17,208,862	$ 1,712	$ 152,070	$ 66	$ 3	$ (88,443)	$ (2,401)	$ —	$ 63,007
Comprehensive income:									
Net income						13,663		(38)	13,625
Other comprehensive income (loss):									
Foreign currency translation adjustments				(1,984)					(1,984)
Unrealized loss on interest rate swap arrangements					(15)				(15)
Other comprehensive loss									(1,999)
Comprehensive income									11,626
Investment in India JV by noncontrolling interest								59	59
Stock-based compensation related to stock options			1,700				(16)		1,684
Stock-based compensation related to restricted stock grants	—	—	442						442
Shares purchased in connection with stock repurchase program	—	—	—				(1,815)		(1,815)
Shares issued in connection with conversion of	700,000	70	10,430						10,500

convertible notes payable									
Shares issued to directors	12,737	1	123						124
Shares issued under stock option and warrant exercises	305,410	32	2,494						2,526
Balance as of December 31, 2008	18,227,009	$ 1,815	$ 167,259	$ (1,918)	$ (12)	$ (74,780)	$ (4,232)	$ 21	$ 88,153
Comprehensive loss:									
Net loss						(9,241)		10	(9,231)
Other comprehensive income (loss):									
Foreign currency translation adjustments				662					662
Unrealized gain on interest rate swap arrangements					12				12
Other comprehensive income									674
Comprehensive loss									(8,557)
Investment in India JV by noncontrolling interest								23	23
Short-swing profit recovery			6						6
Stock-based compensation related to stock options			964				—		964
Shares issued and compensation under restricted stock grants	7,756	—	100						100
Shares purchased in connection with stock repurchase program	—	—	—				(3,326)		(3,326)
Shares issued in connection with AMTI acquisition	21,340	2	134						136
Shares issued to directors	46,339	5	261						266
Shares issued under stock option and warrant exercises	82,472	9	340						349
Balance as of December 31, 2009	18,384,916	$ 1,831	$ 169,064	$ (1,256)	$ —	$ (84,021)	$ (7,558)	$ 54	$ 78,114

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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

	Year Ended December 31, 2009	2008	2007
OPERATING ACTIVITIES			
Net income (loss)	$ (9,231)	$ 13,625	$ 5,583
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of financing fees	4,044	3,851	3,861
Amortization of intangible assets	1,683	2,119	2,317
Loss on long-lived asset disposal and write-offs	79	204	37
Gain on insurance settlement	—	(39)	—
Foreign exchange gain (loss)	49	(399)	(425)
Gain on McDowell settlement	—	—	(7,550)
Gain on debt conversion	—	(313)	—
Gain on litigation settlement	(1,256)	—	—
Non-cash stock-based compensation	1,330	2,266	2,149
Changes in deferred income taxes	360	3,297	77
Provision for loss on accounts receivable	188	1,086	101
Provision for inventory obsolescence	1,123	2,850	1,323
Provision for warranty charges	387	1,010	210
Provision for workers' compensation obligation	170	—	—
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(1,721)	(5,507)	83
Inventories	6,596	(9,170)	(7,348)
Prepaid expenses and other current assets	93	2,530	(1,157)
Insurance receivable relating to fires	—	202	682
Income taxes payable	(554)	582	—
Accounts payable and other liabilities	(1,308)	864	1,626
Net cash provided by operating activities	2,032	19,058	1,569
INVESTING ACTIVITIES			
Purchase of property and equipment	(2,035)	(3,787)	(2,073)
Payment for acquired companies, net of cash acquired	(6,766)	(3,171)	(8,678)
Net cash used in investing activities	(8,801)	(6,958)	(10,751)
FINANCING ACTIVITIES			
Net change in revolving credit facilities	15,500	(11,204)	3,308
Proceeds from issuance of common stock	349	2,526	13,936
Proceeds from issuance of debt	751	—	—
Principal payments on debt and capital lease obligations	(2,519)	(2,230)	(6,817)
Purchase of treasury stock	(3,326)	(1,815)	—
Short-swing profit recovery	6	—	—
Net cash provided by (used in) financing activities	10,761	(12,723)	10,427
Effect of exchange rate changes on cash	224	256	280
Change in cash and cash equivalents	4,216	(367)	1,525
Cash and cash equivalents at beginning of period	1,878	2,245	720
Cash and cash equivalents at end of period	$ 6,094	$ 1,878	$ 2,245
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest	$ 1,289	$ 934	$ 2,175
Cash paid for income taxes	$ 605	$ —	$ —
Noncash investing and financing activities:			
Issuance of common stock and stock warrants for acquired companies	$ —	$ —	$ 1,383
Issuance of convertible notes payable for acquired companies	$ —	$ —	$ 4,000
Purchase of property and equipment via capital lease payable	$ 102	$ 98	$ 545
Conversion of convertible notes into shares of common stock	$ —	$ 10,500	$ —

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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*

We offer products and services ranging from portable and standby 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, standby power systems, communications and electronics systems and accessories, and custom engineered systems, solutions and services. We sell our products worldwide through a variety of trade channels, including original equipment manufacturers ("OEMs"), industrial and retail distributors, national retailers 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 and include the accounts of Ultralife Corporation, our wholly-owned subsidiaries, Ultralife Batteries (UK) Ltd. ("Ultralife UK"), ABLE New Energy Co., Limited, and its wholly-owned subsidiary ABLE New Energy Co., Ltd. ("ABLE" collectively), McDowell Research Co., Inc. ("McDowell"), RedBlack Communications, Inc. ("RedBlack"), Stationary Power Services, Inc. ("Stationary Power") and RPS Power Systems, Inc. ("RPS"), and our majority-owned subsidiary Ultralife Batteries India Private Limited ("India JV"). Intercompany accounts and transactions have been eliminated in consolidation. Investments in entities in which we do not have a controlling interest are accounted for using the equity method, if our interest is greater than 20%. Investments in entities in which we have less than a 20% ownership interest are accounted for using the cost method.

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

The preparation of financial statements in conformity with generally accepted accounting principles 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) reserves for deferred tax assets, excess and obsolete inventory, warranties, and bad debts; (b) profitability on development contracts; (c) various expense accruals; (d) stock-based compensation; and, (e) carrying value of goodwill and intangible assets. Actual results could differ from those estimates.

d. *Reclassifications*

Certain items previously reported in specific financial statement captions have been reclassified to conform to the current presentation.

e. *Cash and Cash Equivalents*

For purposes of the Consolidated Statements of Cash Flows, we consider all demand deposits with financial institutions and financial instruments with original maturities of three months or less to be cash equivalents. For purposes of the Consolidated Balance Sheet, the carrying value approximates fair value because of the short maturity of these instruments.

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. Such losses have been within management's expectations.

Changes in our allowance for doubtful accounts during the years ended December 31, 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Balance at beginning of year	$ 1,086	$ 485	$ 447
Amounts charged (credited) to expense	188	675	101
Amounts charged (credited) to other accounts	(42)	(11)	6
Uncollectible accounts written-off, net of recovery	(208)	(63)	(69)
Balance at end of year	$ 1,024	$ 1,086	$ 485

g. *Inventories*

Inventories are stated at the lower of cost or market 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. Estimated useful lives are as follows:

Buildings	10 – 20 years
Machinery and Equipment	5 – 10 years
Furniture and Fixtures	3 – 10 years
Computer Hardware and Software	3 – 5 years
Leasehold Improvements	Lesser of useful life or lease term

Depreciation and amortization are computed using the straight-line method. 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 (expense).

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

We regularly 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 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 approximates our 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. We did not record any material impairments of long-lived assets in the years ended December 31, 2009, 2008 and 2007.

In accordance with the Financial Accounting Standards Board's ("FASB") guidance for goodwill and other intangible assets, we do not amortize goodwill and intangible assets with indefinite lives, but instead measure 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 impairment test for goodwill consists of a comparison of the fair value of the goodwill 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 shall be 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 intangible assets exceeds their fair value, an impairment loss shall be recognized in an amount equal to that excess. We determine the fair value of the reporting unit for goodwill impairment testing based on a discounted cash flow model. We determine the fair value of our intangibles assets with indefinite lives (trademarks) through the relief from a royalty income valuation approach.

Based on the current preliminary valuations for amortizable intangible assets acquired in the AMTI acquisition during 2009, and the final valuations for amortizable intangible assets acquired in the USE acquisition during 2008, the RedBlack and Stationary Power acquisitions during 2007 and the ABLE and McDowell acquisitions during 2006, we project our amortization expense will be approximately $1,481, $1,316, $1,081, $893 and $722 for the fiscal years ending December 31, 2010 through 2014, respectively.

j. *Translation of Foreign Currency*

The financial statements of our foreign affiliates are translated into U.S. dollar equivalents in accordance with FASB's guidance for foreign currency translation, with translation adjustments recorded as a component of accumulated other comprehensive income. Exchange gains (losses) relate to foreign currency transactions included in net income (loss) for the years ended December 31, 2009, 2008 and 2007 were $(49), $399, and $425, 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. A provision is made 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.

Services — Revenue from the sale of installation services is recognized upon customer acceptance, generally the date of installation. Revenue from fixed price engineering contracts is recognized on a proportional method, measured by the percentage of actual costs incurred to total estimated costs to complete the contract. Revenue from time and material engineering contracts is recognized as work progresses through monthly billings of time and materials as they are applied to the work pursuant to the terms in the respective contract. Revenue from customer maintenance agreements is recognized using the straight-line method over the term of the related agreements, which range from six months to three years.

Technology Contracts — We recognize revenue using the proportional effort method based on the relationship of costs incurred to date to the total estimated cost to complete the contract. Elements of cost include direct material, labor and overhead. If a loss on a contract is estimated, the full amount of the loss is recognized immediately. We allocate costs to all technology contracts based upon actual costs incurred including an allocation of certain research and development costs incurred.

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 Operations. Such expenses amounted to $1,090, $940, and $443 for the years ended December 31, 2009, 2008 and 2007, 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.

p. *Environmental Costs*

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate, in accordance with FASB's guidance on environmental remediation liabilities. 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*

The asset and liability method, prescribed by FASB's guidance for the Accounting for Income Taxes, is used in accounting for income taxes. 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, 2009, we continued to recognize a full valuation allowance on our deferred tax asset to the extent they are not able to be offset by future reversing temporary differences, based on a consistent evaluation methodology that was used for 2007 and 2008. The assessment of the realizability of the U.S. NOL was based on a number of factors including, our history of net operating losses, the volatility of our earnings, our historical operating volatility, our historical ability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate as of the end of 2009. We concluded that these factors represent sufficient negative evidence and have concluded that we should record a full valuation allowance under FASB's guidance for the accounting of income taxes. For the years ended December 31, 2007 and 2008, we also recorded a full valuation allowance on our net deferred tax asset. A valuation allowance was required for the years ended December 31, 2009, 2008 and 2007 related to our U.K. subsidiary due to the history of losses at that facility. A valuation allowance was required for the year ended December 31, 2009 related to our ABLE subsidiary due to the history of losses at that facility.

We have adopted the provisions of FASB's guidance for the Accounting for Uncertainty in Income Taxes. We have recorded no liability for income taxes associated with unrecognized tax benefits during 2007, 2008 and 2009, and as such, have not recorded any interest or penalty in regard to any unrecognized benefit. Our policy regarding interest and/or penalties related to income tax matters is to recognize such items as a component of income tax expense (benefit).

r. *Concentration Related to Customers and Suppliers*

During the year ended December 31, 2009, we had one major customer, the U.S Department of Defense, which comprised 26% of our revenue. During the year ended December 31, 2008, we had two major customers, Raytheon Company and Port Electronics Corp., which comprised 29% and 16% of our revenue, respectively. During the year ended December 31, 2007, we had three major customers, the U.S. Department of Defense, the U.K. Ministry of Defence and Raytheon Company, which comprised 14%, 12%, and 13% of our revenue, respectively. There were no other customers that comprised greater than 10% of our total revenues during the years ended December 31, 2009, 2008 and 2007.

We have two customers that comprised 45% of our trade accounts receivables as of December 31, 2009. We have two customers that comprised 36% of our trade accounts receivable as of December 31, 2008. There were no other customers that comprised greater than 10% of our total trade accounts receivable as of December 31, 2009 and 2008.

Currently, we do not experience significant seasonal trends in non-rechargeable product revenues. However, a downturn in the U.S. economy, such as the one that we are currently experiencing, which affects retail sales and which could result in fewer sales of smoke detectors to consumers, could potentially result in lower sales for us to this market segment. The smoke detector OEM market segment comprised approximately 9% and 8% of total non-rechargeable revenues in 2009 and 2008, respectively. Additionally, lower demand from the U.S., U.K. and other foreign governments could result in lower sales to defense and government users.

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 sales to the U.S. Department of Defense have been substantial during 2009, 2008 and 2007, 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. For example, in the fourth quarter of 2007, we ramped up production levels in our Communications Systems business to meet increased order volumes. A sole-source supplier of a key component was unable to meet an agreed-upon delivery schedule which caused a delay in shipments of our products to our customers.

s. *Fair Value Measurements and Disclosures*

In September 2006, the FASB issued new guidance on fair value measurements. The new guidance provides enhanced guidance for using fair value to measure assets and liabilities. It does not require any new fair value measurements, but does require expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. The new guidance is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption encouraged. In February 2008, the FASB issued guidance delaying, for one year, the effective date of the new guidance for all nonfinancial assets and liabilities, except those that are recognized or disclosed in the financial statements on at least an annual basis. As such, we partially adopted the provisions of the new guidance effective January 1, 2008. The partial adoption of this statement did not have a material impact on our financial statements. We adopted the deferred provisions of the new guidance effective January 1, 2009, which impacts the way in which we calculate fair value for assets and liabilities initially measured at fair value in a business combination, our annual impairment review of goodwill and non-amortizable intangible assets, and when conditions exist that require us to calculate the fair value of long-lived assets. The adoption of this pronouncement did not have a significant impact on our financial statements, except for the additional disclosures that are required.

FASB’s guidance for the disclosure about fair value of financial instruments, requires disclosure of an estimate of the fair value of certain financial instruments. The fair value of financial instruments pursuant to FASB’s guidance for the disclosure about fair value of financial instruments approximated their carrying values at December 31, 2009 and 2008. The fair value of cash, accounts receivable, trade accounts payable, accrued liabilities and our revolving credit facility approximates carrying value due to the short-term nature of these instruments. The estimated fair value of our convertible note approximates carrying value based on the short duration (ten and twenty-two months, respectively) of this note. The estimated fair value of other long-term debt and capital lease obligations approximates carrying value due to the variable nature of the interest rates or the stated interest rates approximating current interest rates that are available for debt with similar terms.

t. *Derivative Financial Instruments*

Derivative instruments are accounted for in accordance with FASB’s guidance on the Accounting for Derivative Instruments and Hedging Activities which requires that all derivative instruments be recognized in the financial statements at fair value. The fair value of our interest rate swap at December 31, 2009 and 2008 resulted in $-0- and a liability of $12, respectively, all of which was reflected as short term.

u. *Earnings (Loss) Per Share*

On January 1, 2009, we adopted the provisions of FASB’s guidance for determining whether instruments granted in share-based payment transactions are participating securities. The guidance requires that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (such as restricted stock awards granted by us) be considered participating securities. Because the restricted stock awards are participating securities, we are required to apply the two-class method of computing basic and diluted earnings per share (the “Two-Class Method”). The retrospective application of the provisions of FASB’s guidance did not change the prior period earnings per share (“EPS”) amount.

Basic EPS is determined using the Two-Class Method and is computed by dividing earnings attributable to Ultralife common shareholders by the weighted-average shares outstanding during the period. The Two-Class Method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Diluted EPS includes the dilutive effect of securities, if any, and reflects the more dilutive EPS amount calculated using the treasury stock method or the Two-Class Method. For the years ended December 31, 2009, 2008 and 2007, both the Two-Class Method and the treasury stock method calculations for diluted EPS yielded the same result.

The computation of basic and diluted earnings per share is summarized as follows:

	Years Ended December 31,		
	2009	2008	2007
Net Income (Loss) attributable to Ultralife	$ (9,241)	$ 13,663	$ 5,583
Net Income (Loss) attributable to participating securities (unvested restricted stock awards) (-0-, 84,000, and 73,000 shares, respectively)	—	(66)	(26)
Net Income (Loss) attributable to Ultralife common shareholders (a)	(9,241)	13,597	5,557
Effect of Dilutive Securities:			
Convertible Notes Payable	—	215	—
Net Income (Loss) attributable to Ultralife common shareholders — Adjusted (b)	$ (9,241)	$ 13,812	$ 5,557
Average Common Shares Outstanding — Basic (c)	16,989	17,230	15,316
Effect of Dilutive Securities:			
Stock Options / Warrants	—	130	222
Convertible Notes Payable	—	321	—
Average Common Shares Outstanding — Diluted (d)	16,989	17,681	15,538
EPS — Basic (a/c)	$ (0.54)	$ 0.79	$ 0.36
EPS — Diluted (b/d)	$ (0.54)	$ 0.78	$ 0.36

There were 1,833,134 outstanding stock options, warrants and restricted stock awards as of December 31, 2009, that were not included in EPS as the effect would be anti-dilutive. We also had 236,919 shares of common stock at December 31, 2009 reserved under convertible notes payable, which were not included in EPS as the effect would be anti-dilutive. There were 1,301,383 outstanding stock options, warrants and restricted stock awards as of December 31, 2008 that were not included in EPS as the effect would be anti-dilutive. The dilutive effect of 421,988 outstanding stock options, warrants and restricted stock awards and 320,513 shares of common stock reserved under convertible notes payable were included in the dilution computation for the year ended December 31, 2008. There were 1,573,325 outstanding stock options, warrants and restricted stock awards as of December 31, 2007, that were not included in EPS as the effect would be anti-dilutive. We also had 966,667 shares of common stock at December 31, 2007 reserved under convertible notes payable, which were not included in EPS as the effect would be anti-dilutive. The dilutive effect of 392,041 outstanding stock options, warrants and restricted stock awards was included in the dilution computation for the year ended December 31, 2007. For year ended December 31, 2009, diluted earnings (loss) per share was the equivalent of basic earnings (loss) per share due to the net loss.

v. *Stock-Based Compensation*

We have various stock-based employee compensation plans, which are described more fully in Note 7. We follow the provisions of FASB’s guidance on Share-Based Payments, which requires that compensation cost relating to share-based payment transactions be 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).

w. *Segment Reporting*

We report segment information in accordance with FASB’s guidance on Disclosures about Segments of an Enterprise and Related Information. We have four operating segments. The basis for determining our operating segments is the manner in which financial information is used by us in our operations. Management operates and organizes itself according to business units that comprise unique products and services across geographic locations.

Beginning with our first quarter earnings report for fiscal 2010, we will report our results in three operating segments instead of four: Battery & Energy Products; Communications Systems; and Energy Services. The Non-Rechargeable Products and Rechargeable Products segments will be combined into a segment called Battery & Energy Products. The Communications Systems segment will include our RedBlack Communications business, which was previously included in the Design & Installation Services segment. The Design & Installation Services segment will be renamed Energy Services and will continue to encompass our standby power business. Research, design and development contract revenues and expenses, which were previously included in the Design & Installation Services segment, will be captured under the respective operating segment in which the work is performed.

x. *Recent Accounting Pronouncements*

In January 2010, the FASB issued ASU No. 2010-02, "Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary — a Scope Clarification", to address implementation issues related to the changes in ownership provisions in Accounting Standards Codification ("ASC") 810-10. ASU No. 2010-02 amends ASC 810-10 and related guidance to clarify that the scope of the decrease in ownership provisions applies to the following: a subsidiary or group of assets that is a business or nonprofit activity; a subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture; or an exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity, including an equity method investee or joint venture. The amendments also clarify that the decrease in ownership provisions do not apply to the following transactions even if they involve businesses: sales of in substance real estate; and conveyances of oil and gas mineral rights. If a decrease in ownership occurs in a subsidiary that is not a business or nonprofit activity, entities first need to consider whether the substance of the transaction is addressed in other U.S. GAAP, such as transfers of financial assets, revenue recognition, etc., and apply that guidance. If no other guidance exists, an entity should apply ASC 810-10. Lastly, ASU No. 2010-02 expands existing disclosure requirements for transactions within the scope of ASC 810-10, and adds several new ones that address fair value measurements and related techniques, the nature of any continuing involvement after the transaction, and whether related parties are involved. ASU No. 2010-02 is effective beginning in the period that an entity adopts ASC 810-10. If an entity had previously adopted ASC 810-10, the amendments are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments must be applied retrospectively to the date ASC 810-10 was adopted. The adoption of ASU No. 2010-02, with retrospective application to January 1, 2009, did not have a significant impact on our financial statements.

In October 2009, the FASB issued ASU No. 2009-13, "Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements — a consensus of the FASB Emerging Issues Task Force ("EITF")". ASU No. 2009-13 eliminates the residual method of accounting for revenue on undelivered products and instead, requires companies to allocate revenue to each of the deliverable products based on their relative selling price. In addition, this ASU expands the disclosure requirements surrounding multiple-deliverable arrangements. ASU No. 2009-13 will be effective for revenue arrangements entered into for fiscal years beginning on or after June 15, 2010. We are currently evaluating the impact that ASU No. 2009-13 will have on our financial statements.

In June 2009, the FASB issued amended guidance for the accounting for transfers of financial assets. The amended guidance removes the concept of a qualifying special-purpose entity. The amended guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. Earlier application is prohibited. We do not expect the adoption of this pronouncement to have a significant impact on our financial statements.

In June 2009, the FASB issued amended guidance for the accounting for variable interest entities. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. The amended guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. Earlier adoption is prohibited. We do not expect the adoption of this pronouncement to have a significant impact on our financial statements.

In June 2009, the FASB issued the FASB ASC and the Hierarchy of Generally Accepted Accounting Principles. The FASB ASC is intended to be the source of authoritative U.S. generally accepted accounting principles ("GAAP") and reporting standards as issued by the FASB. Its primary purpose is to improve clarity and use of existing standards by grouping authoritative literature under common topics. The ASC is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. The ASC does not change or alter existing GAAP and did not have an impact on our consolidated financial position or results of operations.

In May 2009, the FASB issued guidance for the accounting for subsequent events. The guidance incorporates guidance into the accounting literature that was previously addressed only in auditing standards about management's requirement to evaluate subsequent events for potential recognition or disclosure. The guidance refers to subsequent events that provide additional evidence about conditions that existed at the balance-sheet date as "recognized subsequent events". Subsequent events which provide evidence about conditions that arose after the balance-sheet date but prior to the issuance of the financial statements are referred to as "non-recognized subsequent events". The adoption of this pronouncement did not have a significant impact on our financial statements.

In April 2009, the FASB issued new guidance related to the disclosures about fair value of financial instruments. The new guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The new guidance requires those disclosures in summarized financial information at interim reporting periods. The new guidance is effective for interim reporting periods ending after June 15, 2009. The new guidance does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, the new guidance requires comparative disclosures only for periods ending after initial adoption. The adoption of this pronouncement did not have a significant impact on our financial statements.

In June 2008, the FASB ratified the consensus reached by the EITF on determining whether an instrument (or embedded feature) is indexed to an entity's own stock. The consensus clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under the FASB's guidance for accounting for derivative instruments and hedging activities. The consensus is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument was not permitted. The adoption of this pronouncement did not have a significant impact on our financial statements.

In May 2008, the FASB issued guidance on the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). The guidance clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by the FASB's guidance on accounting for convertible debt and debt issued with stock purchase warrants. Additionally, the guidance specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

In April 2008, the FASB issued guidance on the determination of the useful life of intangible assets. The guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB's accounting for goodwill and other intangible assets. The guidance intends to improve the consistency between the useful life of a recognized intangible asset under FASB's accounting for goodwill and other intangible assets and the period of expected cash flows used to measure the fair value of the asset under the revised FASB guidance on business combinations, and other U.S. generally accepted accounting principles. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

In March 2008, the FASB issued new guidance on the disclosures about derivative instruments and hedging activities. The statement amends and expands the disclosure requirements to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. The statement also requires (i) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure, (ii) information about the volume of derivative activity, (iii) tabular disclosures about balance sheet location and gross fair value amounts of derivative instruments, income statement, and other comprehensive income location and amounts of gains and losses on derivative instruments by type of contract, and (iv) disclosures about credit-risk-related contingent features in derivative agreements. The new guidance is effective for financial statements issued for fiscal years or interim periods beginning after November 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

In December 2007, the FASB issued revised guidance on business combinations. The guidance retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The revised guidance is effective for fiscal years beginning on or after December 15, 2008 and will apply prospectively to business combinations completed on or after that date. The adoption of this pronouncement did not have a significant impact on our financial statements. The future impact of adopting the revised guidance will depend on the future business combinations that we may pursue.

In December 2007, the FASB issued amended guidance on noncontrolling interests in consolidated financial statements, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. The amended guidance is effective for fiscal years beginning on or after December 15, 2008 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The adoption of this pronouncement did not have a significant impact on our financial statements, except for the revised presentation and disclosures that are required. The future impact of adopting the amended guidance will depend on the structure of future business combinations or partnerships that we may pursue.

Note 2 — Acquisitions

2009 Activity

We accounted for the following acquisitions in accordance with the purchase method of accounting provisions of the revised FASB guidance for business combinations, whereby the purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value.

AMTI™ Brand

On March 20, 2009, we acquired substantially all of the assets and assumed substantially all of the liabilities of the tactical communications products business of Science Applications International Corporation. The tactical communications products business ("AMTI"), located in Virginia Beach, Virginia, designs, develops and manufactures tactical communications products including amplifiers, man-portable systems, cables, power solutions and ancillary communications equipment that are sold by Ultralife Corporation under the brand name of AMTI.

Under the terms of the asset purchase agreement for AMTI, the purchase price consisted of $5,717 in cash.

The results of operations of AMTI and the estimated fair value of assets acquired and liabilities assumed are included in our Condensed Consolidated Financial Statements beginning on the acquisition date. From the date of acquisition through December 31, 2009, AMTI contributed net sales of $11,354 and net income of $1,744. Pro forma information has not been presented, as it would not be materially different from amounts reported. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $4,501 was recorded as goodwill in the amount of $1,216. We are in the process of completing the valuations of certain tangible and intangible assets acquired with the new business. The final allocation of the excess of the purchase price over the net assets acquired is subject to revision based upon our final review of valuation assumptions. The acquired goodwill was assigned to the Communications Systems segment and is expected to be fully deductible for income tax purposes.

As a result of revisions to the preliminary asset valuations during the fourth quarter of 2009, values assigned to the tangible assets have been revised. The adjustments to the values for tangible assets from those reported for the third quarter of 2009 were as follows: trade accounts receivables decreased by $3 and inventories increased by $184. These adjustments resulted in a decrease to goodwill of $181.

The following table represents the revised preliminary allocation of the purchase price to assets acquired and liabilities assumed at the acquisition date:

ASSETS	
Current assets:	
Cash	$ —
Trade accounts receivable, net	693
Inventories	2,534
Total current assets	3,227
Property, plant and equipment, net	206
Goodwill	1,216
Intangible Assets:	
Trademarks	450
Patents and Technology	800
Customer Relationships	920
Total assets acquired	6,819
LIABILITIES	
Current liabilities:	
Accounts payable	801
Other current liabilities	301
Total current liabilities	1,102
Long-term liabilities:	
Other long-term liabilities	—
Total liabilities assumed	1,102
Total Purchase Price	$ 5,717

Trademarks have an indefinite life and are not being amortized. The intangible assets related to patents and technology and customer relationships are being amortized as the economic benefits of the intangible assets are being utilized over their weighted-average estimated useful life of thirteen years.

2008 Activity

We accounted for the following acquisitions, including the establishment of a joint venture, in accordance with the purchase method of accounting provisions of the pre-revised FASB guidance for business combinations, whereby the purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value.

Ultralife Batteries India Private Limited

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 $86 in cash into the India JV, as consideration for our 51% ownership stake in the India JV.

U.S. Energy Systems, Inc. and U.S. Power Services, Inc.

On November 10, 2008, we acquired certain assets of USE, a nationally recognized standby power installation and power management services business. USE is located in Riverside, California. The acquired assets of USE are being incorporated into our Stationary Power subsidiary.

Under the terms of the asset purchase agreements for USE, the initial purchase price consisted of $2,865 in cash. In addition, on the achievement of certain annual post-acquisition financial milestones during the period ending December 31, 2012, we will issue up to an aggregate of 200,000 unregistered shares of our common stock. The unregistered shares of common stock will be issued after the first occasion annual sales for a calendar year exceed $10,000 (30,000 shares), $15,000 (40,000 shares), $20,000 (60,000 shares), and $25,000 (70,000 shares). The contingent stock issuances will be recorded as an addition to the purchase price when the financial milestones are attained. Through the year ended December 31, 2009, we have issued no shares of our common stock relating to this contingent consideration. We incurred $65 in acquisition related costs, which are included in the initial cost of the USE investment of $2,930.

The results of operations of USE and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements beginning on the acquisition date. Pro forma information has not been presented, as it would not be materially different from amounts reported. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $1,499 was recorded as goodwill in the amount of $1,431. The acquired goodwill has been assigned to the Design and Installation Services segment and is expected to be fully deductible for income tax purposes.

The following table represents the final allocation of the purchase price to assets acquired and liabilities assumed at the acquisition date:

ASSETS	
Current assets:	
Cash	$ —
Total current assets	—
Property, plant and equipment, net	306
Goodwill	1,431
Intangible Assets:	
Patents and Technology	220
Customer Relationships	1,300
Total assets acquired	3,257
LIABILITIES	
Current liabilities:	
Current portion of long-term debt	56
Other current liabilities	43
Total current liabilities	99
Long-term liabilities:	
Debt	228
Total liabilities assumed	327
Total Purchase Price	$ 2,930

The intangible assets related to patents and technology and customer relationships are being amortized as the economic benefits of the intangible assets are being utilized over their weighted-average estimated useful life of fifteen years.

2007 Acquisitions

We accounted for the following acquisitions in accordance with the purchase method of accounting provisions of the pre-revised FASB guidance for business combinations, whereby the purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value.

RedBlack Communications, Inc. (formerly Innovative Solutions Consulting, Inc.)

On September 28, 2007, we finalized the acquisition of all of the issued and outstanding shares of common stock of Innovative Solutions Consulting, Inc. (“ISC”), a provider of a wide range of engineering and technical services for communication electronic systems to government agencies and prime contractors. In January 2008, we renamed ISC to RedBlack. RedBlack is located in Hollywood, Maryland.

The initial cash purchase price was $943 (net of $57 in cash acquired), with up to $2,000 in additional cash consideration contingent on the achievement of certain sales milestones. The additional cash consideration was payable in up to three annual payments and subject to possible adjustments as set forth in the stock purchase agreement. The contingent payments were to be recorded as an addition to the purchase price when the performance milestones were attained. The initial $943 cash payment was financed through a combination of cash on hand and borrowings through the revolver component of our credit facility with our primary lending banks. During the second quarter of 2008, we made an election under Section 338(h)(10) of the Internal Revenue Code in relation to RedBlack, and in accordance with the provisions of the purchase agreement, we have made payments of $54 to the sellers of RedBlack to make them substantially whole from a tax perspective. These additional payments are part of the total purchase price, and as such, this adjustment to the purchase price resulted in an increase to goodwill. During the third quarter of 2008, we accrued $182 for the first annual payment of the contingent cash consideration, which is included in the other current liabilities line on our Consolidated Balance Sheet, and resulted in an increase to goodwill of $182. On February 9, 2009, we entered into Amendment No. 1 to the RedBlack stock purchase agreement, which eliminated the up to $2,000 in additional cash consideration contingent on the achievement of certain sales milestones provision, in exchange for a one time final payment of $1,020. The one time final payment of $1,020 was made in February 2009, and resulted in an increase to goodwill of $838 (net of the $182 amount that was accrued during the third quarter of 2008) in the first quarter of 2009. We have incurred $87 in acquisition related costs, which are included in the revised total cost of the investment of $2,104 (net of $57 in cash acquired).

The results of operations of RedBlack and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements beginning on the acquisition date. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $136 (including $57 in cash) was recorded as goodwill in the amount of $2,025. The acquired goodwill has been assigned to the Design and Installation Services segment and is expected to be fully deductible for income tax purposes.

The following table represents the final allocation of the purchase price to assets acquired and liabilities assumed at the acquisition date:

ASSETS	
Current assets:	
Cash	$ 57
Trade accounts receivables, net	535
Prepaid expenses and other current assets	175
Total current assets	767
Property, plant and equipment, net	687
Goodwill	2,025
Intangible Assets:	
Non-compete agreements	180
Total assets acquired	3,659
LIABILITIES	
Current liabilities:	
Current portion of long-term debt	720
Accounts payable	431
Other current liabilities	159
Total current liabilities	1,310
Long-term liabilities:	
Debt	188
Total liabilities assumed	1,498
Total Purchase Price	$ 2,161

Non-compete agreements are being amortized on a straight-line basis over their estimated useful lives of two years.

The following table summarizes the unaudited pro forma financial information for the periods indicated as if the RedBlack acquisition had occurred at the beginning of the period being presented. The pro forma information contains the actual combined results of RedBlack and us, with the results prior to the acquisition date including pro forma impact of: the amortization of the acquired intangible assets; and the impact on interest expense in connection with funding the cash portion of the acquisition purchase price. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition had occurred as of the beginning of each of the periods presented or that may be obtained in the future.

(in thousands, except per share data)	Year Ended December 31, 2007
Revenues	$ 139,698
Net Income (Loss)	$ 5,107
Earnings (Loss) per share — Basic	$ 0.33
Earnings (Loss) per share — Diluted	$ 0.33

Stationary Power Services, Inc. and Reserve Power Systems, Inc.

On November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Stationary Power, an infrastructure power management services firm specializing in engineering, installation and preventative maintenance of standby power systems, uninterruptible power supply systems, DC power systems and switchgear/control systems for the telecommunications, aerospace, banking and information services industries. Stationary Power is located in Clearwater, Florida. Immediately prior to the closing of the Stationary Power acquisition, Stationary Power distributed its real estate assets, along with the corresponding mortgage payable, to the original owner of Stationary Power, as these assets and corresponding liability were not part of our acquisition of Stationary Power. Also on November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Reserve Power Systems, Inc., a supplier of lead acid batteries primarily for use by Stationary Power in the design and installation of standby power systems. In June 2008, we renamed Reserve Power Systems, Inc. to RPS Power Systems, Inc. (“RPS”). Stationary Power and RPS were previously affiliated companies due to common ownership interests. In January 2010, Stationary Power and RPS formally merged, with Stationary Power being the surviving corporation.

Under the terms of the stock purchase agreement for Stationary Power, the initial purchase price of $10,000 consisted of $5,889 (net of $111 in cash acquired) in cash and a $4,000 subordinated convertible promissory note to be held by the previous owner of Stationary Power. In addition, on the achievement of certain post-acquisition sales milestones, we will issue up to an aggregate amount of 100,000 shares of our common stock. The unregistered shares of common stock will be issued after the first occasion annual sales for a calendar year exceed $14,000 (20,000 shares), $16,500 (20,000 shares), $19,000 (20,000 shares), $22,000 (20,000 shares) and $25,000 (20,000 shares). The contingent stock issuances will be recorded as an addition to the purchase price when the financial milestones are attained. Through the year ended December 31, 2009, we have issued no shares of our common stock relating to this contingent consideration. The initial purchase price was subject to a post-closing adjustment based on a final valuation of “Net Worth” on the date of closing, using a base of $500. The final net value of the “Net Worth”, under the stock purchase agreement, was $339, resulting in a revised initial purchase price of $9,839. As of December 31, 2008, we had accrued $161 for this receivable, which is included in the prepaid expenses and other current assets line on our Consolidated Balance Sheet. In July 2008, William Maher, former owner of Stationary Power, delivered his promissory note to us in connection with the “Net Worth” adjustment for $161. The promissory note bore interest at the rate of 5% per year and was payable in full, including any unpaid interest thereon, no later than December 31, 2008. In January 2009, we received payment in full for this receivable, including all unpaid accrued interest.

The $6,000 cash payment was financed by a portion of the net proceeds from a limited public offering that we completed on November 16, 2007, whereby 1,000,000 shares of our common stock were issued. Total net proceeds from the offering were approximately $12,600, of which $6,000 was used for the Stationary Power cash payment. The $4,000 subordinated convertible promissory note carries a three-year term, bears interest at the rate of 5% per year and is convertible at $15.00 per share into 266,667 shares of our common stock, with a forced conversion feature at $17.00 per share. We have evaluated the terms of the conversion feature under applicable accounting literature, including FASB’s guidance in accounting for derivative instruments and hedging activities and accounting for derivative financial instruments indexed to, and potentially settled in, a company’s own stock, and concluded that this feature should not be separately accounted for as a derivative. Effective March 28, 2009, we entered into Amended and Restated Subordinated Convertible Promissory Note (“Amended Note”) with William Maher, former owner of Stationary Power. The Amended Note reduced the principal amount under the original subordinated convertible promissory note (“Original Note”), as issued in connection with the Stationary Power acquisition in November 2007, by an amount equal to $580. This reduction was an offset of amounts owed to Stationary Power from WMSP Holdings, LLC (an entity wholly owned by William Maher). There were no other revisions to any of the terms of the Original Note. In February 2010, in connection with the closing on the new credit facility with RBS, we made a prepayment of $129 on the outstanding principal balance of the Amended Note. As of December 31, 2009, the outstanding balance on the Amended Note was $3,420. During the third quarter of 2008, we made an election under Section 338(h)(10) of the Internal Revenue Code in relation to Stationary Power, and in accordance with the provisions of the purchase agreement, we made payments of $19 and have accrued for a payment of $35, totaling $54, to the sellers of Stationary Power to make them substantially whole from a tax perspective. These additional payments are part of the total purchase price, and as such, this adjustment to the purchase price resulted in an increase to goodwill of $54. The accrued payment of $35 is included in the other current liabilities line on our Consolidated Balance Sheet. We incurred $113 in acquisition related costs, which are included in the cost of the Stationary Power investment of $10,006.

Under the terms of the stock purchase agreement for RPS, the initial purchase price consisted of 100,000 shares of our common stock, valued at $1,383. In addition, on the achievement of certain post-acquisition sales milestones, we will pay the sellers, in cash, 5% of sales up to the operating plan, as such term is defined in the stock purchase agreement, and 10% of sales that exceed the operating plan, for the remainder of the calendar year 2007 and for calendar years 2008, 2009 and 2010. The additional contingent cash consideration is payable in annual installments, and excludes sales made to Stationary Power, which historically have comprised substantially all of RPS's sales. No contingent cash consideration was recorded for 2007. During 2008, we had accrued $49 for the 2008 portion of the contingent cash consideration, which is included in the other current liabilities line on our Consolidated Balance Sheet, and was paid to the sellers in March 2009. During 2009, we have accrued $118 for the 2009 portion of the contingent cash consideration, which is included in the other current liabilities line on our Consolidated Balance Sheet. During the fourth quarter of 2009, this accrual was increased by $7, which resulted in an increase to goodwill of $7.

The results of operations of Stationary Power and RPS and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements beginning on the acquisition date. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $5,940 (including $111 of cash) was recorded as goodwill in the amount of $5,616. The acquired goodwill has been assigned to the Design and Installation Services and the Rechargeable Products segments and is expected to be fully deductible for income tax purposes.

The following table represents the final allocation of the purchase price to assets acquired and liabilities assumed at the acquisition date:

ASSETS	
Current assets:	
Cash	$ 111
Trade accounts receivables, net	1,594
Inventories	1,687
Prepaid expenses and other current assets	52
Total current assets	3,444
Property, plant and equipment, net	324
Goodwill	5,616
Intangible Assets:	
Trademarks	1,300
Patents and Technology	440
Customer Relationships	4,600
Other Assets:	
Security deposits	12
Total assets acquired	15,736
LIABILITIES	
Current liabilities:	
Current portion of long-term debt	1,277
Accounts payable	1,958
Other current liabilities	788
Total current liabilities	4,023
Long-term liabilities:	
Debt	137
Other long-term liabilities	20
Total liabilities assumed	4,180
Total Purchase Price	$ 11,556

Trademarks have an indefinite life and are not being amortized. The intangible assets related to patents and technology and customer relationships are being amortized as the economic benefits of the intangible assets are being utilized over their weighted-average estimated useful life of nineteen years.

In connection with the Stationary Power acquisition, we entered into an operating lease agreement for real property in Clearwater, Florida with a company partially owned by William Maher, the former owner of Stationary Power and who joined the company as an employee following the completion of the Stationary Power acquisition. The lease term is for three years and expires on November 15, 2010. The lease has a base annual rent of approximately $144, based on current market rates at the lease inception, payable in monthly installments. In addition to the base annual rate, we are obligated to pay the real estate and personal property taxes associated with the facility. Under the terms of the lease, we have the right to extend the lease for one additional three-year term, with the base annual rent, applicable to the extension, of approximately $147. During the first quarter of 2009, Mr. Maher resigned from his position.

The following table summarizes the unaudited pro forma financial information for the periods indicated as if the Stationary Power and RPS acquisitions had occurred at the beginning of the period being presented. Because Stationary Power and RPS were under common control as of the date of these acquisitions, the pro forma information contains the actual combined results of Stationary Power and RPS and us, with the results prior to the acquisition date including pro forma impact of: the amortization of the acquired intangible assets; the interest expense incurred relating to the convertible note payable issued in connection with the acquisition purchase price; interest expense that would not have been incurred for the mortgage payable that was not assumed by us in the Stationary Power acquisition; the elimination of the sales and purchases between Stationary Power and RPS and us; and rent expense that would have been incurred for the building that was not acquired by us in the Stationary Power acquisition, net of the reduction in depreciation expense for the building. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisitions had occurred as of the beginning of each of the periods presented or that may be obtained in the future.

(in thousands, except per share data)	Year Ended December 31, 2007
Revenues	$ 144,356
Net Income (Loss)	$ 5,393
Earnings (Loss) per share — Basic	$ 0.34
Earnings (Loss) per share — Diluted	$ 0.33

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Note 3 — Supplemental Balance Sheet Information

a. Inventory

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

	December 31,	
	2009	2008
Raw materials	$ 23,066	$ 26,347
Work in process	6,377	9,087
Finished products	10,050	7,881
	39,493	43,315
Less: Reserve for obsolescence	3,990	2,850
	$ 35,503	$ 40,465

b. Property, Plant and Equipment

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

	December 31,	
	2009	2008
Land	$ 123	$ 123
Buildings and Leasehold Improvements	6,127	5,274
Machinery and Equipment	43,996	42,172
Furniture and Fixtures	1,829	1,669
Computer Hardware and Software	3,397	2,808
Construction in Progress	1,324	2,023
	56,796	54,069
Less: Accumulated Depreciation	40,148	35,604
	$ 16,648	$ 18,465

Estimated costs to complete construction in progress as of December 31, 2009 and 2008 was approximately $893 and $857, respectively.

Depreciation expense was $3,929, $3,752, and $3,765 for the years ended December 31, 2009, 2008, and 2007, respectively.

c. Goodwill

The following table summarizes the goodwill activity by segment for the years ended December 31, 2009 and 2008:

	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Total
Balance at December 31, 2007	$ 1,703	$ 4,287	$ 10,460	$ 4,730	$ 21,180
Adjustments to purchase price allocation	250	49	—	234	533
Acquisition of US Energy	—	—	—	1,111	1,111
Effect of foreign currency translations	119	—	—	—	119
Balance at December 31, 2008	$ 2,072	$ 4,336	$ 10,460	$ 6,075	$ 22,943
Adjustments to purchase price allocation	—	118	—	1,159	1,277
Acquisition of AMTI	—	—	1,216	—	1,216
Effect of foreign currency translations	—	—	—	—	—
Balance at December 31, 2009	$ 2,072	$ 4,454	$ 11,676	$ 7,234	$ 25,436

The total consideration given for ABLE was a combination of cash and equity. The initial cash purchase price was $1,896, with an additional $500 cash payment contingent on the achievement of certain performance milestones, payable in separate $250 increments, when cumulative ABLE revenues from the date of acquisition attain $5,000 and $10,000, respectively. In August 2007, the $5,000 cumulative revenue milestone was attained, and as such, we recorded the first $250 contingent cash payment, which resulted in an increase in goodwill of $250. In August 2008, the $10,000 cumulative revenue milestone was attained, and as such, we recorded the final $250 contingent cash payment, which resulted in an increase in goodwill of $250.

d. Other Intangible Assets

The composition of intangible assets was:

	December 31, 2009		
	Gross Assets	Accumulated Amortization	Net
Trademarks	$ 4,856	$ —	$ 4,856
Patents and technology	5,119	2,852	2,267
Customer relationships	9,772	3,972	5,800
Distributor relationships	352	215	137
Non-compete agreements	393	389	4
Total intangible assets	$ 20,492	$ 7,428	$ 13,064

	December 31, 2008		
	Gross Assets	Accumulated Amortization	Net
Trademarks	$ 4,789	$ —	$ 4,789
Patents and technology	4,229	2,313	1,916
Customer relationships	8,906	2,934	5,972
Distributor relationships	352	180	172
Non-compete agreements	393	317	76
Total intangible assets	$ 18,669	$ 5,744	$ 12,925

Amortization expense for intangible assets was $1,683, $2,119, and $2,317 for the years ended December 31, 2009, 2008, and 2007, respectively.

The change in the cost value of total intangible assets is a result of the 2009 acquisitions, changes in the final valuation of tangible and intangible assets in connection with the 2008 acquisitions and the effect of foreign currency translations.

Note 4 — Operating Leases

We lease various buildings, machinery, land, automobiles and office equipment. Rental expenses for all operating leases were approximately $1,334, $1,001 and $1,234 for the years ended December 31, 2009, 2008 and 2007, respectively. Future minimum lease payments under non-cancelable operating leases as of December 31, 2009 are as follows:

2010	2011	2012	2013	2014 and beyond
$ 1,178	$ 564	$ 306	$ 137	$ —

Note 5 — Debt and Capital Leases

Credit Facilities

As of December 31, 2009, our primary credit facility consisted of both a term loan component and a revolver component, and the facility was collateralized by essentially all of our assets, including all of our subsidiaries. The lenders of the credit facility were JP Morgan Chase Bank, N.A. and Manufacturers and Traders Trust Company (together, the “Lenders”), with JP Morgan Chase Bank acting as the administrative agent. Availability under the revolving credit component was subject to meeting certain financial covenants, including a debt to earnings ratio and a fixed charge coverage ratio. In addition, we were required to meet certain non-financial covenants. The rate of interest, in general, was based upon either the Prime Rate plus 200 basis points or LIBOR plus 500 basis points.

As of December 31, 2009, we had $-0- outstanding under the term loan component of our credit facility with our primary lending bank and $15,500 was outstanding under the revolver component. At December 31, 2009, the interest rate on the revolver component was 5.25%. As of December 31, 2009, the revolver arrangement provided for up to $35,000 of borrowing capacity, including outstanding letters of credit. At December 31, 2009, we had $335 of outstanding letters of credit related to this facility, leaving $19,165 of additional borrowing capacity.

On June 30, 2004, we drew down on a $10,000 term loan under the credit facility. The term loan was being repaid in equal monthly installments of $167 over five years. On July 1, 2004, we entered into an interest rate swap arrangement in the notional amount of $10,000 to be effective on August 2, 2004, related to the $10,000 term loan, in order to take advantage of historically low interest rates. We received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years. The total rate of interest paid by us was equal to the swap rate of 3.98% plus the applicable Eurodollar spread associated with the term loan. During the full year of 2007, the adjusted rate ranged from 5.98% to 7.23%. During the full year of 2008, the adjusted rate ranged from 5.73% to 6.48%. During the full year 2009, the adjusted rate was 6.48%. Derivative instruments are accounted for in accordance with FASB’s guidance on accounting for derivative instruments and hedging activities, which requires that all derivative instruments be recognized in the financial statements at fair value.

In July 2009, we paid the final monthly installment for the term loan under the credit facility and had no further obligations relating to the term loan portion of the credit facility. Correspondingly, the interest rate swap arrangement we entered into in connection with the term loan under the credit facility expired and we had no further obligations under the interest rate swap arrangement.

There were several amendments to the credit facility during the past few years, including amendments to authorize acquisitions and modify financial covenants. Effective April 23, 2008, we entered into Amendment Number Ten to Credit Agreement (“Amendment Ten”) with the Lenders. Amendment Ten increased the amount of the revolving credit facility from $15,000 to $22,500, an increase of $7,500. Additionally, Amendment Ten amended the applicable revolver and term rates under the credit agreement from a variable pricing grid based on quarterly financial ratios to a set interest rate structure based on either the current prime rate, or a LIBOR rate plus 250 basis points. `

On January 27, 2009, we entered into an Amended and Restated Credit Agreement (the "Restated Credit Agreement") with the Lenders. The Restated Credit Agreement reflected the previous ten amendments to the original Credit Agreement dated June 30, 2004 between us and the Lenders and modifies certain of those provisions. The Restated Credit Agreement among other things (i) increased the current revolver loan commitment from $22,500 to $35,000, (ii) extended the maturity date of the revolving credit component from January 31, 2009 to June 30, 2010, (iii) modified the interest rate, and (iv) modified certain covenants. The rate of interest was based, in general, upon either a LIBOR rate plus a Eurodollar spread or an Alternate Base Rate plus an ABR spread, as that term was defined in the Restated Credit Agreement, within a predetermined grid, which was dependent upon whether Earnings Before Interest and Taxes for the most recently completed fiscal quarter was greater than or less than zero. Generally, borrowings under the Restated Credit Agreement bear interest based primarily on the Prime Rate plus 50 to 200 basis points or LIBOR plus 300 to 500 basis points. Additionally, among other covenant modifications, the Restated Credit Agreement modified the financial covenants by (i) revising the debt to earnings ratio and fixed charge coverage ratio and (ii) deleting the current assets to liabilities ratio.

Effective June 28, 2009, we entered into Waiver and Amendment Number One to Amended and Restated Credit Agreement ("Waiver and Amendment") with the Lenders and Agent. The Waiver and Amendment provided that the Lenders and Agent would waive their right to exercise their respective rights and remedies under the credit facility arising from our failure to comply with the financial covenants in the credit facility with respect to the fiscal quarter ended June 28, 2009. In addition to a number of revisions to non-financial covenants, the Waiver and Amendment revised the applicable revolver rate under the Restated Credit Agreement to an interest rate structure based on the Prime Rate plus 200 basis points or LIBOR plus 500 basis points.

As stated in the Restated Credit Agreement, as amended by the Waiver and Amendment, we were required to maintain a debt to earnings ratio at or below 2.75 to 1 and a fixed charge ratio at or above 1.25 to 1. As of December 31, 2009, our debt to earnings ratio was (58.99) to 1 and our fixed charge ratio was (0.03) to 1. Accordingly, we were not in compliance with the financial covenants of our credit facility. This constituted an event of default under the terms of our existing credit facility which entitled our Lenders to provide us with notice that they were exercising their rights under the credit facility.

On January 15, 2010, we received a demand letter from the Agent in connection with the Restated Credit Agreement ("Demand Letter"). In the Demand Letter, the Agent claimed that we had (i) failed to satisfy and comply with the financial covenants set forth in Section 6.09 of the Restated Credit Agreement, and (ii) failed to pay interest and expenses when due as set forth in Section 7(b) of the Restated Credit Agreement. The Agent declared the outstanding principal, unpaid interest and unpaid fees in the aggregate amount of $15,914 immediately due and payable in full. The Agent demanded payment of such amount by January 22, 2010. The Agent also terminated the Lender's commitment to lend additional funds to us under the Restated Credit Agreement and increased the interest rate on the outstanding principal to the default rate set under Section 2.13(c) of the Restated Credit Agreement.

On January 22, 2010, we entered into a Forbearance and Amendment Number Two to the Restated Credit Agreement with the Lenders ("Forbearance Agreement"). Under the Forbearance Agreement, the Lenders agreed to forbear until February 18, 2010 from exercising their respective rights and remedies under the Restated Credit Agreement and delayed the date by which we were to pay the Lenders the amount declared due and payable under the Demand Letter.

Under the Forbearance Agreement, we were required to make payments on the outstanding principal owed under the Restated Credit Agreement pursuant to the following schedule: (i) $1,500 on January 22, 2010; (ii) $3,500 on or before January 29, 2010; and (iii) $500 commencing February 5, 2010 and continuing on each Friday through the term of the Forbearance Agreement. We were also required to pay a forbearance fee of $63 and all of the fees and expenses incurred by the Lenders. The Forbearance Agreement also reaffirmed the Lenders' termination of their commitment to lend additional funds to us under the Restated Credit Agreement and the increased interest rate on the outstanding principal to the default rate set under Section 2.13(c) of the Restated Credit Agreement. We made all payments required by and complied with all provisions of the Forbearance Agreement.

On February 17, 2010, we entered into a senior secured asset based revolving credit facility ("Credit Facility") of up to $35,000 with RBS Business Capital, a division of RBS Asset Finance, Inc. ("RBS"). The proceeds from the Credit Facility can be used for general working capital purposes, general corporate purposes, letter of credit foreign exchange support and to repay existing indebtedness under the Restated Credit Agreement ("Previous Credit Facility"). The Credit Facility has a maturity date of February 17, 2013 ("Maturity Date"). The Credit Facility is secured by substantially all of our assets. We paid RBS a facility fee of $263.

On February 18, 2010, we drew down $9,870 from the Credit Facility to repay all outstanding amounts due under the Previous Credit Facility with the Lenders. Our available borrowing under the Credit Facility fluctuates from time to time based upon amounts of eligible accounts receivable and eligible inventory. Available borrowings under the Credit Facility equals the lesser of (1) $35,000 or (2) 85% of eligible accounts receivable plus the lesser of (a) up to 70% of the book value of our eligible inventory or (b) 85% of the appraised net orderly liquidation value of our eligible inventory. The borrowing base under the Credit Facility is further reduced by (1) the face amount of any letters of credit outstanding, (2) any liabilities of ours under hedging contracts with RBS and (3) the value of any reserves as deemed appropriate by RBS. We are required to have at least $3,000 available under the Credit Facility at all times.

Interest will accrue on outstanding indebtedness under the Credit Facility at one of two LIBOR rates plus 4.50%. Upon delivery of our audited financial statements for the fiscal year ended December 31, 2010 to RBS, and assuming no events of default exist at such time, the rate of interest under the Credit Facility can fluctuate based on the available borrowings remaining under the Credit Facility as set forth in the following table:

Excess Availability	LIBOR Rate Plus
Greater than $10,000	4.00%
Greater than $7,500 but less than or equal to $10,000	4.25%
Greater than $5,000 but less than or equal to $7,500	4.50%
Greater than $3,000 but less than or equal to $5,000	4.75%

In addition to paying interest on the outstanding principal under the Credit Facility, we are required to pay an unused line fee of 0.50% on the unused portion of the $35,000 Credit Facility. We must also pay customary letter of credit fees equal to the LIBOR rate and the applicable margin and any other customary fees or expenses of the issuing bank. Interest that accrues under the Credit Facility is to be paid monthly with all outstanding principal, interest and applicable fees due on the Maturity Date.

We are required to maintain a fixed coverage ratio of 1.20 to 1.00 or greater at all times after March 28, 2010. All borrowings under the Credit Facility are subject to the satisfaction of customary conditions, including the absence of an event of default and accuracy of the Borrowers' representations and warranties. The Credit Facility also includes customary representations and warranties, affirmative covenants and events of default. If an event default occurs, RBS would be entitled to take various actions, including accelerating the amount due under the Credit Facility, and all actions permitted to be taken by a secured creditor.

Previously, our wholly-owned U.K. subsidiary, Ultralife Batteries (UK) Ltd., had a revolving credit facility with a commercial bank in the U.K. This credit facility provided our U.K. operation with additional financing flexibility for its working capital needs. Any borrowings against this credit facility were collateralized with that company's outstanding accounts receivable balances. During the second quarter of 2008, this credit facility was terminated. The Ultralife UK operations will be funded by operating cash flows and cash advances from Ultralife Corporation, if necessary.

Equipment and Vehicle Notes Payable

We have eleven notes payable related to various equipment and vehicles. The notes payable provide for payments (including principal and interest) of $75 per year, collectively. The interest rates on the notes payable range from 0.00% to 7.13%. The term on the notes payable range from 24 to 72 months, with payments on the individual notes payable ending between September 2010 and September 2012. The respective equipment and vehicles collateralize the notes payable.

Capital Leases

We have eighteen capital leases. Twelve capital lease commitments are for copiers that provide for payments (including principal and interest) of $47 per year, collectively, from July 2007 through December 2013. The remaining six capital lease commitments are for vehicles that provide for payments (including principal and interest) of $66 per year, collectively, from January 2010 through December 2012. Remaining interest payable on all of the capital leases is approximately $50. At the end of the lease terms, we are required to purchase the assets under the capital lease commitments for one dollar each.

Convertible Notes Payable

On November 16, 2007, we finalized a settlement agreement with the sellers of McDowell Research, Ltd. relating to various operational issues that arose during the first several months following the July 2006 acquisition that significantly reduced our profit margins. The settlement agreement amount was approximately $7,900. The settlement agreement reduced the principal amount on the convertible notes initially issued in that transaction from $20,000 to $14,000, and eliminated a $1,889 liability related to a purchase price adjustment. In addition, the interest rate on the convertible notes was increased from 4% to 5% and we made prepayments totaling $3,500 on the convertible notes. Upon payment of the $3,500 in November 2007, we reported a one-time, non-operating gain of approximately $7,550 to account for the settlement, net of certain adjustments related to the change in the interest rate on the convertible notes. Based on the facts and circumstances surrounding the settlement agreement, there was not a clear and direct link to the acquisition's purchase price; therefore, we recorded the settlement as an adjustment to income in accordance with the pre-revised FASB guidance for business combinations. In January 2008, the remaining $10,500 principal balance on the convertible notes was converted in full into 700,000 shares of our common stock, and the remaining $313 that pertained to the change in the interest rate on the notes was recorded in other income as a gain on debt conversion.

See Note 2 for additional information relating to the outstanding convertible note payable with William Maher, that was issued in connection with the Stationary Power acquisition.

Payment Schedule

As of December 31, 2009, scheduled principal payments under the current amount outstanding of debt and capital leases are as follows:

	Credit Facility	Equipment and Vehicle Notes Payable	Capital Leases	Convertible Notes Payable	Total
2010	$ 15,500	$ 68	$ 94	$ 3.420	$ 19,082
2011	—	53	97	—	150
2012	—	14	95	—	109
2013	—	—	8	—	8
2014 and thereafter	—	—	—	—	—
	15,500	135	294	3,420	19,349
Less: Current portion	15,500	68	94	3,420	19,082
Long-term	$ —	$ 67	$ 200	$ —	$ 267

Note 6 — Commitments and Contingencies

a. *Indemnity*

The Delaware General Corporation Law provides that directors or officers will be reimbursed for all expenses, to the fullest extent permitted by law arising out of their performance as our agents or trustees.

b. *Purchase Commitments*

As of December 31, 2009, we have made commitments to purchase approximately $201 of production machinery and equipment.

c. *Royalty Agreements*

Technology underlying certain of our products is based in part on non-exclusive transfer agreements. In 2003, we entered into an agreement with Saft Groupe S.A., to license certain tooling for battery cases. The licensing fee associated with this agreement is approximately one dollar per battery case. The total royalty expense reflected in 2009, 2008 and 2007 was $19, $22 and $13, respectively. This agreement expires in the year 2017.

d. *Government Grants/Loans*

We have been able to obtain certain grants/loans from government agencies to assist with various funding needs. In November 2001, we received approval for a $300 grant/loan from New York State. The grant/loan was to fund capital expansion plans that we expected would lead to job creation. In this case, we were to be reimbursed after the full completion of the particular project. This grant/loan also required us to meet and maintain certain levels of employment. During 2002, since we did not meet the initial employment threshold, it appeared unlikely at that time that we would be able to gain access to these funds. However, during 2006, our employment levels had increased to a level that exceeded the minimum threshold, and we received these funds in April 2007. This grant/loan required us to not only meet, but maintain our employment levels for a pre-determined time period. Our employment levels met the specified levels as of December 31, 2007 and 2008. As a result of meeting the employment levels as of December 31, 2008, we have satisfied all of the requirements for the grant/loan, we have recognized grant revenue of $300 in the miscellaneous income (expense) line of our Consolidated Statement of Operations for the year ended December 31, 2008, and no amounts are owed on such grant/loan.

In October 2005, we received a contract valued at approximately $3,000 from the U.S. Defense Department to purchase equipment and enhance processes to reduce lead times and increase manufacturing efficiency to boost production surge capability of our BA-5390 battery during contingency operations. Approximately $1,750 of the total contract amount pertains to inventory that was included in our inventory balance at December 31, 2009 and 2008, offset by deferred revenues which are included in other current liabilities. Approximately $775 of the total contract pertains to a reimbursement for expenses incurred to implement more effective processes and procedures, and the remaining approximately $525 was allocated to purchase equipment that is owned by the U.S. Defense Department. In 2006, we received $1,325 relating to this contract. In 2007, we received $1,257 relating to this contract. In 2008, we received $495 relating to this contract. The funding for this contract was completed during 2008.

In conjunction with the City of West Point, Mississippi, we applied for a Community Development Block Grant (“CDBG”) from the State of Mississippi for infrastructure improvements to our leased facility that is owned by the City of West Point, Mississippi. The CDBG was awarded and as of December 31, 2009, approximately $480 has been distributed under the grant. Under an agreement with the City of West Point, we have agreed to employ at least 30 full-time employees at the facility, of which 51% of the jobs must be filled or made available to low or moderate income families, within three years of completion of the CDBG improvement activities. In addition, we have agreed to invest at least $1,000 in equipment and working capital into the facility within the first three years of operation of the facility. In the event we fail to honor these commitments, we are obligated to reimburse all amounts received under the CDBG to the City of West Point, Mississippi.

In conjunction with Clay County, Mississippi, we applied for a Mississippi Rural Impact Fund Grant (“RIFG”) from the State of Mississippi for infrastructure improvements to our leased facility that is owned by the City of West Point, Mississippi. The RIFG was awarded and as of December 31, 2009, approximately $150 has been distributed under the grant. Under an agreement with Clay County, we have agreed to employ at least 30 full-time employees at the facility, of which 51% of the jobs must be filled or made available to low or moderate income families, within three years of completion of the RIFG improvement activities. In addition, we have agreed to invest at least $1,000 in equipment and working capital into the facility within the first three years of operation of the facility. In the event we fail to honor these commitments, we are obligated to reimburse all amounts received under the RIFG to Clay County, Mississippi.

e. *Employment Contracts*

We have employment contracts with certain of our key employees with automatic one-year renewals unless terminated by either party. These agreements provide for minimum salaries, as adjusted for annual increases, and may include incentive bonuses based upon attainment of specified management goals. These agreements also provide for severance payments in the event of specified termination of employment. In addition, these agreements provide for a lump sum payment in the event of termination of employment in association with a change in control.

Select key employees are required to enter into agreements providing for confidentiality and the assignment of rights to inventions made by them while employed by us. These agreements also contain certain noncompetition and nonsolicitation 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.

In connection with the Stationary Power and RPS acquisitions, we entered into employment contracts with certain key employees for a term of three years. These agreements provide for minimum salaries and may include incentive bonuses based upon attainment of specified management goals. In addition, these agreements provide for severance payments in the event of a specified termination of employment.

In connection with the USE acquisition, we entered into employment contracts with certain key employees for a term of three years. These agreements provide for minimum salaries and may include incentive bonuses based upon attainment of specified management goals. In addition, these agreements provide for severance payments in the event of a specified termination of employment.

In connection with the AMTI acquisition, we entered into employment contracts with certain key employees for a term of two years. These agreements provide for minimum salaries and provide for severance payments in the event of a specified termination of employment.

f. *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, 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Balance at beginning of year	$ 1,010	$ 501	$ 522
Accruals for warranties issued	387	921	210
Settlements made	(215)	(412)	(231)
Balance at end of year	$ 1,182	$ 1,010	$ 501

g. Post Audits of Government Contracts

We had certain “exigent”, non-bid contracts with the U.S. government, which were subject to audit and final price adjustment, which resulted in decreased margins compared with the original terms of the contracts. As of December 31, 2009, there were no outstanding exigent contracts with the government. As part of its due diligence, the government has conducted post-audits of the completed exigent contracts to ensure that information used in supporting the pricing of exigent contracts did not differ materially from actual results. In September 2005, the Defense Contracting Audit Agency (“DCAA”) presented its findings related to the audits of three of the exigent contracts, suggesting a potential pricing adjustment of approximately $1,400 related to reductions in the cost of materials that occurred prior to the final negotiation of these contracts. We have reviewed these audit reports, have submitted our response to these audits and believe, taken as a whole, the proposed audit adjustments can be offset with the consideration of other compensating cost increases that occurred prior to the final negotiation of the contracts. While we believe that potential exposure exists relating to any final negotiation of these proposed adjustments, we cannot reasonably estimate what, if any, adjustment may result when finalized. In addition, in June 2007, we received a request from the Office of Inspector General of the Department of Defense (“DoD IG”) seeking certain information and documents relating to our business with the Department of Defense. We continue to cooperate with the DCAA audit and DoD IG inquiry by making available to government auditors and investigators our personnel and furnishing the requested information and documents. At this time we have no basis for assessing whether we might face any penalties or liabilities on account of the DoD IG inquiry. The aforementioned DCAA-related adjustments could reduce margins and, along with the aforementioned DOD IG inquiry, could have an adverse effect on our business, financial condition and results of operations.

h. *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.

In October 2008, we filed a summons and complaint against one of our vendors seeking to recover at least $3,600 in damages, plus interest resulting from the vendor's breach of contract and failure to perform by failing to timely deliver product and delivering product that failed to conform to the contractual requirements. The vendor filed an answer and counterclaim in November 2008 denying liability to us for breach of contract and asserting various counterclaims for non-payment, fraud, unjust enrichment, unfair and deceptive trade practices, breach of covenant of good faith and fair dealing, negligent misrepresentation, and tortuous interference with contract and prospective economic advantage. In its answer and counterclaims, the vendor claims damages in excess of $3,500 plus interest and other incidental, consequential and punitive damages. In September 2009, we settled all claims related to the litigation. Pursuant to the settlement, we agreed to pay the vendor $1,500 of the $3,556 that we had previously reflected in the accounts payable line on our consolidated balance sheets relating to this matter. We further agreed to issue an $800 credit on future purchases to our customer in this matter. This $800 credit was utilized in full during the fourth quarter of 2009. As a result, we have recognized a net gain on litigation settlement of $1,256, and which has been reflected in the cost of products sold line on our consolidated statements of operations.

In January 2008, we filed a summons and complaint against one of our customers seeking to recover $162 in unpaid invoices, plus interest for product supplied to the customer under a Master Purchase Agreement ("MPA"). The customer filed an answer and counterclaim in March 2008 alleging that the product did not conform with a material requirement of the MPA. The customer claims restitution, cost of cover, and incidental and consequential damages in an approximate amount of $2,800. In June 2009, we received a jury verdict in our favor awarding us $162 in damages on our claim and finding no liability on the customer's counterclaim. We received full payment from the customer on the award in June 2009, and in July 2009, the parties reached an agreement in which the customer agreed not to pursue an appeal from the jury verdict.

In conjunction with our purchase/lease of our Newark, New York facility in 1998, we entered into a payment-in-lieu of tax agreement, which provided us with real estate tax concessions upon meeting certain conditions. In connection with this agreement, a consulting firm performed a Phase I and II Environmental Site Assessment, which revealed the existence of contaminated soil and ground water around one of the buildings. We retained an engineering firm, which estimated that the cost of remediation should be in the range of $230. In February 1998, we entered into an agreement with a third party which provides that we and this third party will retain an environmental consulting firm to conduct a supplemental Phase II investigation to verify the existence of the contaminants and further delineate the nature of the environmental concern. The third party agreed to reimburse us for fifty percent (50%) of the cost of correcting the environmental concern on the Newark property. We have fully reserved for our portion of the estimated liability. Test sampling was completed in the spring of 2001, and the engineering report was submitted to the New York State Department of Environmental Conservation ("NYSDEC") for review. NYSDEC reviewed the report and, in January 2002, recommended additional testing. We responded by submitting a work plan to NYSDEC, which was approved in April 2002. We sought proposals from engineering firms to complete the remedial work contained in the work plan. A firm was selected to undertake the remediation and in December 2003 the remediation was completed, and was overseen by the NYSDEC. The report detailing the remediation project, which included the test results, was forwarded to NYSDEC and to the New York State Department of Health ("NYSDOH"). The NYSDEC, with input from the NYSDOH, requested that we perform additional sampling. A work plan for this portion of the project was written and delivered to the NYSDEC and approved. In November 2005, additional soil, sediment and surface water samples were taken from the area outlined in the work plan, as well as groundwater samples from the monitoring wells. We received the laboratory analysis and met with the NYSDEC in March 2006 to discuss the results. On June 30, 2006, the Final Investigation Report was delivered to the NYSDEC by our outside environmental consulting firm. In November 2006, the NYSDEC completed its review of the Final Investigation Report and requested additional groundwater, soil and sediment sampling. A work plan to address the additional investigation was submitted to the NYSDEC in January 2007 and was approved in April 2007. Additional investigation work was performed in May 2007. A preliminary report of results was prepared by our outside environmental consulting firm in August 2007 and a meeting with the NYSDEC and NYSDOH took place in September 2007. As a result of this meeting, NYSDEC and NYSDOH have requested additional investigation work. A work plan to address this additional investigation was submitted to and approved by the NYSDEC in November 2007. Additional investigation work was performed in December 2007. Our environmental consulting firm prepared and submitted a Final Investigation Report in January 2009 to the NYSDEC for review. The NYSDEC reviewed and approved the Final Investigation Report in June 2009 and requested the development of a Remedial Action Plan. Our environmental consulting firm developed and submitted the requested plan for review and approval by the NYSDEC. In October 2009, we received comments back from the NYSDEC regarding the content of the remediation work plan. Our environmental consulting form has incorporated the requested changes and submitted a revised work plan to the NYSDEC in January 2010 for review and approval. The final Remedial Action Plan selected may increase the estimated remediation costs modestly. Through December 31, 2009, total costs incurred have amounted to approximately $260, none of which has been capitalized. At December 31, 2009 and December 31, 2008, we have $49 and $52, respectively, reserved for this matter.

A retail end-user of a product manufactured by one of our customers (the ”Customer“) made a claim against the Customer wherein it asserted that the Customer’s product, which is powered by one of our batteries, did not operate according to the Customer’s product specification. No claim has been filed against us. However, in the interest of fostering good customer relations, in September 2002, we agreed to lend technical support to the Customer in defense of its claim. Additionally, we assured the Customer that we would honor our warranty by replacing any batteries that were determined to be defective. Subsequently, we learned that the end-user and the Customer settled the matter. In February 2005, we entered into a settlement agreement with the Customer. Under the terms of the agreement, we have agreed to provide replacement batteries for product determined to be defective, to warrant each replacement battery under our standard warranty terms and conditions, and to provide the Customer product at a discounted price for shipments made prior to December 31, 2008 in recognition of the Customer’s administrative costs in responding to the claim of the retail end-user. In consideration of the above, the Customer released us from any and all liability with respect to this matter. Consequently, we do not anticipate any further expenses with regard to this matter other than our obligation under the settlement agreement.

i. *Workers’ Compensation Self-Insured Trust*

From August 2002 through August 2006, we participated in a self-insured trust to manage our workers’ compensation activity for our employees in New York State. All members of this trust have, by design, joint and several liability during the time they participate in the trust. In August 2006, we left the self-insured trust and have obtained alternative coverage for our workers’ compensation program through a third-party insurer. In the third quarter of 2006, we confirmed that the trust was in an underfunded position (i.e. the assets of the trust were insufficient to cover the actuarially projected liabilities associated with the members in the trust). In the third quarter of 2006, we recorded a liability and an associated expense of $350 as an estimate of our potential future cost related to the trust’s underfunded status based on our estimated level of participation. On April 28, 2008, we, along with all other members of the trust, were served by the State of New York Workers’ Compensation Board (“Compensation Board”) with a Summons with Notice that was filed in Albany County Supreme Court, wherein the Compensation Board put all members of the trust on notice that it would be seeking approximately $1,000 in previously billed and unpaid assessments and further assessments estimated to be not less than $25,000 arising from the accumulated estimated under-funding of the trust. The Summons with Notice did not contain a complaint or a specified demand. We timely filed a Notice of Appearance in response to the Summons with Notice. On June 16, 2008, we were served with a Verified Complaint. Subject to the results of a deficit reconstruction that was pending, the Verified Complaint estimated that the trust was underfunded by $9,700 during the period of December 1, 1997 — November 30, 2003 and an additional $19,400 for the period December 1, 2003 — August 31, 2006. The Verified Complaint estimated our pro-rata share of the liability for the period of December 1, 1997 — November 30, 2003 to be $195. The Verified Complaint did not contain a pro-rata share liability estimate for the period of December 1, 2003-August 31, 2006. Further, the Verified Complaint stated that all estimates of the underfunded status of the trust and the pro-rata share liability for the period of December 1, 1997-November 30, 2003 were subject to adjustment based on a forensic audit of the trust that was being conducted on behalf of the Compensation Board by a third-party audit firm. We timely filed our Verified Answer with Affirmative Defenses on July 24, 2008. In November 2009, the New York Attorney General’s office presented the results of the deficit reconstruction of the trust. As a result of the deficit reconstruction, the State of New York has determined that the trust was underfunded by $19,100 instead of $29,100. Our pro-rata share of the liability was determined to be $452. The Attorney General’s office has proposed a settlement by which we may avoid joint and several liability in exchange for settlement payment of $520. Under the terms of the settlement agreement, we can satisfy our obligations by either paying (i) a lump sum of $468, representing a 10% discount, (ii) paying the entire amount in twelve monthly installments of $43 commencing the month following execution of the settlement agreement, or (iii) paying the entire amount in monthly installments over a period of up to five years, with interest of 6.0, 6.5, 7.0, and 7.5% for the two, three, four and five year periods, respectively. The proposed settlement is potentially contingent on the Compensation Board receiving sufficient commitments from the defendants of the desired settlement amount of $14,500. As of December 31, 2009, we have adjusted our reserve to $520 to account for the twelve monthly installments settlement amount.

Note 7 — Shareholders' Equity

a. *Preferred Stock*

We have authorized 1,000,000 shares of preferred stock, with a par value of $0.10 per share. At December 31, 2009, no preferred shares were issued or outstanding.

b. *Common Stock*

We have authorized 40,000,000 shares of common stock, with a par value of $0.10 per share.

In November 2007, we issued 1,000,000 shares of common stock in a limited public offering at $13.50 per share. Total net proceeds from the offering were approximately $12,600, of which $6,000 was used for the Stationary Power cash payment, $3,500 was used as a prepayment on the subordinated convertible notes that were issued as partial consideration for the McDowell acquisition, $1,000 was used as a repayment of borrowings outstanding under our credit facility used to fund the RedBlack acquisition, and for general working capital purposes.

In August 2008, we issued 7,222 unrestricted shares of common stock to our non-employee directors, valued at $78. In November 2008, we issued 5,515 unrestricted shares of common stock to our non-employee directors, valued at $46.

In February 2009, we issued 4,388 unrestricted shares of common stock to our non-employee directors, valued at $37. In May 2009, we issued 10,725 unrestricted shares of common stock to our non-employee directors, valued at $76. In August 2009, we issued 11,881 unrestricted shares of common stock to our non-employee directors, valued at $76. In November 2009, we issued 19,345 unrestricted shares of common stock to our non-employee directors, valued at $77.

In September 2009, we issued 21,340 shares of common stock to four members of the AMTI management team in accordance with the asset purchase agreement for AMTI, valued at $136.

c. *Treasury Stock*

At December 31, 2009 and 2008, we had 1,358,507 and 942,202 shares, respectively, of treasury stock outstanding, valued at $7,558 and $4,232, respectively. The increase in treasury shares related to shares that were repurchased under our share repurchase program.

In October 2008, the Board of Directors authorized a share repurchase program of up to $10,000 to be implemented over the course of a six-month period. Repurchases were made from time to time at management's discretion, either in the open market or through privately negotiated transactions. The repurchases were made in compliance with Securities and Exchange Commission guidelines and were subject to market conditions, applicable legal requirements, and other factors. We had no obligation under the program to repurchase shares and the program could have been suspended or discontinued at any time without prior notice. We funded the purchase price for shares acquired primarily with current cash on hand and cash generated from operations, in addition to borrowing from our credit facility, as necessary. Under this repurchase program, we have made the following share repurchases:

	2009		2008	
Years Ended December 31,	**Shares**	**Amount**	**Shares**	**Amount**
First Quarter	416,305	$ 3,326	—	$ —
Second Quarter	—	—	—	—
Third Quarter	—	—	—	—
Fourth Quarter	—	—	212,108	1,815
Total	416,305	$ 3,326	212,108	$ 1,815

d. *Stock Options*

We have various stock-based employee compensation plans, for which we follow the provisions of FASB's guidance on share-based payments, which requires that compensation cost relating to share-based payment transactions be 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 options, restricted stock and other equity-based awards. In addition, our shareholders have approved the grant of options outside of these plans.

In December 2000, our shareholders approved a stock option plan for grants to key employees, directors and consultants. The shareholders approved reservation of 500,000 shares of common stock for grant under the plan. In December 2002, the shareholders approved an amendment to the plan increasing the number of shares of common stock reserved by 500,000, to a total of 1,000,000.

In June 2004, shareholders adopted the 2004 Long-Term Incentive Plan ("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. In June 2006, shareholders approved an amendment to the LTIP, increasing the number of shares of Common Stock by an additional 750,000, bringing the total shares authorized under the LTIP to 1,500,000. In June 2008, the shareholders approved another amendment to the LTIP, increasing the number of shares of common stock by an additional 500,000, bringing the total shares authorized under the LTIP to 2,000,000.

Options granted under the amended stock option plan and the LTIP 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- or five-year period and expire on the sixth or seventh anniversary of the grant date. All NQSOs issued to non-employee directors vest immediately and expire on either the sixth or seventh anniversary of the grant date. Some NQSOs issued to non-employees vest immediately and expire within three years; others have the same vesting characteristics as options given to employees. As of December 31, 2009, there were 1,707,107 stock options outstanding under the amended 2000 stock option plan and the LTIP.

On December 19, 2005, we granted our President and Chief Executive Officer, John, D. Kavazanjian, an option to purchase shares of common stock at $12.96 per share outside of any of our equity-based compensation plans, subject to shareholder approval. Shareholder approval was obtained on June 8, 2006. The option to purchase 48,000 shares of common stock is fully vested. The option expires on June 8, 2013.

On March 7, 2008, in connection with his becoming employed with us, we granted our Chief Financial Officer and Treasurer, Philip A. Fain, an option to purchase 50,000 shares of common stock at $12.74 per share outside of any of our equity-based compensation plans. The option vests in annual increments of 16,667 shares over a three-year period which commenced March 7, 2009. The option expires on March 7, 2015.

On June 9, 2009, in connection with his becoming employed with us, we granted our former Vice-President of Finance and Chief Financial Officer, John C. Casper, an option to purchase 30,000 shares of common stock at $7.1845 per share outside of any of our equity-based compensation plans. The option was to vest in annual increments of 10,000 shares over a three-year period commencing June 9, 2010. As a result of his resignation in November 2009, this option grant has been cancelled.

In conjunction with FASB's guidance for share-based payments, we recorded compensation cost related to stock options of $964, $1,700 and $1,648 for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, there was $855 of total unrecognized compensation costs related to outstanding stock options, which is expected to be recognized over a weighted average period of 1.52 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, 2009, 2008 and 2007:

	Years Ended December 31,		
	2009	2008	2007
Risk-free interest rate	1.69%	2.33%	4.59%
Volatility factor	67.75%	59.46%	56.72%
Dividends	0.00%	0.00%	0.00%
Weighted average expected life (years)	3.55	3.55	3.75
Forfeiture rate	10.00%	7.00%	7.00%

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. 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 table summarizes data for the stock options issued by us:

	Year Ended December 31, 2009			
	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option at beginning of year	1,651,007	$ 12.33		
Options granted	620,070	5.71		
Options exercised	(103,860)	4.59		
Options cancelled	(362,110)	9.86		
Shares under option at end of year	1,805,107	$ 10.99	3.64 years	$ 152
Vested and expected to vest as end of year	1,697,301	$ 11.22	3.51 years	$ 127
Options exercisable at end of year	1,220,887	$ 12.95	2.51 years	$ —

	2008		2007	
Year Ended December 31,	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Shares under option at beginning of year	1,796,463	$ 11.51	1,815,471	$ 11.03
Options granted	197,000	13.19	263,000	10.49
Options exercised	(230,840)	6.93	(204,008)	6.43
Options cancelled	(84,616)	11.93	(105,000)	10.58
Shares under option at end of year	1,651,007	$ 12.33	1,769,463	$ 11.51
Options exercisable at end of year	1,146,645	$ 12.64	1,095,735	$ 12.18

The following table represents additional information about stock options outstanding at December 31, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Outstanding at December 31, 2009	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2009	Weighted-Average Exercise Price
$3.91- $3.91	369,250	6.72	$ 3.91	—	$ —
$5.18- $9.84	210,634	3.48	$ 9.62	169,307	$ 9.65
$9.95-$10.55	248,700	2.55	$ 10.19	242,700	$ 10.20
$10.70-$12.74	191,289	4.42	$ 12.07	101,407	$ 11.86
$12.85-$12.92	52,000	2.74	$ 12.89	52,000	$ 12.89
$12.96-$12.96	183,400	2.63	$ 12.96	162,800	$ 12.96
$13.22-$14.75	148,084	4.20	$ 13.43	90,923	$ 13.52
$15.05-$15.05	270,750	1.50	$ 15.05	270,750	$ 15.05
$16.15-$20.89	115,500	1.79	$ 18.10	115,500	$ 18.10
$21.28-$21.28	15,500	1.10	$ 21.28	15,500	$ 21.28
$3.91-$21.28	1,805,107	3.64	$ 10.99	1,220,887	$ 12.95

The weighted average fair value of options granted during the years ended December 31, 2009, 2008 and 2007 was $2.77, $5.71 and $4.84. 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, 2009, 2008 and 2007 was $390, $1,651 and $1,526.

FASB's guidance for share-based payments requires cash flows from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to stock compensation costs for such options. We did not record any excess tax benefits in 2009, 2008 or 2007. Cash received from option exercises under our stock-based compensation plans for the years ended December 31, 2009, 2008 and 2007 was $226, $1,517 and $1,314, respectively.

e. *Warrants*

On May 19, 2006, in connection with our acquisition of ABLE New Energy Co., Ltd., we granted warrants to acquire 100,000 shares of common stock. The exercise price of the warrants is $12.30 per share and the warrants have a five-year term. In January 2008, 82,000 warrants were exercised, for total proceeds received of $1,009. In January 2009, 10,000 warrants were exercised, for total proceeds received of $123. At December 31, 2009, there were 8,000 warrants outstanding.

f. *Restricted Stock Awards*

During 2009, we issued 16,286 time-vested restricted stock awards to our executive officers. The restrictions will lapse over a three-year period in equal installments, commencing on the first anniversary of the grant date (January 14, 2009). As of December 31, 2009, none of these shares had vested.

During 2009, we issued 6,000 time-vested restricted stock awards to our former Vice-President of Finance and Chief Financial Officer, John C. Casper. The restrictions were to lapse over a two-year period in equal installments, commencing on the first anniversary of the grant date (June 9, 2009). As a result of his resignation in November 2009, this restricted stock award has been cancelled.

During 2009, we issued 2,500 performance-vested restricted stock awards to our former Vice-President of Finance and Chief Financial Officer, John C. Casper. The restrictions were to lapse only if we met or exceeded the same predetermined target for our operating performance for 2009 as used for determining cash awards pursuant to the non-equity incentive plan. As a result of his resignation in November 2009, this restricted stock award has been cancelled.

During 2008, we issued 1,800 time-vested restricted stock awards to our Chief Financial Officer and Treasurer, Philip A. Fain. The restrictions will lapse over a three-year period in equal installments, commencing on the March 1, 2009. As of December 31, 2009, 600 of these shares had vested.

During 2008, we issued 5,000 performance-vested restricted stock awards to our Chief Financial Officer and Treasurer, Philip A. Fain. The restrictions will lapse in two equal installments only if we met or exceeded the same predetermined target for our operating performance for 2008 and 2009 as used for determining cash awards pursuant to the non-equity incentive plan. In March 2009, the restrictions on 2,500 shares were removed as a result of our 2008 performance.

During 2007, we issued 28,948 restricted stock awards to directors. The restrictions lapsed in equal installments of 7,237 shares on August 15, 2007, November 15, 2007, February 15, 2008 and May 15, 2008. As of December 31, 2009, all 28,948 of these shares had vested.

During 2007, we issued 22,600 time-vested restricted stock awards to our executive officers. The restrictions for 10,000 of these restricted stock awards will lapse annually in three equal installments, commencing on March 1, 2008. The restrictions for the remaining 12,600 restricted stock awards will lapse annually in three equal installments, commencing on March 1, 2009. As of December 31, 2009, 12,100 of these shares had vested.

Restricted stock grants awarded during the years ended December 31, 2009, 2008 and 2007 had the following values:

	Years Ended December 31,		
	2009	2008	2007
Number of shares awarded	24,786	6,800	51,548
Weighted average fair value per share	$ 7.44	$ 12.59	$ 11.85
Aggregate total value	$ 185	$ 86	$ 611

The activity of restricted stock grants of common stock for the years ended December 31, 2009, 2008 and 2007 is summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as December 31, 2006	72,334	$ 10.50
Granted	51,548	11.85
Vested	(31,979)	10.46
Forfeited	—	—
Unvested at December 31, 2007	91,903	$ 11.28
Granted	6,800	12.59
Vested	(22,039)	11.02
Forfeited	—	—
Unvested at December 31, 2008	76,664	$ 11.47
Granted	24,786	7.44
Vested	(31,093)	11.60
Forfeited	(23,830)	9.81
Unvested at December 31, 2009	46,527	$ 11.42

We recorded compensation cost related to restricted stock grants of $100, $442 and $501 for the years ended December 31, 2009, 2008 and 2007, respectively. During the third quarter of 2009, we determined that the performance measures for certain performance-based restricted stock grants would not be achieved. Therefore, these restricted stock grants will not vest, and we reversed the prior period recognized expense of $301 for these performance-based restricted stock grants. As of December 31, 2009, we had $227 of total unrecognized compensation expense related to restricted stock grants, which is expected to be recognized over the remaining weighted average period of approximately 0.89 years. The total fair value of these grants that vested during the years ended December 31, 2009, 2008 and 2007 was $209, $271 and $334, respectively.

g. *Reserved Shares*

We have reserved 2,106,617, 2,183,392, and 1,934,598 shares of common stock under the various stock option plans, warrants and restricted stock awards as of December 31, 2009, 2008, and 2007 respectively.

Note 8 — Income Taxes

The provision for income taxes consists of:

	December 31, 2009	December 31, 2008	December 31, 2007
Current:			
Federal	$ 17	$ 559	$ —
State	14	23	—
	31	582	—
Deferred:			
Federal	360	3,453	—
State	—	—	—
Foreign	—	(156)	77
	360	3,297	77
Total	$ 391	$ 3,879	$ 77

We reflected a tax provision of $391 for the year ended December 31, 2009. The 2009 tax provision is principally a result of the increase in the net deferred tax liability related to liabilities generated from goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carryforward periods. The current federal tax provision relates to additional 2008 income tax that was paid in 2009. We were not subject to the alternative minimum tax in the U.S. in 2009.

We reflected a tax provision of $3,879 for the year ended December 31, 2008. The 2008 tax provision included an approximate $3,100 non-cash charge to record a deferred tax liability for liabilities generated from goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carryforward periods. Substantially all of this adjustment related to book/tax differences that occurred during 2007 and were identified during the second quarter of 2008. In connection with this adjustment, we reviewed the illustrative list of qualitative considerations provided in SEC Staff Accounting Bulletin No. 99 and other qualitative factors in our determination that this adjustment was not material to the 2007 consolidated financial statements or this annual report on Form 10-K. The 2008 tax provision was also due to the application of the limitation of net operating losses in the computation of the alternative minimum tax in the U.S. Therefore, we were subject to income taxes for the year ended December 31, 2008. In addition, we recognized a deferred tax benefit for the losses recorded in China.

We reflected a tax provision of $77 for the year ended December 31, 2007. This was due to the adjustment required for deferred taxes outside the United States.

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:

	December 31, 2009	December 31, 2008
Deferred tax liabilities:		
Property, plant and equipment	$ 1,155	$ 1,549
Intangible assets and other	2,683	2,215
Total deferred tax liabilities	3,838	3,764
Deferred tax assets:		
Net operating loss carryforwards	19,161	18,510
Accrued expenses, reserves and other	6,298	5,064
Investments	342	342
Total deferred tax assets	25,801	23,916
Valuation allowance for deferred tax assets	(25,775)	(23,605)
Net deferred tax assets	26	311
Net deferred tax liability	$ (3,812)	$ (3,453)

The $3,812 net deferred tax liability for the year ended December 31, 2009 is comprised of a long-term deferred tax liability of $4,100, offset in part by a current deferred tax asset of $288. The $3,453 net deferred tax liability for the year ended December 31, 2008 is comprised of a long-term deferred tax liability of $3,894, offset in part by a current deferred tax asset of $441.

In 2009, 2008 and 2007, we continue to report a valuation allowance for our deferred tax assets that cannot be offset by reversing temporary differences in the U.S., the U.K. and China arising from the conclusion that we would not be able to utilize our U.S., U.K. and China NOL's that had accumulated over time. The recognition of the valuation allowance on our deferred tax asset resulted from our evaluation of all available evidence, both positive and negative. The assessment of the realizability of the NOL's was based on a number of factors including, our history of net operating losses, the volatility of our earnings, our historical operating volatility, our historical ability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate as of the end of 2009. We concluded that these factors represent sufficient negative evidence and have concluded that we should record a full valuation allowance under FASB's guidance on the accounting for income taxes. We continually assess the carrying value of this asset based on relevant accounting standards.

As of December 31, 2009, we have foreign and domestic NOL's totaling approximately $61,257 available to reduce future taxable income. Foreign loss carryforwards of approximately $10,624 can be carried forward indefinitely. The domestic NOL carryforward of $50,633 expires from 2019 through 2029. The domestic NOL includes approximately $2,867 of the NOL carryforward for which a benefit will be recorded in capital in excess of par value when realized.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred during 2005 and 2006. As such, the domestic NOL carryforward will be subject to an annual limitation estimated to be in the range of approximately $12,000 to $14,500. The unused portion of the annual limitation can be carried forward to subsequent periods. We believe such limitation will not impact our ability to realize the deferred tax asset. In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. This limitation did not have an impact on income taxes determined for 2009 and 2007. However, this limitation did have an impact of $559 on income taxes for 2008. The use of our U.K. NOL carryforwards may be limited due to the change in the U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center.

For financial reporting purposes, income (loss) before income taxes is as follows:

	December 31, 2009	December 31, 2008	December 31, 2007
United States	$ (6,317)	$ 21,364	$ 3,145
Foreign	(2,523)	(3,860)	2,515
Total	$ (8,840)	$ 17,504	$ 5,660

There are no undistributed earnings of our foreign subsidiaries, at December 31, 2009 or December 31, 2008.

We have been granted a tax holiday in China. As a result of new legislation effective for 2008, ABLE's corporate income rate increased to 9%, which is 50% of the new 2008 tax rate of 18%. For 2009, ABLE's corporate income rate increased to 10%, which is 50% of the normal 20% tax rate for the jurisdiction in which we operate. Thereafter, our tax rate in China will be phased in until ultimately reaching a rate of 25% in 2012. During the years ended December 31, 2009, 2008 and 2007, we realized no tax benefits from the tax holiday due to taxable losses.

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 before income taxes as follows:

	December 31, 2009	December 31, 2008	December 31, 2007
Provision/(benefit) computed using the statutory rate	(34.0)%	34.0%	34.0%
Increase (reduction) in taxes resulting from:			
State tax, net of federal benefit	.1	(0.1)	0.0
Foreign	9.6	6.5	(14.0)
Valuation allowance/deferred impact	23.1	(21.6)	(27.3)
Compensation	4.1	2.7	7.8
Other	1.5	0.7	0.9
Provision for income taxes	4.4%	22.2%	1.4%

In 2009, the provision for income taxes was higher than what would be expected if the statutory rate were applied to pretax income. This is due to the continuation of reflecting a full valuation allowance for our U.S, U.K. and China deferred tax assets, and therefore, no recognition of a tax benefit for the losses in 2009. In 2008, the provision for income taxes was lower than what would be expected if the statutory rate were applied to pretax income. This is due to the continuation of reflecting a full valuation allowance for our U.S and U.K. deferred tax assets. In 2007, the provision for income taxes was lower than what would be expected if the statutory rate were applied to pretax income. This is due to the continuation of reflecting a full valuation allowance for our U.S. and U.K. deferred tax assets. In addition, there was a lower than expected tax rate on our non-U.S. income due to the reduction of our valuation allowance on our foreign deferred tax assets.

Accounting for Uncertainty in Income Taxes

On January 1, 2007, we adopted FASB's guidance for the Accounting for Uncertainty in Income Taxes. As a result of the implementation of this guidance, there was no cumulative effect adjustment for unrecognized tax benefits, which would have been accounted for as an adjustment to the January 1, 2007 balance of retained earnings. We have recorded no liability for income taxes associated with unrecognized tax benefits at the date of adoption and have not recorded any liability associated with unrecognized tax benefits during 2007, 2008 and 2009, and as such, have not recorded any interest or penalty in regard to any unrecognized benefit. Our policy regarding interest and/or penalties related to income tax matters is to recognize such items as a component of income tax expense (benefit). It is possible that a liability associated with our unrecognized tax benefits will increase or decrease within the next twelve months.

We file a consolidated income tax return in the U.S. federal jurisdiction and consolidated and separate income tax returns in many state and foreign jurisdictions. Our U.S. tax matters for the years 2005 through 2009 remain subject to examination by the Internal Revenue Service ("IRS"). Our U.S. tax matters for the years 2004 through 2009 remain subject to examination by various state and local tax jurisdictions. Our tax matters for the years 2004 through 2009 remain subject to examination by the respective foreign tax jurisdiction authorities.

Note 9 — 401(k) 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 Board of Directors discretion, authorize an employer contribution based on a portion of the employees' contributions. Effective February 2004, the Board of Directors approved our matching of employee contributions at the rate of 50% of the first 4% contributed by an employee, or a maximum of 2% of the employee's income. In November 2005, the employer match was suspended in an effort to conserve cash. In October 2007, the employer match was reinstated at the rate of 50% of the first 4% contributed by an employee, or a maximum of 2% of the employee's income. During the fourth quarter of 2009, the employer match was temporarily suspended in an effort to conserve cash and control costs. In January 2010, the employer match was reinstated at the rate of 50% of the first 4% contributed by an employee, or a maximum of 2% of the employee's income. For 2009, 2008, and 2007 we contributed $333, $363, and $63, respectively.

Note 10 — Business Segment Information

We report our results in four operating segments: Non-Rechargeable Products, Rechargeable Products, Communications Systems and Design and Installation Services. The Non-Rechargeable Products segment includes: lithium 9-volt, cylindrical and various other non-rechargeable batteries. The Rechargeable Products segment includes: rechargeable batteries, charging systems, uninterruptable power supplies and accessories, such as cables. The Communications Systems segment includes: power supplies, cable and connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment and integrated communication system kits. The Design and Installation Services segment includes: standby power and communications and electronics systems design, installation and maintenance activities and revenues and related costs associated with various development contracts. We look at our segment performance at the gross margin level, and we do not allocate research and development or selling, general and administrative costs against the segments. All other items that do not specifically relate to these four segments and are not considered in the performance of the segments are considered to be Corporate charges.

Beginning with our first quarterly report on Form 10-Q for fiscal 2010, we will report, in line with how we manage our business operations, our results in three operating segments instead of four: Battery & Energy Products; Communications Systems; and Energy Services. The Non-rechargeable Products and Rechargeable Products segments will be combined into a single segment called Battery & Energy Products. The Communications Systems segment will include our RedBlack Communications business, which was previously included in the Design & Installation Services segment. The Design & Installation Services segment will be renamed Energy Services and will continue to encompass our standby power business. Research, design and development contract revenues and expenses, which were previously included in the Design & Installation Services segment, will be captured under the respective operating segment in which the work is performed.

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2009

	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Corporate	Total
Revenues	$ 65,697	$ 42,295	$ 43,448	$ 20,669	$ —	$ 172,109
Segment contribution	12,404	9,117	13,057	2,282	(44,222)	(7,362)
Interest expense, net					(1,465)	(1,465)
Miscellaneous					(13)	(13)
Income taxes-current					(31)	(31)
Income taxes-deferred					(360)	(360)
Noncontrolling interest					(10)	(10)
Net loss attributable to Ultralife						(9,241)
Total assets	35,294	21,127	43,904	20,880	9,961	131,166
Capital expenditures	758	377	59	226	615	2,035
Depreciation and amortization	2,459	81	189	170	2,828	5,727
Stock-based compensation	36	—	—	18	1,276	1,330

2008

	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Corporate	Total
Revenues	$ 68,076	$ 34,691	$ 136,072	$ 15,861	$ —	$ 254,700
Segment contribution	10,791	6,818	36,805	2,529	(39,638)	17,305
Interest expense, net					(930)	(930)
Gain on debt conversion					313	313
Miscellaneous					816	816
Income taxes-current					(582)	(582)
Income taxes-deferred					(3,297)	(3,297)
Noncontrolling interest					38	38
Net income attributable to Ultralife						13,663
Total assets	42,820	26,291	33,539	20,996	5,941	129,587
Capital expenditures	2,716	66	38	97	870	3,787
Depreciation and amortization	2,697	90	68	89	3,026	5,970
Stock-based compensation	148	—	—	40	2,078	2,266

2007

	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Corporate	Total
Revenues	$ 80,262	$ 16,756	$ 37,140	$ 3,438	$ —	$ 137,596
Segment contribution	17,747	3,578	6,693	756	(28,973)	(199)
Interest expense, net					(2,184)	(2,184)
Gain on McDowell settlement					7,550	7,550
Miscellaneous					493	493
Income taxes-current					—	—
Income taxes-deferred					(77)	(77)
Noncontrolling interest					—	—
Net income attributable to Ultralife						5,583
Total assets	44,921	20,733	32,706	15,713	7,975	122,048
Capital expenditures	1,671	16	7	41	338	2,073
Depreciation and amortization	2,710	194	58	23	3,193	6,178
Stock-based compensation	191	2	1	3	1,952	2,149

Geographical Information

	Revenues			Long-Lived Assets		
	2009	2008	2007	2009	2008	2007
United Kingdom	$ 8,765	$ 18,098	22,140	$ 730	1,085	2,356
China	2,604	2,357	1,566	1,479	1,808	1,281
Hong Kong	1,242	844	1,672	—	—	—
India*	384	115	—	65	51	—
Europe, excluding United Kingdom	9,390	8,628	8,775	—	—	—
Japan	1,190	3,651	3,520	—	—	—
Singapore	362	1,193	244	—	—	—
Canada	5,339	9,699	12,903	—	—	—
Australia	1,193	1,538	3,390	—	—	—
Other	3,604	3,205	4,123	—	—	—
Total Non-U.S.	34,073	49,328	58,333	2,274	2,944	3,637
United States	138,036	205,372	79,263	14,374	15,521	15,728
Total	$ 172,109	$ 254,700	$ 137,596	$ 16,648	$ 18,465	$ 19,365

* Geographical data for 2007 included in “Other” category.

Long-lived assets represent the sum of the net book value of property, plant and equipment.

Note 11 — Fire at Manufacturing Facility

In November 2006, we experienced a fire that damaged certain inventory and property at our facility in China, which began in a battery storage area. Certain inventory and portions of buildings were damaged. We believe we maintain adequate insurance coverage for this operation. The total amount of the loss pertaining to assets and the related expenses was approximately $849. The majority of the insurance claim is related to the recovery of damaged inventory. In July 2007, we received approximately $637 as a partial payment on our insurance claim, which resulted in no gain or loss being recognized. In March 2008, we received a final settlement payment of $191, which offset the outstanding receivable of approximately $152 and resulted in a non-operating gain of approximately $39.

Note 12 — Selected Quarterly Information (unaudited)

The following table presents reported net revenues, gross margin (net sales less cost of products sold), net income (loss) attributable to Ultralife and net income (loss) attributable to Ultralife common share, basic and diluted, for each quarter during the past two years:

	Quarter ended				
2009	**March 29, 2009**	**June 28, 2009**	**Sept 27, 2009**	**Dec 31, 2009**	**Full Year**
Revenues	$ 39,803	$ 39,593	$ 42,363	$ 50,350	$ 172,109
Gross margin	7,781	6,780	10,364	11,935	36,860
Net income (loss) attributable to Ultralife	(2,512)	(6,964)	(605)	840	(9,241)
Net income (loss) attributable to Ultralife common shares-basic	(0.15)	(0.41)	(0.04)	0.05	(0.54)
Net income (loss) attributable to Ultralife common share- diluted	(0.15)	(0.41)	(0.04)	0.05	(0.54)

	Quarter ended				
2008	**March 29, 2008**	**June 28, 2008**	**Sept 27, 2008**	**Dec 31, 2008**	**Full Year**
Revenues	$ 49,587	$ 87,898	$ 67,993	$ 49,222	$ 254,700
Gross margin	10,875	20,628	15,686	9,754	56,943
Net income attributable to Ultralife	2,434	6,395	4,657	177	13,663
Net income attributable to Ultralife common shares-basic	0.14	0.37	0.27	0.01	0.79
Net income attributable to Ultralife common share- diluted	0.14	0.36	0.26	0.01	0.78

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

Quarterly and year-to-date computations of per share amounts are made independently; therefore, the sum of per share amounts for the quarters may not equal per share amounts for the year.

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 the 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, the 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 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 the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. 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. Based on our assessment, we concluded that, as of December 31, 2009, our internal control over financial reporting was effective based on those criteria. Our assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of AMTI, which was acquired on March 20, 2009, and which is included in the consolidated balance sheet of Ultralife Corporation as of December 31, 2009, and the related consolidated statements of operations, shareholders' equity and accumulated other comprehensive income (loss), and cash flows for the year then ended. AMTI constituted 5% and 8% of total assets and net assets, respectively, as of December 31, 2009, and 7% and 14% of revenues and net loss attributable to Ultralife, respectively, for the year then ended. We did not assess the effectiveness of internal control over financial reporting of AMTI because of the timing of the acquisition during 2009.

BDO Seidman, LLP, an independent registered public accounting firm that audited the financial statements included in this report, has issued a report on the operating effectiveness of internal control over financial reporting. A copy of the report follows:

Report of Independent Registered Public Accounting Firm on Internal Controls Over Financial Reporting

Board of Directors and Shareholders
Ultralife Corporation
Newark, New York

We have audited Ultralife Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Ultralife Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A — Controls and Procedures." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

As indicated in the accompanying "Management's Report on Internal Control over Financial Reporting," included in "Item 9A — Controls and Procedures," management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of AMTI, which was acquired on March 20, 2009, and which is included in the consolidated balance sheet of Ultralife Corporation as of December 31, 2009, and the related consolidated statements of operations, shareholders' equity and accumulated other comprehensive loss, and cash flows for the year then ended. AMTI constituted 5% and 8% of total assets and net assets, respectively, as of December 31, 2009, and 7% and 14% of revenues and net loss, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of this acquired entity because of the timing of the acquisition. Our audit of internal control over financial reporting of Ultralife Corporation also did not include an evaluation of the internal control over financial reporting of AMTI.

In our opinion, Ultralife Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ultralife Corporation as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity and accumulated other comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2009 and our report dated March 16, 2010 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Troy, Michigan
March 16, 2010

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 2010 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 Report" 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	1,757,107	$ 10.94	293,510
Equity compensation plans not approved by security holders	94,527	12.20	—
Total	1,851,634	$ 11.00	293,510

See Note 7 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 2 — Ratify the Selection of Independent Registered Accounting Firm — Principal Accountant Fees and Services" in the Proxy Statement is incorporated herein by reference.

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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.

2. Financial Statement Schedules

   Schedule II — Valuation and Qualifying Accounts See Item 15 (c)

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

Exhibit Index	Description of Document	Incorporated By Reference from:
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	By-laws	Exhibit 3.2 of Registration Statement, No 33-54470 (the “1992 Registration Statement”)
3.3	Amendment to By-laws	Filed herewith
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 Batteries, Inc. 2000 Stock Option Plan	Exhibit 99.1 of our Registration Statement on Form S-8 filed on May 15, 2001, File No. 333-60984 (the “2001 Registration Statement”)
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	Form of Resale Restriction Agreement between the Registrant and option holders dated as of December 28, 2005	Exhibit 10 of Form 8-K filed December 30, 2005
10.7	Agreement on Transfer of Shares in ABLE New Energy Co., Limited dated January 25, 2006	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended April 1, 2006 (the “March 2006 10-Q)
10.8	First Amendment to Agreement on Transfer of Shares in ABLE New Energy Co., Limited	Exhibit 10.2 of the March 2006 10-Q

Exhibit Index	Description of Document	Incorporated By Reference from:
10.9	Agreement on Transfer of Equity Shares in ABLE New Energy Co., Ltd dated January 25, 2006	Exhibit 10.3 of the March 2006 10-Q
10.10†	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
10.11	Stock Purchase Agreement by and among Innovative Solutions Consulting, Inc., Michele A. Aloisio, Marc DeLaVergne, Thomas R. Knowlton, Kenneth J. Wood, W. Michael Cooper, and the Registrant, dated September 12, 2007	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended September 29, 2007, filed November 7, 2007
10.12	Placement Agency Agreement dated November 8, 2007 by and between the Registrant and Stephens, Inc.	Exhibit 10.1 of the Form 8-K filed November 9, 2007
10.13	Stock Purchase Agreement by and among Stationary Power Services, Inc., William Maher, and the Registrant dated October 30, 2007	Exhibit 10.48 of the Form 10-K for the year ended December 31, 2007, filed March 19, 2008
10.14	Subordinated Convertible Promissory Note with William Maher	Exhibit 10.49 of the Form 10-K for the year ended December 31, 2007, filed March 19, 2008
10.15	Stock Purchase Agreement by and among Reserve Power Systems, Inc., William Maher, Edward Bellamy, and the Registrant dated October 30, 2007	Exhibit 10.50 of the Form 10-K for the year ended December 31, 2007, filed March 19, 2008
10.16	Amendment Number Ten to the Credit Agreement dated as of April 23, 2008, with the Lenders Party Thereto and JPMorgan Chase Bank as Administrative Agent	Exhibit 10.1 of the Form 8-K filed on April 25, 2008
10.17†	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
10.18†	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
10.19	Asset Purchase Agreement by and among U.S. Energy Systems, Inc., Ken Cotton, Shawn O'Connell, Simon Baitler, and the Registrant and Stationary Power Services, Inc. dated October 31, 2008	Exhibit 10.34 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009
10.20	Asset Purchase Agreement by and among U.S. Power Services, Inc., Ken Cotton, Shawn O'Connell, Simon Baitler, and the Registrant and Stationary Power Services, Inc. dated October 31, 2008	Exhibit 10.35 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009
10.21†	Amendment to Employment Agreement between the Registrant and John D. Kavazanjian	Exhibit 10.36 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009
10.22†	Amendment to Employment Agreement between the Registrant and William A. Schmitz	Exhibit 10.37 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009

Exhibit Index	Description of Document	Incorporated By Reference from:
10.23†	Amendment to Employment Agreement between the Registrant and Robert W. Fishback	Exhibit 10.38 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009
10.24†	Amendment to Employment Agreement between the Registrant and Peter F. Comerford	Exhibit 10.39 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009
10.25	Amended and Restated Credit Agreement dated as of January 27, 2009, with the Lenders Party Hereto and JPMorgan Chase Bank, N.A. as Administrative Agent	Exhibit 99.1 of the Form 8-K filed on February 2, 2009
10.26	Amendment No.1 to the Stock Purchase Agreement by and among Innovative Solutions Consulting, Inc., Michele A. Aloisio, Marc DeLaVergne, Thomas R. Knowlton, Kenneth J. Wood, W. Michael Cooper, and the Registrant, dated September 12, 2007	Exhibit 99.1 of the Form 8-K filed on February 13, 2009
10.27	Amended and Restated Subordinated Promissory Note with William Maher effective March 28, 2009	Exhibit 10.3 of the Form 10-Q for the fiscal quarter ended March 29, 2009, filed May 7, 2009
10.28†	Employment Agreement between the Registrant and John D. Kavazanjian	Exhibit 99.1 of the Form 8-K filed on July 9, 2009
10.29†	Employment Agreement between the Registrant and William A. Schmitz	Exhibit 99.2 of the Form 8-K filed on July 9, 2009
10.30†	Employment Agreement between the Registrant and Peter F. Comerford	Filed herewith
10.31	Waiver and Amendment Number One to Amended and Restated Credit Agreement as of June 28, 2009, with the Lenders Party Thereto and JPMorgan Chase Bank, N.A. as Administrative Agent	Exhibit 10.4 of the Form 10-Q for the fiscal quarter ended June 28, 2009, filed August 10, 2009
10.32	Forbearance and Amendment Number Two to Amended and Restated Credit Agreement as of January 22, 2010, with the Lenders Party Thereto and JPMorgan Chase Bank, N.A. as Administrative Agent	Filed herewith
10.33	Credit Agreement with RBS Business Capital, a division of RBS Asset Finance, Inc. dated as of February 17, 2010	Filed herewith
10.34	Revolving Credit Note with RBS Business Capital, a division of RBS Asset Finance, Inc. dated as of February 17, 2010	Filed herewith
10.35	Form of Security Agreement between RBS Business Capital, a division of RBS Asset Finance, Inc. and each of Ultralife Corporation, McDowell Research Co., Inc., RedBlack Communications, Inc. and Stationary Power Services, Inc. dated as of February 17, 2010	Filed herewith

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Exhibit Index	Description of Document	Incorporated By Reference from:
10.36	Pledge and Security Agreement in favor of RBS Business Capital, a division of RBS Asset Finance, Inc. dated as of February 17, 2010	Filed herewith
10.37	Negative Pledge — Real Property with RBS Business Capital, a division of RBS Asset Finance, Inc. dated as of February 17, 2010	Filed herewith
10.38	Patents Security Agreement with RBS Business Capital, a division of RBS Asset Finance, Inc. dated as of February 17, 2010	Filed herewith
10.39	Trademark Security Agreement with RBS Business Capital, a division of RBS Asset Finance, Inc. dated as of February 17, 2010	Filed herewith
21	Subsidiaries	Filed herewith
23.1	Consent of BDO Seidman, LLP	Filed herewith
31.1	CEO 302 Certifications	Filed herewith
31.2	CFO 302 Certifications	Filed herewith
32.1	906 Certifications	Filed herewith

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

† Management contract or compensatory plan or arrangement.

(c) Financial Statement Schedules.

The following financial statement schedules of the Registrant are filed herewith:

Schedule II — Valuation and Qualifying Accounts

		Additions			
	December 31, 2008	Charged to Expense	Charged to Other Accounts	Deductions	December 31, 2009
Allowance for doubtful accounts	$ 1,086	$ 188	$ (42)	$ 208	$ 1,024
Inventory reserves	2,850	1,123	17	—	3,990
Warranty reserves	1,010	387	—	215	1,182
Deferred tax valuation allowance	23,605	360	—	(1,810)	25,775

		Additions			
	December 31, 2007	Charged to Expense	Charged to Other Accounts	Deductions	December 31, 2008
Allowance for doubtful accounts	$ 485	$ 675	$ (11)	$ 63	$ 1,086
Inventory reserves	2,333	619	(65)	37	2,850
Warranty reserves	501	921	—	412	1,010
Deferred tax valuation allowance	27,149	3,297	—	6,841	23,605

		Additions			
	December 31, 2006	Charged to Expense	Charged to Other Accounts	Deductions	December 31, 2007
Allowance for doubtful accounts	$ 447	$ 101	$ 6	$ 69	$ 485
Inventory reserves	1,206	1,323	—	196	2,333
Warranty reserves	522	210	—	231	501
Deferred tax valuation allowance	30,526	—	—	3,377	27,149

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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: March 16, 2010	By: /s/ John D. Kavazanjian John D. Kavazanjian President and Chief Executive Officer

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: March 16, 2010	/s/ John D. Kavazanjian John D. Kavazanjian President, Chief Executive Officer and Director (Principal Executive Officer)
Date: March 16, 2010	/s/ Philip A. Fain Philip A. Fain Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
Date: March 16, 2010	/s/ Carole Lewis Anderson Carole Lewis Anderson (Director)
Date: March 16, 2010	/s/ Patricia C. Barron Patricia C. Barron (Director)
Date: March 16, 2010	/s/ Anthony J. Cavanna Anthony J. Cavanna (Director)
Date: March 16, 2010	/s/ Paula H. J. Cholmondeley Paula H. J. Cholmondeley (Director)
Date: March 16, 2010	/s/ Daniel W. Christman Daniel W. Christman (Director)
Date: March 16, 2010	Thomas L. Saeli (Director)
Date: March 16, 2010	Ranjit C. Singh (Director)
Date: March 16, 2010	/s/ Bradford T. Whitmore Bradford T. Whitmore (Director)

Exhibit 3.3

AMENDMENT TO THE BY-LAWS
OF
ULTRALIFE BATTERIES, INC.

The By-Laws of Ultralife Batteries, Inc. duly adopted by the Board, are hereby amended by replacing the first sentence of Article III, Section 1 in its entirety with the following:

ARTICLE III-DIRECTORS

SECTION 1. NUMBER AND TERM. — Except as otherwise provided in the certification of incorporation, the number of directors which shall constitute the whole Board shall be nine.

Except as modified herein, the By-Laws remain the same.

Exhibit 10.30

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into on July 6, 2009, by and between Peter F. Comerford, an individual ("Executive") and Ultralife Corporation, a Delaware corporation (the "Company").

Recitals

WHEREAS, the Company and Executive desire to establish an agreement pursuant to which Executive will be retained as the Vice President of Administration and General Counsel of the Company, effective July 6, 2009, and to provide for Executive's employment by the Company upon the terms and conditions set forth herein.

Agreement

Now, Therefore, in consideration of the mutual covenants contained herein, the parties hereby agree as follows:

1. Employment. Executive will serve as Vice President of Administration and General Counsel of the Company for the Employment Term specified in Section 2 below. Executive will report to the Chief Executive Officer of the Company (the "Chief Executive Officer") and the Board of Directors of the Company (the "Board"), and Executive will render such services, consistent with the foregoing role, as the Chief Executive Officer or the Board may from time to time direct.

2. Term. The employment of Executive pursuant to this Agreement shall continue from the effective date noted in the Recitals through the end of the calendar year (the "Employment Term"), unless extended or earlier terminated as provided in this Agreement. The Employment Term shall automatically be extended for additional one-year periods commencing on January 1 of each year and continuing each year thereafter, unless either Executive or the Company gives the other written notice, in accordance with Section 12(a) and at least ninety (90) days prior to the then scheduled expiration of the Employment Term, of such party's intention not to extend the Employment Term.

3. Salary. As compensation for the services rendered by Executive under this Agreement, the Company shall pay to Executive a base salary initially equal to $209,999.92 per year ("Base Salary") for calendar year 2009, payable to Executive in accordance with the Company's payroll practices. The Base Salary shall be subject to adjustment by the Board but may not be decreased unless it is part of a strategic measure required by the Company to meet deteriorating financial or economic conditions.

4. Bonus. In addition to his Base Salary, Executive shall be entitled to participate in the Company's executive bonus program. Bonuses shall be paid in accordance with the guidelines set forth under the bonus program but in all events a bonus shall be paid between January 1 and December 31 of the year following the year in which the bonus is earned.

5. Executive Benefits.

(a) Employee and Executive Benefits. Executive will be entitled to receive all benefits provided to senior executives, executives and employees of the Company generally, provided that in respect to each such plan Executive is otherwise eligible and insurable in accordance with the terms of such plans.

(b) PTO and Sabbatical. Executive shall be entitled to Paid Time Off, holidays and sabbatical in accordance with the policies of the Company as they exist.

6. Severance Benefits.

(a) At Will Employment. Executive's employment shall be "at will." Either the Company or Executive may terminate this Agreement and Executive's employment at any time, with or without Business Reasons (as defined in Section 7(a) below), in its or his sole discretion, upon sixty (60) days' prior written notice of termination.

(b) Involuntary Termination. If at any time during the term of this Agreement, other than following a Change in Control to which Section 6(c) applies, the Company terminates the employment of Executive without Business Reasons or a Constructive Termination occurs, then Executive shall be entitled to receive the following:

(i) salary and the cash value of any accrued Paid Time Off (consistent with the Company's Paid Time Off policies then in effect) through the Termination Date plus continued salary for a period of eighteen (18) months following the Termination Date, payable in accordance with the Company's regular payroll schedule as in effect from time to time,

(ii) an amount equal to the average of the bonuses paid to Executive during the two preceding fiscal years or, if no bonuses were paid during such period, an amount equal to Executive's then current annual target bonus, to be paid between January 1 and December 31 of the year following the year in which the termination occurs,

(iii) acceleration of vesting of all outstanding stock options and other equity arrangements (including but not limited to restricted stock, stock appreciation rights, and such instruments) subject to vesting and held by Executive subject to the provision, however, that the acceleration shall not cover more than two (2) years from the Termination Date (and in this regard, all such options and other exercisable rights held by Executive shall remain exercisable for one year following the Termination Date, or through the original expiration date of the stock options or other exercisable rights, if earlier),

(iv) to the extent COBRA shall be applicable to the Company, continuation of health benefits for Executive, Executive's spouse and any dependent children, at Executive's cost, for a period of 18 months after the Termination Date or such longer period as may be applicable under the Company's policies then in effect, provided the Executive makes the appropriate election and payments, and

(v) no other compensation, severance or other benefits, except only that this provision shall not limit any benefits otherwise available to Executive under Section 6(c) in the case of a termination following a Change in Control.

(c) Change in Control. If at any time during the term of this Agreement a “Change in Control” occurs (as defined below), and the Company terminates the employment of Executive without Business Reasons or a Constructive Termination occurs within eighteen (18) months of the date of the Change in Control, then Executive shall be entitled to receive the following:

(i) salary and the cash value of any accrued Paid Time Off (consistent with the Company’s Paid Time Off policies then in effect) through the Termination Date plus an amount equal to eighteen (18) months of Executive’s salary as then in effect, payable immediately upon the Termination Date,

(ii) an amount equal to the greater of the average of the bonuses paid to Executive during the two preceding fiscal years or Executive’s then current annual target bonus, to be paid between January 1 and December 31 of the year following the year in which the termination occurs,

(iii) acceleration in full of vesting of all outstanding stock options and other equity arrangements (including but not limited to restricted stock, stock appreciation rights, and such instruments) subject to vesting and held by Executive (and in this regard, all such options and other exercisable rights held by Executive shall remain exercisable for one year following the Termination Date, or through the original expiration date of the stock options or other exercisable rights, if earlier),

(iv) to the extent COBRA shall be applicable to the Company, continuation of health benefits for Executive, Executive’s spouse and any dependent children, at Executive’s cost, for a period of eighteen (18) months after the Termination Date, and

(v) no other compensation, severance or other benefits.

Payment of benefits shall be accelerated and the severance payments under Section 6(c)(i) shall be made in a lump sum upon a Change in Control only if such Change in Control constitutes a “change in control” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations and official guidance issued thereunder (collectively “Section 409A”). If such acceleration and payment is not permissible, no acceleration will occur and the severance payments shall be made in accordance with Section 6(b)(i).

(vi) Limitation on Parachute Payments. The Executive's severance payments and other benefits to be received in connection with a Change in Control under this Agreement or otherwise (commonly referred to collectively as "parachute payments") are capped at no more than three times his average annual compensation for the previous five years to the extent necessary for him not to incur excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") and for the Company not to have its deduction limited under Section 280G of the Code. In the event that the parachute payments to be received by the Executive need to be reduced to comply with the foregoing limitation, the Company shall determine which parachute payments shall be reduced and the extent of each reduction, each in a manner that will not cause a violation of Section 409A. If it is subsequently determined that the parachute payments actually received by the Executive exceed the foregoing limitation, then the Executive shall have an obligation to pay the Company upon demand an amount equal to the excess.

(d) Termination for Disability. If at any time during the term of this Agreement, other than following a Change in Control to which Section 6(c) applies, Executive shall become unable to perform his duties as an employee as a result of incapacity, which gives rise to termination of employment for Disability, then Executive shall be entitled to receive the following:

(i) salary and the cash value of any accrued Paid Time Off (consistent with the Company's Paid Time Off policies then in effect) through the Termination Date plus continued salary for a period of eighteen (18) months following the Termination Date, payable in accordance with the Company's regular payroll schedule as in effect from time to time,

(ii) an amount equal to the annual target bonus for the fiscal year in which the Termination Date occurs (plus any unpaid bonus from the prior fiscal year), to be paid between January 1 and December 31 of the year following the year in which the termination occurs,

(iii) acceleration in full of vesting of all outstanding stock options held by Executive subject to the provision, however, that the acceleration shall not cover more than two (2) years from the Termination Date (and in this regard, all such options and other exercisable rights held by Executive shall remain exercisable for one year following the Termination Date, or through the original expiration date of the stock options or other exercisable rights, if earlier),

(iv) to the extent COBRA shall be applicable to the Company, continuation of health benefits for Executive, Executive's spouse and any dependent children, at Executive's cost, for a period of 18 months after the Termination Date, or such longer period as may be applicable under the Company's policies then in effect, provided Executive makes the appropriate election and payments, and

(v) no other compensation, severance or other benefits, except only that this provision shall not limit any benefits otherwise available to Executive under Section 6(c) in the case of a termination following a Change in Control. Notwithstanding the foregoing, however, the Company may deduct from the salary specified in clause (i) hereof the amount of any payments then received by Executive under any disability benefit program maintained by the Company to the extent permissible under Section 409A.

(e) Voluntary Termination or Involuntary Termination for Business Reasons. If (A) Executive voluntarily terminates his employment (other than in the case of a Constructive Termination), or (B) Executive is terminated involuntarily for Business Reasons, then in any such event Executive or his representatives shall be entitled to receive the following: (i) salary and the cash value of any accrued Paid Time Off (consistent with the Company's Paid Time Off policies then in effect) through the Termination Date only, (ii) the right to exercise, for ninety (90) days following the Termination Date, or through the original expiration date of the stock options, if earlier, all stock options held by Executive, but only to the extent vested as of the Termination Date, (iii) to the extent COBRA shall be applicable to the Company, continuation of health benefits for Executive, Executive's spouse and any dependent children, at Executive's cost, for a period of eighteen (18) months after the Termination Date, or such longer period as may be applicable under the Company's policies then in effect, provided Executive makes the appropriate election and payments, and (iv) no other compensation, severance, or other benefits.

(f) Termination Upon Death. If Executive's employment is terminated because of death, then Executive's representatives shall be entitled to receive the following:

(i) salary and the cash value of any accrued Paid Time Off (consistent with the Company's Paid Time Off policies then in effect) through the Termination Date,

(ii) an amount equal to the annual target bonus for the fiscal year in which the Termination Date occurs (plus any unpaid bonus from the prior fiscal year), to be paid between January 1 and December 31 of the year following the year in which the termination occurs,

(iii) except in the case of any such termination following a Change in Control to which Section 6(c) applies, acceleration in full of vesting of all outstanding stock options and other equity arrangements (including but not limited to restricted stock, stock appreciation rights, and such instruments) subject to vesting and held by Executive subject to the provision, however, that the acceleration shall not cover more than two (2) years from the Termination Date (and in this regard, all such options and other exercisable rights held by Executive shall remain exercisable for one year following the Termination Date, or through the original expiration date of the stock options or other exercisable rights, if earlier),

(iv) to the extent COBRA shall be applicable to the Company, continuation of health benefits for Executive's spouse and any dependent children, at their cost, for a period of eighteen (18) months after the Termination Date, or such longer period as may be applicable under the Company's policies then in effect provided Executive's estate makes the appropriate election and payments,

(v) any benefits payable to Executive or his representatives upon death under insurance or other programs maintained by the Company for the benefit of the Executive, and

(vi) no further benefits or other compensation, except only that this provision shall not limit any benefits otherwise available to Executive under Section 6(c) in the case of a termination following a Change in Control.

(g) Exclusivity. The provisions of this Section 6 are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive or the Company may otherwise be entitled, either at law, tort or contract, in equity, or under this Agreement, in the event of any termination of Executive's employment. Executive shall be entitled to no benefits, compensation or other payments or rights upon termination of employment other than those benefits expressly set forth in paragraph (b), (c), (d), (e) or (f) of this Section 6, whichever shall be applicable and those benefits required to be provided by law.

(h) Termination. The word "termination" and any variant thereof with respect to the Executive's employment shall mean a "separation from service" within the meaning provided by Section 409A. Payments provided for under this Section 6 are contingent upon a termination satisfying this definition.

7. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

(a) Business Reasons. "Business Reasons" means (i) gross negligence, willful misconduct or other willful malfeasance by Executive in the performance of his duties, (ii) Executive's conviction of a felony, or an other criminal offense involving moral turpitude, (iii) Executive's material breach of this Agreement, including without limitation any repeated breach of Section 8 hereof or of any provision of any confidentiality, non-disclosure or non-competition agreements between the Company and Executive, provided that, in the case of any such breach, the Board provides written notice of breach to the Executive, specifically identifying the manner in which the Board believes that Executive has materially breached this Agreement, and Executive shall have the opportunity to cure such breach to the reasonable satisfaction of the Board within thirty (30) days following the delivery of such notice. For purpose of this paragraph, no act or failure to act by Executive shall be considered "willful" unless done or omitted to be done by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company or its affiliates. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Executive in good faith and in the best interests of the Company. The Board must notify Executive of any event constituting Business Reasons within ninety (90) days following the Board's actual knowledge of its existence (which period shall be extended during the period of any reasonable investigation conducted in good faith by or on behalf of the Board) or such event shall not constitute Business Reasons under this Agreement.

(b) Disability. "Disability" shall mean that Executive has been unable to perform his duties as an employee as the result of his incapacity due to physical or mental illness, and such inability, at least twenty-six (26) weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to Executive or Executive's legal representative (such Agreement as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least sixty (60) days written notice by the Company of its intention to terminate Executive's employment. In the event that Executive resumes the performance of substantially all of his duties hereunder before the termination of his employment becomes effective, the notice of intent to terminate shall automatically be deemed to have been revoked.

(c) Termination Date. "Termination Date" shall mean (i) if this Agreement is terminated on account of death, the date of death; (ii) if this Agreement is terminated for Disability, the date specified in Section 7(b); (iii) if this Agreement is terminated by the Company, the date which is indicated in a notice of termination is given to Executive by the Company in accordance with Sections 6(a) and 9; (iv) if the Agreement is terminated by Executive, the date which is indicated in a notice of termination given to the Company by Executive in accordance with Sections 6(a) and 9(a); or (v) if this Agreement expires by its terms, then the last day of the term of this Agreement.

(d) Constructive Termination. A "Constructive Termination" shall be deemed to occur if (A) (1) Executive's position changes as a result of an action by the Company such that (w) Executive shall no longer be Vice President of Administration and General Counsel of the Company, (x) Executive shall have duties and responsibilities demonstrably less than those typically associated with a Vice President of Administration and General Counsel or (y) Executive shall no longer report directly to the Company's Chief Executive Officer or the Board or (2) Executive is required to relocate his place of employment, other than a relocation within fifty (50) miles of Executive's current residence or the Company's current Newark, New York headquarters, (3) there is a reduction in Executive's base salary or target bonus other than any such reduction consistent with a general reduction of pay across the executive staff as a group, as an economic or strategic measure due to poor financial performance by the Company or (4) there occurs any other material breach of this Agreement by the Company (other than a reduction of Executive's base salary or target bonus which is not described in the immediately preceding clause) (3) after a written demand for substantial performance is delivered to the Board by Executive which specifically identifies the manner in which Executive believes that the Company has materially breached this Agreement, and the Company has failed to cure such breach to the reasonable satisfaction of Executive within thirty (30) days following the delivery of such notice and (B) within the ninety (90) day period immediately following an action described in clauses (A)(1) through (4), Executive elects to terminate his employment voluntarily.

(e) Change in Control. A "Change in Control" shall be deemed to have occurred if:

(i) any "Person," as such term is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than (i) the Company, (ii) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or (iii) any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), becomes the "Beneficial Owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 51% or more of the combined voting power of the Company's then-outstanding securities;

(ii) the stockholders of the Company approve any transaction or series of transactions under which the Company is merged or consolidated with any other company, other than a merger or consolidation (A) which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 66 2/3% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation and (B) after which no Person holds 20% or more of the combined voting power of the then-outstanding securities of the Company or such surviving entity;

(iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets;

(iv) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Change in Control has occurred; or

(v) a majority of the Board is replaced in a 12-month period by directors whose appointment or election was not endorsed by a majority of the Board before their appointment or election.

8. No Conflicts.

(a) Executive agrees that in his individual capacity he will not enter into any agreement, arrangement or understanding, whether written or oral, with any supplier, contractor, distributor, wholesaler, sales representative, representative group or customer, relating to the business of the Company or any of its subsidiaries, without the express written consent of the Company.

(b) As long as Executive is employed by the Company or any of its subsidiaries, Executive agrees that he will not, except with the express written consent of the Company, become engaged in, render services for, or permit his name to be used in connection with, any for-profit business other than the business of the Company, any of its subsidiaries or any corporation or partnership in which the Company or any of its subsidiaries have an equity interest.

9. Miscellaneous Provisions.

(a) Notice. Notices and all other communications contemplated by this Agreement shall be in writing, shall be effective when given, and in any event shall be deemed to have been duly given (i) when delivered, if personally delivered, (ii) three (3) business days after deposit in the U.S. mail, if mailed by U.S. registered or certified mail, return receipt requested, or (iii) one (1) business day after the business day of deposit with Federal Express or similar overnight courier, if so delivered, freight prepaid. In the case of Executive, notices shall be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Corporate Secretary.

(b) Notice of Termination. Any termination by the Company or Executive shall be communicated by a notice of termination to the other party hereto given in accordance with paragraph (a) hereof. Such notice shall indicate the specific termination provision in this Agreement relied upon.

(c) Successors.

(i) Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall be entitled to assume the rights and shall be obligated to assume the obligations of the Company under this Agreement and shall agree to perform the Company's obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this subsection (i) or which becomes bound by the terms of this Agreement by operation of law.

(ii) Executive's Successors. The terms of this Agreement and all rights of Executive hereunder shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

(iii) No Other Assignment of Benefits. Except as provided in this Section 9(c), the rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this subsection (iii) shall be void.

(d) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(e) Entire Agreement. This Agreement shall supersede any and all prior agreements, representations or understandings (whether oral or written and whether express or implied) between the parties with respect to the subject matter hereof.

(f) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(g) Arbitration and Governing Law. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Rochester, New York, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. No party shall be entitled to seek or be awarded punitive damages. All attorneys fees and costs shall be allocated or apportioned as agreed by the parties or, in the absence of an agreement, in such manner as the arbitrator or court shall determine to be appropriate to reflect the final decision of the deciding body as compared to the initial positions in arbitration of each party. This Agreement shall be construed in accordance with and governed by the laws of the State of New York as they apply to contracts entered into and wholly to be performed within such State by residents thereof.

(h) Employment Taxes. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes.

(i) Indemnification. In the event Executive is made, or threatened to be made, a party to any legal action or proceeding, whether civil or criminal, by reason of the fact that Executive is or was a director or officer of the Company or serves or served any other entity of which the Company owns 50% or more of the equity in any capacity, Executive shall be indemnified by the Company, and the Company shall pay Executive's related expenses when and as incurred, all to the full extent permitted by law, pursuant to Executive's existing indemnification agreement with the Company, if any, in the form made available to all Executive and all other officers and directors or, if it provides greater protection to Executive, to the maximum extent allowed under the law of the State of the Company's incorporation.

(j) Legal Fees. The Company will pay directly the reasonable fees and expenses of counsel retained by Executive in connection with the preparation, negotiation and execution of this Agreement.

(k) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

(l) Six Month Waiting Period. Notwithstanding anything to the contrary, to the extent that any payments under this Agreement are subject to a six-month waiting period under Section 409A, any such payments that would be payable before the expiration of six months following the Executive's separation from service but for the operation of this sentence shall be made during the seventh month following the Executive's separation from service.

(m) Reimbursement of Expenses. Reimbursements under this Agreement shall only be made for expenses incurred during the term of this Agreement. Any reimbursements made under this Agreement shall be made by the end of the year following the year in which the expense was incurred, and the amount of the reimbursable expenses or in-kind benefits provided in one year shall not increase or decrease the amount of reimbursable expenses or in-kind benefits provided in a subsequent year. In order to receive reimbursements under this Agreement, the Executive shall provide any required supporting documentation by a date reasonably specified by the Company in accordance with the deadlines set forth in this section.

(n) Section 409A of the Code. It is intended that the payments and benefits provided for by this Agreement comply with the requirements of Section 409A, and this Agreement shall be administered and interpreted in a manner consistent with such intention.

[signature page follows]

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

ULTRALIFE CORPORATION

By: /s/ John D. Kavazanjian
John D. Kavazanjian
President and Chief Executive Officer

PETER F. COMERFORD

/s/ Peter F. Comerford
Peter F. Comerford

Exhibit 10.32

FORBEARANCE
AND AMENDMENT NUMBER TWO
TO
AMENDED AND RESTATED CREDIT AGREEMENT

This Forbearance and Amendment Number Two to Amended and Restated Credit Agreement (this "Agreement") is made and entered into as of January 22, 2010, by and between **Ultralife Corporation** (formerly known as Ultralife Batteries, Inc.) ("Borrower") and **JPMorgan Chase Bank, N.A.**, as Administrative Agent for itself and the other lenders under the facility (each a "Lender" and collectively, the "Lenders") (in such capacity, the "Agent").

RECITALS

A. As of January 27, 2009, Borrower entered into that certain Amended and Restated Credit Agreement, as amended (as may hereafter be amended and modified, the "Credit Agreement") with the Agent and the Lenders party thereto. The Credit Agreement and all documents, instruments and agreements executed in connection therewith are collectively, the "Loan Documents." Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement.

B. As of January 20, 2010, the amounts outstanding under the Loan Documents are as follows, plus costs and expenses ("Obligations"):

Principal	$ 15,834,720.00
Interest	$ 38,078.47
Fees	$ 57,604.48
TOTAL	$ 15,930,402.95

C. Borrower's Obligations under the Credit Agreement are unconditionally guaranteed by each of McDowell Research Co., Inc., RedBlack Communications, Inc., and Stationary Power Services, Inc. as successor by merger of RPS Power Systems, Inc., and Stationary Power Services, Inc. (each a "Guarantor" and collectively, the "Guarantors") pursuant to the provisions of each Guarantor's respective guaranty (collectively, the "Guaranties").

D. On October 30, 2009, Borrower advised the Agent that Borrower failed to comply with the financial covenants in Section 6.09 of the Credit Agreement as of September 30, 2009 (the "Covenant Default").

E. By letter dated October 30, 2009, the Agent provided Borrower with notice of the Covenant Default pursuant to Section 7(e) of the Credit Agreement ("Default Letter").

F. On January 15, 2010, the Agent provided Borrower with notice that Events of Default exist under the Loan Documents ("Demand Letter") as a result of (i) the Covenant Default remaining uncured more than thirty (30) days after the Agent sent the Default Letter, and (ii) Borrower's failure to pay interest and expenses when due as required pursuant to Section 7(b) of the Credit Agreement ("Payment Default" and collectively with the Covenant Default, the "Disclosed Defaults").

G. The Disclosed Defaults entitle the Agent and the Lenders to exercise the default remedies set forth in the Loan Documents. Borrower and each of the Guarantors acknowledge receipt of all notices of the Disclosed Defaults required under the Loan Documents or otherwise waive any notices required under the Loan Documents.

H. Borrower and each of the Guarantors have requested that the Agent and the Lenders forbear from exercising their respective rights and remedies under the Loan Documents arising on account of the Disclosed Defaults for a period of time. The Agent and the Lenders have agreed to forbear from exercising such respective rights and remedies, other than the Agent and Lenders right to terminate the Commitments, until the Termination Date (as defined below) upon the terms and conditions set forth herein.

AGREEMENTS

NOW, THEREFORE, in consideration of the Recitals, which are deemed a material part of this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is agreed as follows:

1. In consideration of and as an express condition of the Agent's and the Lenders' agreement to comply with the request of Borrower and the Guarantors to forbear from exercising their respective rights and remedies on account of the Disclosed Defaults, other than the Agent and Lenders right to terminate the Commitments, until the Termination Date (as defined below), Borrower and each of the Guarantors agree to the Recitals set forth herein and to undertake the actions hereinafter set forth.

2. In consideration for the agreements and representations made herein, the Agent and the Lenders agree to a) forbear from exercising their respective rights and remedies under the Loan Documents on account of the Disclosed Defaults (which are not waived but expressly preserved), and b) delay the date which all Obligations are due and owing to the Agent and Lenders by the Borrower and Guarantors pursuant to the Demand Letter, until the earlier of: (i) the end of business on February 18, 2010; (ii) the occurrence of a default, other than the Disclosed Defaults, under the Loan Documents, (iii) the date on which the Agent, at the direction of the Required Lenders, elects to terminate the Forbearance Period (as defined below) upon the occurrence of the breach by the Borrower of any term or condition of this Agreement, or iv) the date on which the transaction contemplated by the RBS Commitment (as defined below) is closed. The earlier of (i), (ii) and (iii) herein shall be referred to herein as the "Termination Date" and the period of time from the effectiveness of this forbearance to the Termination Date shall be referred to as the "Forbearance Period."

3. The Agent's and the Lenders' forbearance in Paragraph 2 above shall be conditioned upon, and shall not become effective until, satisfaction of the following:

A. Borrower and each of the Guarantors duly execute and deliver this Agreement to the Agent, in form and substance acceptable to the Agent in its sole discretion by 5:00 P.M. on January 22, 2010, and the Agreement is agreed to and executed by the Agent and the Lenders; and

B. The representation and warranties contained in Section 7 of this Agreement and in the Credit Agreement shall be true, correct and complete as of the effective date of this Agreement as though made on such date; and

C. The Agent shall have received $62,500 from Borrower for the benefit of the Agent and the Lenders on a pro rata basis in consideration of the forbearance and modifications set forth herein; and

D. The Agent and each Lender shall have received all fees required to be paid under the Credit Agreement, and all expenses for which invoices have been presented to Borrower by the Agent and the Lenders (including the reasonable fees and expenses of legal counsel) to date; and

E. Execution and delivery to the Agent of a completed initial Collateral Status Certificate (as defined below) and such other and further documentation as the Agent and the Lenders may reasonably deem necessary or appropriate to accomplish the terms set forth herein, each in form and substance reasonably acceptable to the Agent and the Lenders; and

F. Borrower is current with respect to all amounts currently due and owing to the Agent and the Lenders under the Loan Documents as amended hereby.

4. The Commitments are hereby terminated. Effective upon the satisfaction of all conditions specified in Section 3 hereof, the Credit Agreement is hereby amended as follows:

A. The following definition is hereby added to Section 1.01 of the Credit Agreement in the appropriate alphabetical order:

"Amendment No. 2" means that certain Forbearance and Amendment Number Two to the Amended and Restated Credit Agreement dated as of January 22, 2010 among, Borrower, Administrative Agent and Lenders.

B. The definition of "Commitment" set forth in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"Commitment" means, with respect to each Lender, the commitment of such Lender to make Revolving Loans expressed as an amount representing the maximum aggregate amount of such Lender's Revolving Credit Exposure. As of the effective date of the Amendment No. 2, the aggregate amount of the Lenders' Commitments is $0.

C. Schedule 2.01 of the Credit Agreement is deleted in its entirety. Borrower agrees that the Lenders will not make Revolving Loans to Borrower during the Forbearance Period.

D. Section 2.04 of the Credit Agreement is deleted in its entirety.

E. Section 2.05 of the Credit Agreement is deleted in its entirety.

F. Section 2.06 of the Credit Agreement is deleted in its entirety.

G. Section 2.12(a) of the Credit Agreement is deleted in its entirety.

H. Section 5.01 of the Credit Agreement is hereby amended so that: (i) in subsection (g) thereof the word "and" at the end of such subsection is hereby deleted, (ii) in subsection (h) thereof the period "." at the end of such subsection is hereby deleted and replaced with "; and" and (iii) the following subsection is added thereto:

(i) During the Forbearance Period (as defined in Amendment No. 2), on a monthly basis, Borrower's internally prepared financial statements for such month, including balance sheet and related statements of operations and cash flows in form historically prepared by Borrower.

I. The first sentence of Section 5.08 of the Credit Agreement is hereby superseded and replaced in its entirety and amended to read as follows:

"The proceeds of the Revolving Loans will be used only for working capital purposes of the Borrower in the ordinary course of business as evidenced by supporting documents as requested by the Agent from time to time."

5. Borrower and Guarantors each hereby covenant and agree with the Agent and the Lenders to the following during the Forbearance Period (as applicable relative to their respective obligations and in addition to, but not in limitation of unless expressly noted, any terms, conditions, and/or covenants set forth in the Loan Documents):

A. Borrower and each of the Guarantors shall provide the Agent and the Lenders with any information, documents, or reports concerning or related to the Indebtedness under the Credit Agreement, the repayment thereof and their businesses, as the Agent and/or the Lenders may request in their sole discretion, and shall make their management, officers, employees, professionals, agents, and consultants, available to the Agent and the Lenders upon request to answer any reasonable questions regarding the matters set forth above; and

B. All information provided by Borrower and each of the Guarantors to the Agent and/or the Lenders in connection with this Agreement, whether or not during the Forbearance Period, including, without limitation, information on the exhibits attached hereto or concerning financial status, assets, liabilities, or business plans, whether communicated orally or in writing, shall be true and correct in all material respects.

C. Borrower shall provide evidence satisfactory to the Agent, as soon as available but in any event at the end of each calendar week, during the Forbearance Period that all payroll, sales and withholding taxes are currently paid and maintained.

D. Borrower agrees that the Obligations shall bear interest at the rate set forth in Section 2.13(c) of the Credit Agreement.

E. Borrower shall, at all time during the Forbearance Period, remain in pro forma compliance with the conditions precedent to closing of the $35,000,000 senior secured credit facility offered to Borrower by RBS Business Capital, as set forth in the term sheet dated November 2, 2009, as previously or hereafter amended (“RBS Commitment”).

F. Borrower shall provide to the Agent, as soon as available but in any event on each Friday during the Forbearance Period, a rolling thirteen (13) week cash flow forecast in form and substance reasonably acceptable to the Agent.

G. Borrower shall make payments on the outstanding principal amount of the Obligations to Agent for the benefit of the Lenders in the following manner: (i) on the date of execution and delivery of the Agreement, Borrower shall make a payment in the amount of $1,500,000; (ii) on or before January 29, 2010, Borrower shall make a payment in the amount of $3,500,000; and (iii) commencing February 5, 2010 and continuing on each Friday thereafter during the Forbearance Period, Borrower shall make a payment in the amount of $500,000.

H. Borrower shall immediately notify Agent of any change to the terms or status of the RBS Commitment.

I. The “Margined Collateral Not Borrowed” identified on line 33 of the Collateral Status Certificate (defined below) attached as Exhibit A, shall not drop below $9,000,000 during the Forbearance Period.

J. Borrower and Guarantors shall deposit the proceeds of all Accounts (as defined below) of the Borrower and Guarantors in bank accounts maintained with either of the Lenders.

6. Borrower shall provide the Agent, as soon as available but in any event on every Friday during the Forbearance Period, and at such other times as may be requested by the Agent, as of the period then ended, a Collateral Status Certificate and supporting information in connection therewith, together with any additional reports with respect to the Collateral Status as the Agent may reasonably request.

A. For the purposes of defining Collateral Status, the following definitions shall be applicable:

i). "Account" has the meaning assigned to such term in the Security Agreement (as defined herein).

ii). "Account Debtor" means any Person obligated on any of the Accounts.

iii). "Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

iv). "Collateral Status" means, at any time, the sum of (a) up to 80% of Eligible Accounts at such time, plus (b) 30% of Eligible Inventory, valued at the lower of cost or market value, determined on a first-in-first-out basis, at such time, minus (c) Reserves. The maximum amount of Inventory which may be included as part of the Collateral Status is $10,000,000. The Agent and Lenders may, in their discretion, reduce the advance rates set forth above, adjust Reserves or reduce one or more of the other elements used in computing the Collateral Status.

v). "Collateral Status Certificate" means a certificate, signed and certified as accurate and complete by the chief financial officer, principal accounting officer, treasurer or controller of the Borrower, in substantially the form of Exhibit A or another form which is acceptable to the Agent in its sole discretion.

vi). "Collateral" has the meaning assigned to such term in the Security Agreement.

vii). "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

viii). "Eligible Accounts" means, at any time, the Accounts of the Borrower and Guarantors which the Agent determines in its discretion would be eligible. Without limiting the Agent's discretion provided herein, Eligible Accounts shall not include any Account:

a). which is not subject to a first priority perfected security interest in favor of the Agent;

b). which is subject to any Lien other than (i) a Lien in favor of the Agent and (ii) a Permitted Encumbrance which does not have priority over the Lien in favor of the Agent;

c). with respect to which (i) is unpaid more than 90 days after the date of the original invoice therefor or more than 60 days after the original due date, or (ii) which has been written off the books of Borrower or any of the Guarantors or otherwise designated as uncollectible;

d). which is owing by an Account Debtor for which more than 50% of the Accounts owing from such Account Debtor and its Affiliates are ineligible hereunder;

e). which is owing by an Account Debtor to the extent the aggregate amount of Accounts owing from such Account Debtor and its Affiliates to all Borrower and Guarantors exceeds 10% of the aggregate amount of Eligible Accounts of Borrower and Guarantors;

f). with respect to which any covenant, representation, or warranty contained in this Agreement, the Credit Agreement or in the Security Agreement has been breached or is not true;

g). which (i) does not arise from the sale of goods or performance of services in the ordinary course of business, (ii) is not evidenced by an invoice or other documentation satisfactory to the Agent which has been sent to the Account Debtor, (iii) represents a progress billing, (iv) is contingent upon the Borrower's or Guarantors' completion of any further performance, (v) represents a sale on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment, cash-on-delivery or any other repurchase or return basis or (vi) relates to payments of interest;

h). for which the goods giving rise to such Account have not been shipped to the Account Debtor or for which the services giving rise to such Account have not been performed by Borrower or any of the Guarantors or if such Account was invoiced more than once;

i). with respect to which any check or other instrument of payment has been returned uncollected for any reason;

j). which is owed by an Account Debtor which has (i) applied for, suffered, or consented to the appointment of any receiver, custodian, trustee, or liquidator of its assets, (ii) has had possession of all or a material part of its property taken by any receiver, custodian, trustee or liquidator, (iii) filed, or had filed against it, any request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as bankrupt, winding-up, or voluntary or involuntary case under any state or federal bankruptcy laws, (iv) has admitted in writing its inability, or is generally unable to, pay its debts as they become due, (v) become insolvent, or (vi) ceased operation of its business;

k). which is owed by any Account Debtor which has sold all or a substantially all of its assets;

l). which is owed by an Account Debtor which (i) does not maintain its chief executive office in the U.S. or Canada or (ii) is not organized under applicable law of the U.S., any state of the U.S., Canada, or any province of Canada unless, in either case, such Account is backed by a Letter of Credit acceptable to the Agent which is in the possession of, and is directly drawable by, the Agent;

m). which is owed in any currency other than U.S. dollars;

n). which is owed by (i) the government (or any department, agency, public corporation, or instrumentality thereof) of any country other than the U.S. unless such Account is backed by a Letter of Credit acceptable to the Agent which is in the possession of the Administrative Agent, or (ii) any Federal Account Debtor unless the Federal Assignment of Claims Act of 1940, as amended (31 U.S.C. § 3727 et seq. and 41 U.S.C. § 15 et seq.), and any other steps necessary to perfect the Lien of the Agent in such Account have been complied with to the Agent's satisfaction;

o). which is owed by any Affiliate, employee, officer, director, agent or stockholder of Borrower or any of the Guarantors;

p). which, for any Account Debtor, exceeds a credit limit determined by the Agent, to the extent of such excess;

q). which is owed by an Account Debtor or any Affiliate of such Account Debtor to which Borrower or any of the Guarantors is indebted, but only to the extent of such indebtedness or is subject to any security, deposit, progress payment, retainage or other similar advance made by or for the benefit of an Account Debtor, in each case to the extent thereof;

r). which is subject to any counterclaim, deduction, defense, setoff or dispute but only to the extent of any such counterclaim, deduction, defense, setoff or dispute;

s). which is evidenced by any promissory note, chattel paper, or instrument;

t). which is owed by an Account Debtor located in any jurisdiction which requires filing of a "Notice of Business Activities Report" or other similar report in order to permit Borrower or any of the Guarantors to seek judicial enforcement in such jurisdiction of payment of such Account, unless Borrower or any of the Guarantors has filed such report or qualified to do business in such jurisdiction;

u). with respect to which such Borrower or any of the Guarantors has made any agreement with the Account Debtor for any reduction thereof, other than discounts and adjustments given in the ordinary course of business, or any Account which was partially paid and Borrower created a new receivable for the unpaid portion of such Account;

v). which does not comply in all material respects with the requirements of all applicable laws and regulations, whether Federal, state or local, including without limitation the Federal Consumer Credit Protection Act, the Federal Truth in Lending Act and Regulation Z of the Board;

w). which is for goods that have been sold under a purchase order or pursuant to the terms of a contract or other agreement or understanding (written or oral) that indicates or purports that any Person other than such Borrower or any of the Guarantors has or has had an ownership interest in such goods, or which indicates any party other than such Borrower or Guarantors as payee or remittance party;

x). which was created on cash on delivery terms; or

y). which the Agent determines may not be paid by reason of the Account Debtor's inability to pay or which the Agent otherwise determines is unacceptable for any reason whatsoever.

In the event that an Account which was previously an Eligible Account ceases to be an Eligible Account hereunder, Borrower shall notify the Agent thereof on and at the time of submission to the Agent of the next Collateral Status Certificate. In determining the amount of an Eligible Account, the face amount of an Account may, in the Agent's discretion, be reduced by, without duplication, to the extent not reflected in such face amount, (i) the amount of all accrued and actual discounts, claims, credits or credits pending, promotional program allowances, price adjustments, finance charges or other allowances (including any amount that Borrower or any of the Guarantors may be obligated to rebate to an Account Debtor pursuant to the terms of any agreement or understanding (written or oral)) and (ii) the aggregate amount of all cash received in respect of such Account but not yet applied by such Borrower or Guarantors to reduce the amount of such Account.

ix). "Eligible Inventory" means, at any time, the Inventory of the Borrower and Guarantors which the Agent determines in its discretion would be eligible. Without limiting the Agent's discretion provided herein, Eligible Inventory shall not include any Inventory:

a). which is not subject to a first priority perfected Lien in favor of the Agent;

b). which is subject to any Lien other than (i) a Lien in favor of the Administrative Agent and (ii) a Permitted Encumbrance which does not have priority over the Lien in favor of the Agent;

c). which is, in the Agent's opinion, slow moving, obsolete, unmerchantable, defective, used, unfit for sale, not salable at prices approximating at least the cost of such Inventory in the ordinary course of business or unacceptable due to age, type, category and/or quantity;

d). with respect to which any covenant, representation, or warranty contained in the Credit Agreement or the Security Agreement has been breached or is not true and which does not conform to all standards imposed by any Governmental Authority;

e). in which any Person (as defined below) other than such Borrower or any of the Guarantors shall (i) have any direct or indirect ownership, interest or title to such Inventory or (ii) be indicated on any purchase order or invoice with respect to such Inventory as having or purporting to have an interest therein;

f). which is not finished goods or which constitutes work-in-process, spare or replacement parts, subassemblies, packaging and shipping material, manufacturing supplies, samples, prototypes, displays or display items, bill-and-hold goods, goods that are returned or marked for return, repossessed goods, defective or damaged goods, goods held on consignment, or goods which are not of a type held for sale in the ordinary course of business;

g). which is not located in the U.S.;

h). which is in transit;

i). which is located in any location leased by such Borrower or any of the Guarantors unless (i) the lessor has delivered to the Agent a Landlord Waiver Agreement (as defined in the Security Agreement) or (ii) a Reserve for rent, charges, and other amounts due or to become due with respect to such facility has been established by the Agent in its discretion;

j). which is located in any third party warehouse or is in the possession of a bailee (other than a third party processor), unless (i) such warehouseman or bailee has delivered to the Agent a Landlord Waiver Agreement and such other documentation as the Agent may require or (ii) an appropriate Reserve has been established by the Agent in its discretion;

k). which is being processed offsite at a third party location or outside processor, or is in-transit to or from said third party location or outside processor;

l). which is a discontinued product or component thereof;

m). which is the subject of a consignment by such Borrower or any of the Guarantors as consignor;

n). which is perishable;

o). which contains or bears any intellectual property rights licensed to such Borrower or any of the Guarantors unless the Agent is satisfied that it may sell or otherwise dispose of such Inventory without (i) infringing the rights of such licensor, (ii) violating any contract with such licensor, or (iii) incurring any liability with respect to payment of royalties other than royalties incurred pursuant to sale of such Inventory under the current licensing agreement;

p). which is not reflected in a current perpetual inventory report of such Borrower or Guarantors;

q). for which reclamation rights have been asserted by the seller; or

r). which the Agent otherwise determines is unacceptable for any reason whatsoever.

In the event that Inventory which was previously Eligible Inventory ceases to be Eligible Inventory hereunder, Borrower shall notify the Agent thereof on and at the time of submission to the Agent of the next Collateral Status Certificate.

x). "Inventory" has the meaning assigned to such term in the Security Agreement.

xi). "Net Orderly Liquidation Value" means, with respect to Inventory of Borrower, the orderly liquidation value thereof as determined in a manner acceptable to the Agent by an appraiser acceptable to the Agent, net of all costs of liquidation thereof.

xii). "Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

xiii). "Reserves" means any and all reserves which the Agent deems necessary, in its discretion, to maintain with respect to the Collateral.

xiv). "Security Agreement" means collectively the General Security Agreement given by Borrower to the Agent dated as of June 30, 2004 and the General Security Agreements given by each of the Guarantors to the Agent as the same may be modified, amended or reaffirmed.

B. Borrower shall provide the Agent, as soon as available but in any event at the end of each calendar month, and at such other times as may be requested by the Agent, in form satisfactory to the Agent, a detailed aging of the Borrower's and Guarantors' Accounts (1) including all invoices aged by invoice date and due date (with an explanation of the terms offered) and (2) reconciled to the Collateral Status Certificate delivered as of such date prepared in a manner reasonably acceptable to the Agent, together with a summary specifying the name, address, and balance due for each account debtor.

C. Borrower shall provide the Agent, as soon as available but in any event at the end of each calendar month, and at such other times as may be requested by the Agent, in form satisfactory to the Agent a schedule detailing the Borrower's and Guarantors' Inventory, in form satisfactory to the Agent, (1) by location (showing Inventory in transit, any Inventory located with a third party under any consignment, bailee arrangement, or warehouse agreement), by class (raw material, work-in-process and finished goods), by product type, and by volume on hand, which Inventory shall be valued at the lower of cost (determined on a first-in, first-out basis) or market and adjusted for Reserves as the Agent has previously indicated to the Borrower are deemed by the Agent to be appropriate, (2) including a report of any variances or other results of Inventory counts performed by the Borrower or any Guarantors since the last Inventory schedule (including information regarding sales or other reductions, additions, returns, credits issued by Borrower or Guarantors and complaints and claims made against the Borrower or Guarantors), and (3) reconciled to the Collateral Status Certificate delivered as of such date.

D. Subject to the limitations set forth below, the Agent is authorized by Borrower and the Lenders, from time to time, at the direction of the Required Lenders, (but shall have absolutely no obligation to), to make Loans to the Borrower, on behalf of all Lenders, which the Required Lenders, in their discretion, deem necessary or desirable (i) to preserve or protect the Collateral, or any portion thereof, (ii) to enhance the likelihood of, or maximize the amount of, repayment of the Loans and other Obligations, or (iii) to pay any other amount chargeable to or required to be paid by the Borrowers pursuant to the terms of this Agreement, including payments of reimbursable expenses (including costs, fees, and expenses as described in Section 9.03) and other sums payable under the Loan Documents (any of such Loans are herein referred to as "Protective Advances"). Protective Advances may be made even if the conditions precedent set forth in Section 4.02 of the Credit Agreement have not been satisfied. The Protective Advances shall be secured by the Liens in favor of the Agent for the benefit of the Lenders in and to the Collateral and shall constitute Obligations hereunder. All Protective Advances shall be at the discretion of the Agent. The Agent may request the Lenders to make a Revolving Loan to repay a Protective Advance and Lenders shall make such Revolving Loan directly to the Agent.

Upon the making of a Protective Advance by the Agent (whether before or after the occurrence of a Default), each Lender shall be deemed, without further action by any party hereto, to have unconditionally and irrevocably purchased from the Agent without recourse or warranty, an undivided interest and participation in such Protective Advance in proportion to its Applicable Percentage. From and after the date, if any, on which any Lender is required to fund its participation in any Protective Advance purchased hereunder, the Agent shall promptly distribute to such Lender, such Lender's applicable percentage of all payments of principal and interest and all proceeds of Collateral received by the Agent in respect of such Protective Advance.

7. As a material inducement to the Agent and the Lenders to enter into this Agreement, Borrower and each of the Guarantors (as appropriate relative to their respective obligations) hereby represent and warrant that:

A. Each of the Recitals set forth above is true and correct in all material respects;

B. Except for the Disclosed Defaults, to the best of their knowledge, Borrower and each of the Guarantors have complied with all of their respective obligations under the Loan Documents in all material respects. There is no Default or Event of Default which has occurred and is continuing under any of the Loan Documents other than the Disclosed Defaults;

C. Except for the Disclosed Defaults arising out of breaches of representations and warranties contained in the Loan Documents, the representations and warranties set forth in Loan Documents remain true and correct in all material respects as of the date of this Agreement;

D. The execution, delivery, and performance of this Agreement, and any other document required herein, is within the corporate powers of Borrower and the Guarantors, has been duly authorized by all necessary corporate action and does not and will not: (i) require any consent or approval of the board of directors of Borrower or the Guarantors; (ii) violate any provision of the articles of incorporation of Borrower or the Guarantors, its bylaws, any other document of corporate governance, or any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Borrower or the Guarantors; (iii) require the consent or approval of, or filing or registration with, any governmental body, agency or authority; (iv) cause any breach of, or constitute a default under, any contract, indenture or other agreement or instrument under which Borrower or any Guarantor is a party or by which it or its properties may be bound or affected; or (v) result in the imposition of any lien, charge or encumbrance upon any property of Borrower or any Guarantor;

E. This Agreement constitutes, and any of the documents required herein will constitute upon execution and delivery, legal, valid, and binding obligations of the Borrower and each of the Guarantors, enforceable in accordance with its terms;

F. Borrower and each of the Guarantors do not, and hereby covenant that they will not, contest that the Agent and the Lender have and will continue to possess valid and perfected security interests in, and liens upon, all of the property as set forth in the Loan Documents; and

G. All information provided by Borrower and each of the Guarantors to the Agent and/or the Lenders, previously or in connection with this Agreement, including, without limitation, information on the exhibits attached hereto and concerning financial status, assets, liabilities, or business plans, whether communicated orally or in writing, is true and correct in all material respects.

8. In the event that Borrower or any of the Guarantors fails to satisfy any covenants, representations, warranties, or agreements of this Agreement or any other Loan Document (other than the violations giving rise to the Disclosed Defaults), such failure shall immediately without further notice constitute an event of default under this Agreement ("Forbearance Default") and the Agent and the Lenders shall be deemed to have no obligation to forbear in exercising any of its rights or remedies under the Loan Documents, this Agreement, or any agreement or document executed in connection herewith.

9. Upon the occurrence of a Forbearance Default as defined in Paragraph 8 hereof, the Agent and the Lenders may, at their option, terminate their obligations under this Agreement and the Loan Documents; and thereafter the Agent and the Lenders shall be entitled to immediately exercise all respective rights and remedies available to the Agent and the Lenders herein and in the Loan Documents, under the Uniform Commercial Code, and any other state or federal law. Notwithstanding the foregoing, however, the representations, warranties, acknowledgments, covenants, and agreements made by Borrower and Guarantors herein shall survive the Agent's and the Lenders' election to terminate its obligations hereunder in the event of a Forbearance Default.

10. Borrower and each of the Guarantors acknowledge and agree that: (i) the Disclosed Defaults have occurred and are existing under the Loan Documents as of the date of this Agreement; and (ii) the Agent and the Lenders are entitled to take all actions legally available to them under the Loan Documents or applicable law upon the occurrence of an event of default without any further or additional notice to Borrower or the Guarantors.

11. Borrower and each of the Guarantors restate, acknowledge and agree that: (i) the amounts set forth in Recital B above are outstanding under the Obligations without claim, offset, counterclaim, defense or affirmative defense of any kind and the Obligations remain the continuing and individual obligations of Borrower and each of the Guarantors, until all amounts due thereunder, including attorneys' fees and costs incurred by the Agent and the Lenders in connection with this Agreement or enforcement of the Loan Documents, are paid in full; (ii) the liens and security interests granted to the Agent and the Lenders by Borrower and each of the Guarantors are and remain valid security interests in the assets of those parties; and (iii) as of the date hereof, Borrower and each of the Guarantors hereby release, discharge, and agree to hold harmless the Agent and the Lenders and their representatives, agents, employees, attorneys, directors, officers, parents, affiliates, assigns, insurers, subsidiaries, and their successors and assigns (collectively, the "Released Parties") from any and all claims, defenses, affirmative defenses, setoffs, counterclaims, actions, causes of action, suits, controversies, agreements, provisions, liabilities and demands in law or in equity, whether known or unknown (collectively, the "Claims") which Borrower or any of the Guarantors ever had, now has, or may hereafter have against or related to the Released Parties through the date of this Agreement, including, but not limited to, Claims relating to or arising out of the Loan Documents or the transactions described therein, the Obligations, the Agent's and the Lenders' administration of the Loan Documents, the banking relationship of Borrower or any of the Guarantors with the Agent and/or the Lenders, or this Agreement.

12. Each of the Guarantors hereby acknowledges and agrees to the continuing authenticity and enforceability of each of the Guaranties notwithstanding the agreements set forth herein. Each of the Guarantors hereby ratify and reaffirm each of the Guaranties in their entirety, confirm the continuing validity of each of the Guaranties and agree that each of the Guaranties shall remain in full force and effect until the Obligations have been paid in full in cash to the Agent and the Lenders and all remaining obligations of the Borrower and each of the Guarantors to the Agent and the Lenders under the Loan Documents and this Agreement have been performed to the Agent's and the Lenders' satisfaction. The Guaranties are incorporated herein by reference.

13. Each of the Guarantors agrees that, as of the date hereof, it has no claims or defenses of any kind by way of offset or otherwise to the payment and satisfaction in full of the Obligations to Agent and the Lenders pursuant to each of the Guaranties. To the extent that any such claim or defense may presently exist or may arise in the future, each of the Guarantors expressly waive any and all claims or defenses against any of the Released Parties that now or hereafter exist by reason of, among other things, and without limitation: (i) any and all amendments or modifications of any document or instrument; (ii) any and all alterations, accelerations, extensions or other changes in the time or manner of payment or performance of the Obligations; (iii) any and all increases or decreases in the rate of interest or other charges; (iv) the release, substitution or addition of any collateral or any shareholder of the corporation; (v) any failure of the Agent or the Lenders to give notice of default to the Borrower or any shareholder; (vi) any failure of the Agent or the Lenders to pursue the Borrower or any of the Borrower's property with due diligence; or (vii) any failure of the Agent or the Lenders to resort to the collateral or to remedies which may be available to it.

14. The agreements set forth herein constitute the terms and conditions of forbearance only and not a novation. Except as specifically set forth in this Agreement, the Loan Documents shall remain in full force and effect and are hereby ratified and confirmed. To the extent that any provision of this Agreement conflicts with any terms or conditions set forth in the Loan Documents, the provisions of this Agreement shall supersede and control. Borrower and each of the Guarantors shall continue to comply with all undertakings, obligations and representations set forth in the Loan Documents to the extent not modified in this Agreement. Except as expressly provided herein, the execution and delivery of this Agreement shall not: (i) constitute an extension, modification, or waiver of any aspect of the Loan Documents or any right or remedy thereunder; (ii) extend the terms of the Loan Documents or the due date of any of the loans set forth therein; (iii) establish a course of dealing between the Agent and/or the Lenders and Borrower and/or any of the Guarantors or give rise to any obligation on the part of the Agent or the Lenders to extend, modify or waive any term or condition of the Loan Documents; or (iv) give rise to any defenses or counterclaims to the Agent's or the Lenders' right to compel payment of any loan or to otherwise enforce their respective rights and remedies under the Loan Documents.

15. Borrower and each of the Guarantors acknowledge that it: (i) has been represented, or had the opportunity to be represented, by its own legal counsel in connection with the Loan Documents and this Agreement, including, without limitation, with respect to the releases set forth in Paragraph 11 above; (ii) that it has exercised independent judgment with respect to the Loan Documents and this Agreement; (iii) that it has not relied on the Agent or the Lenders or on their counsel for any advice with respect to the Loan Documents or this Agreement; and (iv) has had a reasonable opportunity to consider whether there may be future damages, injuries, claims, obligations, or liabilities which presently are unknown, unforeseen or not yet in existence and consciously intends to release them. Based upon the foregoing, no rule of contract construction or interpretation shall be employed to construe this Agreement more strictly against one party or the other.

16. This Agreement has been negotiated, executed, and delivered in the State of New York and shall be deemed to have been made in the State of New York. The validity of this Agreement, its construction, interpretation, and enforcement as well as the rights of the parties hereunder (including, without limitation, with respect to the collateral) shall be determined under, governed by, and construed in accordance with the internal laws of the State of New York (without regard to its conflict of law principles).

17. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

18. This Agreement and the other documents referred to herein contain the entire agreement between the Agent, the Lenders, Borrower, and the Guarantors, or any of them, with respect to the subject matter hereof and supersedes all previous communications and negotiations. No representation, undertaking, promise, or condition concerning the subject matter hereof shall be binding upon the Agent or the Lenders unless clearly expressed in this Agreement or in the other documents referred to herein. Any discussions and correspondence about the terms of a possible extension, modification, and/or restructuring of the Loan Documents shall be deemed to be in the nature of settlement negotiations. Accordingly, any such discussions and correspondence will not be admissible in any legal or administrative proceedings and shall not be actionable under any theory of law or utilized for any purpose without the consent of all parties. No agreement which is reached herein shall give rise to any claim or cause of action except for breach of the express provisions of a legally binding written agreement.

19. Nothing contained in this Agreement or any other document referred to herein, nor any action taken pursuant hereto or thereto, shall be construed as: (i) permitting or obligating the Agent or the Lenders to act as financial or business advisor or consultant to Borrower or any of the Guarantors; (ii) permitting or obligating the Agent or the Lenders to control or to conduct the operations of Borrower or any of the Guarantors; (iii) creating any fiduciary obligation on the part of the Agent or the Lenders to Borrower or any of the Guarantors; or (iv) causing Borrower or any of the Guarantors to be treated as an agent of the Agent or the Lenders.

20. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement. Any of the parties hereto may execute this Agreement by signing, whether by facsimile or portable document format transmission or otherwise, any such counterpart.

21. BORROWER AND EACH OF THE GUARANTORS HEREBY CONSENT TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT SITUATED IN NEW YORK CITY, NEW YORK, AND WAIVE ANY OBJECTION BASED ON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS, WITH REGARD TO ANY ACTIONS, CLAIMS, DISPUTES OR PROCEEDINGS RELATING TO THIS AGREEMENT, ANY OF THE LOAN DOCUMENTS, OR ANY DOCUMENT DELIVERED HEREUNDER OR IN CONNECTION HEREWITH, OR ANY TRANSACTION ARISING FROM OR CONNECTED TO ANY OF THE FOREGOING. BORROWER AND EACH OF THE GUARANTORS WAIVE PERSONAL SERVICE OF ANY AND ALL PROCESS UPON THEM, AND CONSENT TO ALL SUCH SERVICE OF PROCESS MADE BY MAIL OR BY MESSENGER DIRECTED TO THEM AT THE ADDRESSES SPECIFIED IN THE LOAN DOCUMENTS. NOTHING HEREIN SHALL AFFECT THE AGENT'S OR THE LENDERS' RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW, OR LIMIT THE AGENT'S OR THE LENDERS' RIGHT TO BRING PROCEEDINGS AGAINST BORROWER OR ANY OF THE GUARANTORS OR ANY OF THEIR PROPERTY OR ASSETS IN THE COMPETENT COURTS OF ANY OTHER JURISDICTION OR JURISDICTIONS.

22. BORROWER AND EACH OF THE GUARANTORS HEREBY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT, ANY OF THE LOAN DOCUMENTS, ANY DOCUMENT DELIVERED HEREUNDER OR IN CONNECTION HEREWITH, OR ANY TRANSACTION ARISING FROM OR CONNECTED TO ANY OF THE FOREGOING. BORROWER AND EACH OF THE GUARANTORS REPRESENT THAT THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY GIVEN.

23. BORROWER AND EACH OF THE GUARANTORS HEREBY WAIVE ANY RIGHT ANY OF THEM MAY NOW OR HEREAFTER HAVE TO CLAIM OR RECOVER FROM THE AGENT OR THE LENDERS ANY SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES (AS OPPOSED TO DIRECT OR ACTUAL DAMAGES).

24. This Agreement shall be binding on Borrower, the Guarantors and each of their respective successors and assigns, and shall inure solely to the benefit of the Agent, the Lenders, their successors, assigns, and affiliates. No third-party or other person or entity shall have any rights or benefits under this Agreement.

25. Borrower agrees to pay on demand all costs and expenses of the Agent and the Lenders in connection with the preparation, execution and delivery of this Agreement and the other documents related hereto, including the fees and out-of-pocket expenses of counsel for the Agent and the Lenders.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective representatives thereunto duly authorized as of the date first above written.

ULTRALIFE CORPORATION

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

ADMINISTRATIVE AGENT:

JPMORGAN CHASE BANK, N.A., as Agent

By: /s/ Thomas C. Strasenburgh
Name: Thomas C. Strasenburgh
Title: Vice President

LENDERS:

JPMORGAN CHASE BANK, N.A.

By: /s/ Thomas C. Strasenburgh
Name: Thomas C. Strasenburgh
Title: Vice President

MANUFACTURERS AND TRADERS TRUST COMPANY

By: /s/ Jon Fogle
Name: Jon Fogle
Title: Vice President

Exhibit 10.33

CREDIT AGREEMENT

by and among

ULTRALIFE CORPORATION,
McDOWELL RESEARCH CO., INC.,
REDBLACK COMMUNICATIONS, INC.,
AND
STATIONARY POWER SERVICES, INC.

and

RBS BUSINESS CAPITAL,
a division of
RBS ASSET FINANCE, INC.

DATED AS OF FEBRUARY 17, 2010

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT, dated as of February 17, 2010, by and between **ULTRALIFE CORPORATION,** a Delaware corporation ("**Ultralife**"), **McDOWELL RESEARCH CO., INC.**, a Delaware corporation ("**McDowell**"), **REDBLACK COMMUNICATIONS, INC.**, a Maryland corporation ("**RedBlack Communications**"), and **STATIONARY POWER SERVICES, INC.**, a Florida corporation ("**Stationary Power Services**", and together with Ultralife, McDowell and RedBlack Communications, each individually a "**Borrower**" and collectively, the "**Borrowers**" as hereinafter further defined).

AND

RBS BUSINESS CAPITAL, a division of RBS Asset Finance, Inc., a New York corporation (the "**Lender**").

R E C I T A L S :

WHEREAS, the Borrowers have requested that the Lender provide a revolving line of credit facility to the Borrowers for general working capital, general corporate purposes, letter of credit foreign exchange support and to refinance certain existing indebtedness to the Existing Lender (as hereinafter defined); and

WHEREAS, Lender is willing to provide such financing on the terms, and subject to the conditions, set forth in this Agreement;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants contained in this Agreement, and intending to be legally bound, the parties agree as follows:

ARTICLE I

DEFINITIONS

1.01 Certain Definitions. In addition to other words and terms defined elsewhere in this Agreement, the following words and terms have the following meanings, respectively, unless the context otherwise clearly requires:

"**Able New Energy – China**" means ABLE New Energy Co. Ltd., a company organized under the laws of China.

"**Able New Energy – Hong Kong**" means ABLE New Energy Co. Limited, a company organized under the laws of Hong Kong.

“**Account**” means any account, contract right, general intangible, chattel paper, instrument or document representing any right to payment for goods sold or services rendered, whether or not earned by performance and whether or not evidenced by a contract, instrument or document, which is now owned or hereafter acquired by a Borrower.

“**Adjusted LIBOR Rate**” means, relative to any LIBOR Rate Loan to be made, continued or maintained as, or converted into, a LIBOR Rate Loan for any LIBOR Interest Period, a rate per annum determined by dividing (x) the LIBOR Rate for such LIBOR Interest Period by (y) a percentage equal to one hundred percent (100%) minus the LIBOR Reserve Percentage.

“**Administrative Borrower**” means Ultralife, in its capacity as Administrative Borrower on behalf of itself and the other Borrowers pursuant to Section 2.04(e) of this Agreement and its successors and assigns in such capacity.

“**Affiliate**” means any person or entity that is not a Borrower which directly or indirectly controls, or is controlled by, or is under common control with, a Borrower. For each individual who is an Affiliate within the meaning of the foregoing, the term “Affiliate” shall include any other individual related to such Affiliate by consanguinity within the second degree or in a step or adoptive relationship within such second degree or related by affinity with such Affiliate or any such individual, and any person directly or indirectly controlled by any of the foregoing. The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise.

“**Agreement**” means this Credit Agreement, as amended, modified or supplemented from time to time.

“**Bankruptcy Code**” shall mean 11 U.S.C. §§ 101 *et seq.* as the same may be modified or amended from time to time.

“**Blocked Account Agreement**” shall have the meaning assigned to such term in Section 6.13 of this Agreement.

“**Borrowers**” means, collectively, the following (together with their respective successors and assigns) (a) Ultralife Corporation, a Delaware corporation; (b) McDowell Research Co., Inc., a Delaware corporation; (c) RedBlack Communications, Inc., a Maryland corporation; (d) Stationary Power Services, Inc., a Florida corporation; and (e) any Person that at any time after the date hereof becomes a Borrower. Each of the Borrowers is sometimes referred to in this Agreement individually as a “**Borrower**”.

“**Borrowing Base**” has the meaning assigned to that term in Section 2.03 of this Agreement.

"**Business Day**" means:

(a) any day which is neither a Saturday or Sunday nor a legal holiday on which commercial banks are authorized or required to be closed in Pittsburgh, Pennsylvania;

(b) when such term is used to describe a day on which a borrowing, payment, prepaying, or repaying is to be made in respect of any LIBOR Rate Loan, any day which is: (i) neither a Saturday or Sunday nor a legal holiday on which commercial banks are authorized or required to be closed in New York City; and (ii) a London Banking Day; and

(c) when such term is used to describe a day on which an interest rate determination is to be made in respect of any LIBOR Rate Loan, any day which is a London Banking Day.

"**Capital Expenditure**" means any expenditure made or liability incurred which is, in accordance with GAAP, treated as a capital expenditure and not as an expense item for the year in which it was made or incurred, as the case may be.

"**Capitalized Lease Obligations**" means any amount payable with respect to any lease of any tangible or intangible property (whether real, personal or mixed), however denoted, which is required by GAAP to be reflected as a liability on the face of the balance sheet of the lessee.

"**Change of Control**" means (a) with respect to the beneficial owners of common shares of Ultralife holding in excess of five percent (5%) of such shares as of the date of this Agreement (based upon Exchange Act filings of beneficial ownership with the U.S. Securities and Exchange Commission), the acquisition of ownership, directly or indirectly, beneficially or of record, by such Person or group, of such shares or other equity interests representing more than 49% of the aggregate ordinary voting power represented by the issued and outstanding common shares or other equity interests of Ultralife; (b) the acquisition of ownership, directly or indirectly, beneficially or of record, by any other Person or group (within the meaning of the Exchange Act and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of common shares or other equity interests representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding common shares or other equity interests of Ultralife or any of its Subsidiaries; or (c) occupation of a majority of the seats (other than vacant seats) on the board of directors of Ultralife or any of its Subsidiaries by Persons who were neither (i) nominated by the board of directors of Ultralife or any of its Subsidiaries nor (ii) appointed by directors so nominated.

"**Closing Date**" means February 17, 2010, or such other date upon which the parties may agree.

"**Code**" means the Uniform Commercial Code as in effect on the date of this Agreement, and as amended from time to time, of the state or states having jurisdiction with respect to all or any portion of the collateral granted or assigned to the Lender from time to time under or in connection with this Agreement.

“**Collateral**” means the “Collateral” granted or assigned to the Lender from time to time under or in connection with this Agreement or any of the Security Agreements.

“**Consolidated EBITDA**” for any period of determination shall mean (i) the sum of consolidated net income (or loss) (exclusive of extraordinary gains and losses), depreciation, amortization, other non-cash charges to consolidated net income, interest expense and income tax expense *minus* (ii) non-cash credits to consolidated net income (or loss) of Ultralife and its Subsidiaries, for such period determined on a consolidated basis in accordance with GAAP.

“**Consolidated Fixed Charges**” shall mean for any period of determination the sum of cash interest expense, cash tax expense, scheduled principal installments on Debt (as adjusted for prepayments), unfunded Capital Expenditures and dividends and other distributions paid during such period, in each case of Ultralife and its Subsidiaries, for such period determined on a consolidated basis in accordance with GAAP.

“**Debt**” means (i) indebtedness or liability for borrowed money, or for the deferred purchase price of property or services (including third party and intercompany trade obligations) whether such indebtedness or liability is matured or unmatured, liquidated or unliquidated, direct or contingent, and joint or several; (ii) Capitalized Lease Obligations; (iii) current liabilities in respect of unfunded vested benefits under any Plan; (iv) obligations under letters of credit; (v) all guaranties, endorsements (other than for collection or deposit in the ordinary course of business), and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any person or entity, or otherwise to assure a creditor against loss; (vi) obligations under any agreement in respect of any rate swap transaction or any other cap, floor, collar or other derivative transaction; (vii) Hedging Obligations (whether owed to the Lender or any Lender Affiliate); and (viii) obligations secured by any lien on property owned by such person or entity, whether or not the obligations have been assumed.

“**Eligible Accounts**” means an Account, net of any prepayments, progress payments, deposits and retentions, owing to a Borrower which met the specifications established from time to time by the Lender, in its sole discretion, at the time it came into existence and continues to meet such specifications until it is collected in full. As of the date of this Agreement, an Account, to be an Eligible Account, must meet the following specifications at the time it comes into existence and continue to meet such specifications until it is collected in full:

(a) The Account is not more than ninety (90) days from the date of the invoice therefor;

(b) The Account arose from the performance of services or an outright sale of goods by such Borrower in the ordinary course of such Borrower’s business and such goods have been shipped, or services provided, to the account debtor and such Borrower has possession of, or has delivered to the Lender, in the case of goods, shipping and delivery receipts evidencing such shipment and, in the case of services, receipts or other evidence satisfactory to the Lender that such services have been provided;

(c) The Account is not subject to any prior assignment, claim, lien, or security interest, and such Borrower will not make any further assignment of the Account or create any further security interest in the Account, nor permit its rights in the Account to be reached by attachment, levy, garnishment or other judicial process;

(d) The Account is not subject to set-off, credit, allowance or adjustment by the account debtor, except discounts allowed for prompt payment, and the account debtor has not complained as to its liability on the Account and has not returned, or retained the right to return, any of the goods from the sale of which the Account arose;

(e) The Account does not arise from a sale of goods that are delivered or to be delivered outside the United States of America, or from a sale of goods to an account debtor domiciled outside of the United States of America, unless such Borrower has arranged letter of credit facilities satisfactory to the Lender;

(f) The Account arose in the ordinary course of such Borrower’s business and did not arise from the performance of services or a sale of goods to a creditor, supplier, an employee or an Affiliate of such Borrower;

(g) The Account does not arise with respect to an account debtor from whom fifty percent (50%) or more of the Accounts are more than ninety (90) days from the date of the invoice therefor or are otherwise deemed ineligible in accordance with the eligibility criteria for Eligible Accounts;

(h) The Account is not an Account with respect to a single account debtor whose Accounts constitute more than thirty five percent (35%) of all Eligible Accounts, provided that the portion of such accounts not in excess of all Eligible Accounts, which otherwise meet the eligibility criteria for Eligible Accounts, shall constitute Eligible Accounts;

(i) The Account is not evidenced by chattel paper or an instrument of any kind;

(j) The Account does not arise out of contracts with the United States or any department, agency, or instrumentality of the United States, unless such Borrower has executed any instruments and taken any steps required by the Lender in order that all monies due and to become due under such contracts shall be assigned to the Lender and notice thereof given to the government under the Federal Assignment of Claims Act; provided, however, that the Borrower shall not be required to assign any such Account in an amount less than $250,000 in compliance with the Federal Assignment of Claims Act, provided that (i) each such Account (an “**Unassigned US Account**”) which otherwise meets all of the specifications to be an Eligible Account shall be an Eligible Account for purposes of this Agreement, and (ii) the aggregate sum of all Unassigned US Accounts shall not at any time exceed $250,000 (whether one or more Unassigned US Accounts);

(k) The Account is not subject to any other prohibition (under the applicable Law, by contract or otherwise) against its assignment or requiring notice of or consent to any assignment to the Lender, unless all such required notices have been given, all such required consents have been received and all other procedures have been complied with such that such Account shall have been duly and validly assigned to the Lender;

(l) The Account does not constitute a finance charge or lease receivable;

(m) The account debtor with respect to such Account is not located in New Jersey or any other state or jurisdiction denying creditors access to its courts in the absence of qualification to transact business in such state of the filing of a Notice of Business Activities Report or other similar filing, unless such Borrower has either qualified as a foreign corporation authorized to transact business in such state or jurisdiction or has filed a Notice of Business Activities Report or similar filing with the applicable state or jurisdiction agency for the then current year;

(n) No notice of bankruptcy, insolvency or material adverse change of the account debtor has been received by or is known to such Borrower;

(o) The Account does not arise out of a contract for which such Borrower has provided a performance or other bond;

(p) The Account has not been factored with, or sold or assigned to, any factoring company; and

(q) The Lender has not notified the Administrative Borrower that the Lender has determined, in its sole discretion, the Account or account debtor is unsatisfactory.

The Lender may require, in its sole discretion, that certain reserves be established against certain Accounts from time to time.

“**Eligible Inventory**” means raw material inventory and finished goods inventory which is owned by a Borrower, which is subject to the Lender’s perfected first priority lien and security interest as provided in a Security Agreement executed and delivered by such Borrower and which is not subject to a prior security interest held by a third party and which meets the specifications established by the Lender in its sole discretion from time to time. As of the date of this Agreement, Eligible Inventory shall not include:

(a) any of such Borrower’s finished goods inventories not held for sale or held pursuant to a consignment sale, bill and hold, guaranteed sale, sale or return or similar arrangement;

(b) any of such Borrower’s work-in-progress inventories;

(c) any of such Borrower’s stores and supplies, solvents and spare and machine maintenance parts used in the general operations and maintenance of the machinery and equipment of such Borrower;

(d) inventory-in-transit or inventories not otherwise in such Borrower’s possession at an Eligible Location;

(e) inventory produced in violation of the Fair Labor Standards Act and subject to the “hot goods” provision contained in 29 U.S.C. § 215(a)(1);

(f) inventory determined by the Lender, in its sole discretion, to be slow moving, obsolete, damaged or not currently usable or salable in the ordinary course of such Borrower’s business; or

(g) any of such Borrower’s inventories allocated or identified to purchase orders or contracts received from any customer of such Borrower, as to which inventories such customer has filed or intends to file UCC Financing Statements or to otherwise perfect a security interest; or

(h) the Lender has not notified the Administrative Borrower that the Lender has determined in its sole discretion, that the inventory is unsatisfactory.

The Eligible Inventory shall be valued, for the purposes of this Agreement, at the lower of cost (determined on a first-in-first-out basis) or market value.

“**Eligible Inventory Sublimit**” means a sublimit established by the Lender, in its sole discretion, from time to time to limit the maximum amount of the Revolving Credit Loans which may be made based on the Eligible Inventory. As of the date of this Agreement, the Eligible Inventory Sublimit is equal to Twelve Million Five Hundred Thousand Dollars ($12,500,000).

“**Eligible Locations**” means Ultralife’s premises located at 2000 Technology Parkway, Newark, New York 14513, and any other location as to which a Borrower has delivered a landlord’s or bailee’s waiver satisfactory to Lender in its sole discretion.

“**Environmental Laws**” means any federal, state or local laws, ordinances, rules, regulations or policies, including permits, judicial and administrative orders, judgments, consents, decrees issued, or entered into, governing or relating to the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of Hazardous Materials.

“**ERISA**” shall mean the Employee Retirement Income Security Act of 1974 as in effect as of the date of this Agreement and as amended from time to time in the future.

"**Event of Default**" means any of the Events of Default described in Section 8.01 of this Agreement.

"**Excess Availability**" means, as of the date of determination, the maximum amount of Revolving Credit Loans that would be available to the Borrowers, as determined by the Lender by subtracting the Revolving Credit Usage as of such day (including any Revolving Credit Loans made or to be made, and Letters of Credit issued or to be issued, as of such day) from the Borrowing Base as of such date.

"**Exchange Act**" shall mean the Securities Exchange Act of 1934, together with all rules, regulations and interpretations thereunder or related thereto.

"**Existing Lender**" means JP Morgan Chase Bank, N.A., as administrative agent, and the lenders party to that certain Amended and Restated Credit Agreement dated as of January 27, 2009.

"**Fixed Charge Coverage Ratio**" shall mean the ratio of (i) Consolidated EBITDA for the four (4) fiscal quarter period ending as of the date of determination, to (ii) Consolidated Fixed Charges; provided, however, that (x) for the fiscal period ending March 28, 2010, the Fixed Charge Coverage Ratio shall be tested based on the two (2) fiscal quarter period ending on that date, (y) for the fiscal period ending June 27, 2010, the Fixed Charge Coverage Ratio shall be tested based on the three (3) fiscal quarter period ending on that date, and (z) for the fiscal period ending September 26, 2010 and each fiscal quarter thereafter, the Fixed Charge Coverage Ratio shall be tested based on the four (4) fiscal quarter period ending on the date of determination.

"**GAAP**" means generally accepted accounting principles (as such principles may change from time to time) applied on a consistent basis (except for changes in application in which the Borrowers' independent certified public accountants concur).

"**Guarantors**" shall mean all of, and "**Guarantor**" shall mean any one of, as the context may require, each Subsidiary, and each other Person, that becomes a Guarantor after the date hereof pursuant to this Agreement. As of the date of this Agreement, there are no Guarantors.

"**Guaranty Agreements**" shall mean any Guaranty Agreement which may in the future be executed and delivered to the Lender by any Subsidiary pursuant to the terms of this Agreement, as each such agreement may be amended, modified or supplemented from time to time.

"**Hazardous Materials**" shall mean (a) asbestos in any form; (b) urea formaldehyde foam insulation; (c) transformers or other equipment that contain dielectric fluid containing levels of polychlorinated biphenyl in excess of fifty (50) parts per million; or (d) any other chemical, material, air pollutant, toxic pollutant, waste, or substance that is regulated as toxic or hazardous or exposure to which is prohibited, limited or regulated by the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substances Control Act, the Clean Air Act, and the Clean Water Act, or any amendment thereto, or any other federal, state, county, regional, local, or other governmental authority or which, even if not so regulated, may or could pose a hazard to the health and safety of the occupants of the Property or the owners of property adjacent to the Property and is either (i) present in amounts in excess of that permitted or deemed safe under applicable law or (ii) handled, stored or otherwise used in any way that is prohibited or deemed unsafe under applicable law.

“**Hedging Contracts**” means, interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, foreign exchange agreements, currency swap agreements, cross-currency rate swap agreements, currency option agreements or any other agreements or arrangements entered into between one or more of the Borrowers and the Lender and/or a Lender Affiliate (or another financial institution acceptable to Lender) and designed to protect the Borrowers against fluctuations in interest rates or currency exchange rates.

“**Hedging Obligations**” means, with respect to a Borrower, all liabilities of such Borrower to the Lender or any Lender Affiliate under Hedging Contracts.

“**Interest Payment Date**” means, relative to any LIBOR Rate Loan having an LIBOR Interest Period of three months or less, the last Business Day of such LIBOR Interest Period, and as to any LIBOR Rate Loan having an LIBOR Interest Period longer than three months, each Business Day which is three months, or a whole multiple thereof, after the first day of such LIBOR Interest Period and the last day of such LIBOR Interest Period.

“**Issuing Bank**” means a Lender Affiliate in its capacity as issuer of Letters of Credit issued by it as described in Section 2.05 of this Agreement.

“**LA Interest Payment Date**” means, initially, the 15th day of March, 2010, and thereafter the day of each succeeding month which numerically corresponds to such date or, if a month does not contain a day that numerically corresponds to such date, the LA Interest Payment Date shall be the last day of such month.

“**LA Interest Period**” means, with respect to any LIBOR Advantage Loan, the period commencing on (and including) the date hereof (the “Start Date”) and ending on (but excluding) the date which numerically corresponds one month later, and thereafter, each one month period ending on the day of such month that numerically corresponds to the Start Date. If an LA Interest Period is to end in a month for which there is no day which numerically corresponds to the Start Date, the LA Interest Period will end on the last day of such month. Notwithstanding the date of commencement of any LA Interest Period, interest shall only begin to accrue as of the date the initial LIBOR Advantage Loan is made hereunder.

“**LA Margin**” means 4.50% (450 basis points) per annum.

“**Law**” means any law (including common law), constitution, statute, treaty, regulation, rule, ordinance, order, injunction, writ, decree or award of any Official Body.

“**L/C Application**” means an application form or forms for issuances and amendments of standby or commercial documentary letters of credit as shall at any time be in use at the Lender.

"**L/C Commitment**" means the commitment of the Lender to issue Letters of Credit from time to time under Section 2.05 in an aggregate outstanding amount at any time not to exceed on any date the lesser of (i) Five Million Dollars ($5,000,000.00), and (ii) the aggregate availability, as determined by Section 2.03 of this Agreement; provided that the L/C Commitment is a part of the Revolving Credit Commitment, rather than a separate, independent commitment.

"**L/C Obligations**" means at any time the sum of, without duplication, (i) the aggregate undrawn face or stated amount of all Letters of Credit then outstanding, plus (ii) the amount of all unreimbursed drawings under all Letters of Credit, plus (iii) the aggregate amount of the Borrowers' unpaid obligations in respect to all Letters of Credit (whether or not outstanding) under this Agreement and the LC-Related Documents, including any indebtedness, liability or obligation of any kind whatsoever, however arising, whether present or future, related or unrelated, fixed or contingent, or paid, incurred, or arising in connection with any Letters of Credit (including any drafts or acceptances thereunder), all amounts charged or chargeable to the Borrowers or by the Lender (or by any correspondent bank which opens, issues or is involved with such Letter of Credit), including any and all charges, expenses, fees and commissions, and all duties and taxes and costs of insurance which may pertain either directly or indirectly to such Letter of Credit.

"**L/C – Related Documents**" means the Letters of Credit, the L/C Applications and any other document relating to any Letter of Credit, including any standard form documents used by the Lender for letter of credit issuances.

"**Lease Obligation**" means an obligation of a lessee under a lease of any tangible or intangible property (whether real, personal or mixed), including, without limitation, with respect to any period under any such lease, the aggregate amounts payable by such lessee to or on behalf of the lessor for such period, including, without limitation, property taxes, insurance, interest and amortized charges which such lessee is required to pay pursuant to such lease. Whenever it is necessary to determine the amount of Lease Obligations for any period with respect to which any of the rentals under the relevant lease are not definitely determinable by the terms of the lease, all such rentals will be estimated in a reasonable amount for such period.

"**Lender**" means RBS Business Capital, a division of RBS Asset Finance, Inc., a New York corporation, with an office at 525 William Penn Place, Mailstop 153-2470, Pittsburgh, Pennsylvania 15219.

"**Lender Affiliate**" means Citizens Bank, N.A., or any affiliated banking institution of Citizens Bank, N.A. which (i) provides cash management and operating account services to the Borrowers as described in Section 6.13; (ii) issues Letters of Credit as described in Section 2.05 of this Agreement; or (iii) is a party to a Hedging Contract.

"**Letters of Credit**" has the meaning assigned to such term in Section 2.05 of this Agreement.

“**LIBOR Advantage Loan**” shall mean any loan or advance for which the applicable rate of interest is based upon the LIBOR Advantage Rate.

“**LIBOR Advantage Rate**” means, relative to any LA Interest Period, the offered rate for delivery in two London Banking Days of deposits of U.S. Dollars for a term coextensive with the designated LA Interest Period which the British Bankers’ Association fixes as its LIBOR rate as of 11:00 a.m. London time on the day on which such Interest Period commences. If the first day of any Interest Period is not a day which is both a (i) Business Day, and (ii) a London Banking Day, the LIBOR Advantage Rate shall be determined by reference to the next preceding day which is both a Business Day and a London Banking Day. If for any reason the LIBOR Advantage Rate is unavailable and/or the Lender is unable to determine the LIBOR Advantage Rate for any LA Interest Period, the Lender may, at is discretion, either: (a) select a replacement index based on the arithmetic mean of the quotations, if any, of the interbank offered rate by first class banks in London or New York with comparable maturities or (b) accrue interest at a rate equal to the Prime Rate plus the LIBOR Margin as of the first day of any Interest Period for which the LIBOR Advantage Rate is unavailable or cannot be determined.

“**LIBOR Interest Period**” means, relative to any LIBOR Rate Loan:

(i) initially, the period beginning on (and including) the date on which such LIBOR Rate Loan is made or continued as, or converted into, a LIBOR Rate Loan pursuant to Section 2.04 of this Agreement and ending on (but excluding) the day which numerically corresponds to such date one, three or six months thereafter (or, if such month has no numerically corresponding day, on the last Business Day of such month), in each case as the Administrative Borrower may select in its notice pursuant to Section 2.04 of this Agreement; and

(ii) thereafter, each period commencing on the last day of the next preceding LIBOR Interest Period applicable to such LIBOR Rate Loan and ending one, three or six months thereafter, as selected by the Administrative Borrower by irrevocable notice to the Lender pursuant to Section 2.04 of this Agreement;

provided, however, that

(a) at no time may there be more than ten (10) LIBOR Interest Periods in effect with respect to the LIBOR Rate Loans;

(b) LIBOR Interest Periods commencing on the same date for LIBOR Rate Loans comprising part of the same advance under this agreement shall be of the same duration;

(c) LIBOR Interest Periods for LIBOR Rate Loans in connection with which the Borrowers have or may incur Hedging Obligations with the Lender or a Lender Affiliate shall be of the same duration as the relevant periods set under the applicable Hedging Contracts;

(d) if such LIBOR Interest Period would otherwise end on a day which is not a Business Day, such LIBOR Interest Period shall end on the next following Business Day unless such day falls in the next calendar month, in which case such LIBOR Interest Period shall end on the first preceding Business Day; and

(e) no LIBOR Interest Period may end later than the termination of this Agreement.

"**LIBOR Rate**" means, relative to any LIBOR Interest Period, the offered rate for deposits of U.S. Dollars in an amount approximately equal to the amount of the requested LIBOR Rate Loan for a term coextensive with the designated LIBOR Interest Period which the British Bankers' Association fixes as its LIBOR rate as of 11:00 a.m. London time on the day which is two London Banking Days prior to the beginning of such LIBOR Interest Period. If such day is not a London Banking Day, the LIBOR Rate shall be determined on the next preceding day which is a London Banking Day. If for any reason the Lender cannot determine such offered rate by the British Bankers' Association, the Lender may, in its discretion, select a replacement index based on the arithmetic mean of the quotations, if any, of the interbank offered rate by first class banks in London or New York for deposits in comparable amounts and maturities.

"**LIBOR Rate Loan**" means any loan or advance the rate of interest applicable to which is based upon the LIBOR Rate.

"**LIBOR Rate Margin**" means 4.50% (450 basis points) per annum.

"**LIBOR Reserve Percentage**" means, relative to any day of any LIBOR Interest Period, the maximum aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements (including all basic, emergency, supplemental, marginal and other reserves and taking into account any transitional adjustments or other scheduled changes in reserve requirements) under any regulations of the Board of Governors of the Federal Reserve System (the "Board") or other governmental authority having jurisdiction with respect thereto as issued from time to time and then applicable to assets or liabilities consisting of "Eurocurrency Liabilities", as currently defined in Regulation D of the Board, having a term approximately equal or comparable to such LIBOR Interest Period.

"**Lien**" means any mortgage, deed of trust, pledge, lien, security interest, charge or other encumbrance or security arrangement of any nature, including, but not limited to, any conditional sale or title retention arrangement, and any assignment, deposit arrangement or lease intended as, or having the effect of, security.

"**Loan**" or "**Loans**" means the Revolving Credit Loans or any loan or advance made by the Lender to the Borrowers under this Agreement.

“**Loan Document**” or “**Loan Documents**” mean, singularly or collectively as the context may require, (i) this Agreement, (ii) the Notes, (iii) the Security Agreements, (iv) the UCC-1 financing statements filed in accordance with the Security Agreements, (v) the Patent Security Agreements, (vi) the Trademark Security Agreements, (vii) the Pledge Agreements, (viii) the Negative Pledge – Real Estate, (ix) the Subordination Agreement, and any and all other documents, instruments, certificates and agreements executed and delivered in connection with this Agreement, as any of them may be amended, modified, extended or supplemented from time to time.

“**London Banking Day**” means a day on which dealings in US dollars deposits are transacted in the London interbank market.

“**Material Adverse Change**” means any set of circumstances or events which (a) has or could reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of this Agreement or any other Loan Document, (b) is or could reasonably be expected to be material and adverse to the business, properties, assets, financial condition, results of operations or prospects of a Borrower, (c) impairs materially or could reasonably be expected to impair materially the ability of the Borrowers to duly and punctually pay or perform its Indebtedness, or (d) impairs materially or could reasonably be expected to impair materially the ability of the Lender, to the extent permitted, to enforce its legal remedies pursuant to this Agreement or any other Loan Document.

“**Maturity Date**” means, unless accelerated sooner pursuant to the terms of this Agreement, the third anniversary of the Closing Date (or if such date shall not be a Business Day, then the next succeeding Business Day), or such later date to which the Lender may extend the Revolving Credit Commitment in its sole discretion.

“**McDowell Research**” means McDowell Research Co., Inc., a Delaware corporation, with its chief executive offices located at 2000 Technology Parkway, Newark, New York 14513.

“**NOLV Percentage**” shall mean the fraction, expressed as a percentage, (a) the numerator of which is the amount equal to the amount of the recovery in respect of the Inventory at such time on a “net orderly liquidation value” basis as set forth in the most recent acceptable appraisal of Inventory received by Lender in accordance with Section 6.01(l), net of operating expenses, liquidation expenses and commissions, and (b) the denominator of which is the applicable original cost of the aggregate amount of the Inventory subject to such appraisal.

“**Note**” or “**Notes**” mean the Revolving Credit Note and any other note or notes of the Borrowers executed and delivered pursuant to this Agreement, together with all extensions, renewals, refinancings or refundings in whole or in part.

“**Obligations**” shall mean and include any and all loans, advances, debts, liabilities, obligations, covenants and duties owing by the Borrowers (or any one or more of them) to the Lender or to any other direct or indirect subsidiary or affiliate of the Lender of any kind or nature, present or future (including, without limitation, any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to any Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether or not evidenced by any note, guaranty or other instrument, whether arising under any agreement, instrument or document, (including, without limitation, this Agreement and the other Loan Documents) whether or not for the payment of money, whether arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, under any Hedge Agreement, or in any other manner, whether arising out of overdrafts or deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of the Lender’s non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other similar arrangements, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, contractual or tortious, liquidated or unliquidated, regardless of how such indebtedness or liabilities arise or by what agreement or instrument they may be evidenced or whether evidenced by any agreement or instrument, including, but not limited to, any and all of any Borrowers’ indebtedness and/or liabilities under this Agreement, the other Loan Documents or under any other agreement between the Lender and any Borrower and any amendments, extensions, renewals or increases and all costs and expenses of the Lender incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including but not limited to reasonable attorneys’ fees and expenses and all obligations of any Borrower to the Lender to perform acts or refrain from taking any action.

“**Office**,” when used in connection with the Lender, means its office located at 525 William Penn Place, Mailstop 153-2470, Pittsburgh, Pennsylvania 15219, or such other office of the Lender as the Lender may designate in writing from time to time.

“**Official Body**” means any government or political subdivision or any agency, authority, bureau, central lender, commission, department or instrumentality of either, or any court, tribunal, grand jury or arbitrator, in each case whether foreign or domestic.

“**Other Subsidiaries**” means, as of the date of this Agreement, each direct and indirect Subsidiary of Ultralife not a party to this Agreement. As of the date of this Agreement, Able New Energy – Hong Kong, Able New Energy – China, Ultralife UK and Ultralife India are Other Subsidiaries.

“**PBGC**” means the Pension Benefit Guaranty Corporation.

“**Permitted Encumbrances**” has the meaning assigned to that term in Section 7.01 of this Agreement.

“**Person**” shall mean any individual, sole proprietorship, partnership, corporation, business trust, joint stock company, trust, unincorporated organization, association, limited liability company, institution, public benefit corporation, joint venture, entity or government (whether Federal, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof).

“**Plan**” means any deferred compensation program, including both single and multiemployer plans, subject to Title IV of ERISA and established and maintained for employees of Ultralife or any Subsidiary or any controlled group of trades or businesses under common control as defined respectively in Sections 1563 and 414(c) of the Internal Revenue Code of 1986, as amended, of which Ultralife or any Subsidiary is or becomes a part.

“**Pledge Agreements**” shall mean all of and “**Pledge Agreement**” shall mean any one of, as the context may require, (i) the Pledge Agreement dated on or about the date hereof, executed and delivered to Lender by Ultralife relating to the shares of Able Energy-Hong Kong, Ultralife-UK and Ultralife-India; (ii) any supplemental pledge agreements required under the laws of the respective jurisdictions of Able Energy-Hong Kong, Ultralife-UK and Ultralife-India in connection with the Pledge Agreement described in the foregoing clause (i); and (iii) any other Pledge Agreement executed and delivered to Lender by any Borrower, Guarantor or other Person pursuant to the terms of this Agreement, as each such agreement may be amended, modified or supplemented from time to time.

“**Potential Default**” means any event or condition which with notice or the passage of time would constitute an Event of Default.

“**Prime Rate**” shall mean a rate per annum equal to the rate of interest announced by the Lender Affiliate in Pittsburgh, Pennsylvania from time to time as its “Prime Rate”. Any change in the Prime Rate shall be effective immediately from and after such change in the Prime Rate. Interest accruing by reference to the Prime Rate shall be calculated on the basis of actual days elapsed and a 360-day year. The Borrowers acknowledge that the Lender may make loans to its customers above, at or below the Prime Rate.

“**RedBlack Communications**” means RedBlack Communications, Inc., a Maryland corporation, with its chief executive offices located at 44180 Airport View Drive, Hollywood, Maryland 20636.

“**Revolving Credit Commitment**” means Thirty Five Million Dollars ($35,000,000).

“**Revolving Credit Loans**” has the meaning assigned to that term in Section 2.01 of this Agreement.

“**Revolving Credit Note**” means the Revolving Credit Note of the Borrowers executed and delivered pursuant to Section 2.02 of this Agreement, together with all amendments, extensions, renewals, refinancings or refundings in whole or in part.

“**Revolving Credit Usage**” means at any time the sum of the Revolving Credit Loans outstanding, plus the aggregate undrawn face amount of any outstanding Letters of Credit.

“**Security Agreements**” shall mean all of, and “**Security Agreement**” shall mean any one of, as the context may require, (i) the Security Agreement dated on or about the date hereof, executed and delivered to Lender by McDowell Research, (ii) the Security Agreement dated on or about the date hereof, executed and delivered to Lender by Red Black Communications, (iii) the Security Agreement dated on or about the date hereof, executed and delivered to Lender by Stationary Power Services, and (iv) any Security Agreement executed and delivered to the Lender by any Borrower, Guarantor or other Person pursuant to the terms of this Agreement, as each such agreement may be amended, modified or supplemented from time to time.

“**Solvent**” shall mean, with respect to any person or entity on a particular date, that on such date (i) the fair value of the property of such person or entity is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such person or entity, (ii) the present fair saleable value of the assets of such person or entity is not less than the amount that will be required to pay the probable liability of such person or entity on its debts as they become absolute and matured, (iii) such person or entity is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (iv) such person or entity does not intend to, and does not believe that it will, incur debts or liabilities beyond such person’s or entity’s ability to pay as such debts and liabilities mature, and (v) such person or entity is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such person’s or entity’s property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which such person or entity is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

“**Start Date**” has the meaning assigned to that term in the definition of “LA Interest Period” above.

“**Stationary Power Services**” means Stationary Power Services, Inc., a Florida corporation, with its chief executive offices located at 4902 113th Avenue North, Clearwater, Florida 33760.

“**Subordination Agreement**” means the Subordination Agreement dated on or about the date of this Agreement, as amended, modified or supplemented from time to time, executed and delivered by and among William Maher, the Lender and Ultralife, pursuant to which all sums due to William Maher by Ultralife under that certain Amended and Restated Three-Year Subordinated Convertible Promissory Note dated March 28, 2009 shall be subordinated to the prior payment of all sums due to the Lender.

“**Subsidiary**” means any corporation or other entity of which a majority of the outstanding capital stock or other ownership interests entitled to vote for the election of directors, or other Persons performing similar functions for such entity, is at such time directly or indirectly owned by a Borrower.

“**Ultralife**” means Ultralife Corporation, a Delaware corporation, with its chief executive offices located at 2000 Technology Parkway, Newark, New York 14513.

“**Ultralife India**” means Ultralife Batteries India Private Limited, a company organized under the laws of India.

“**Ultralife UK**” means Ultralife Batteries (UK) Ltd., a company organized under the laws of the United Kingdom.

“**Unassigned US Account**” has the meaning assigned to that term in subsection (j) of the definition of “Eligible Accounts” above.

1.02 Construction. Unless the context of this Agreement otherwise clearly requires, the following rules of construction shall apply to this Agreement and each of the other Loan Documents: (a) references to the plural include the singular, the plural, the part and the whole, “or” has the inclusive meaning represented by the phrase “and/or,” and “including” has the meaning represented by the phrase “including, without limitation”; (b) the words “hereof,” “herein,” “hereunder,” “hereto” and similar terms in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document as a whole and not to any particular provision of this Agreement or such other Loan Document; (c) the section and other headings contained in this Agreement or such other Loan Document and the Table of Contents (if any), preceding this Agreement or such other Loan Document are for reference purposes only and shall not control or affect the construction of this Agreement or such other Loan Document or the interpretation thereof in any respect; (d) article, section, subsection, clause, schedule and exhibit references are to this Agreement or other Loan Document, as the case may be, unless otherwise specified; and (e) reference to any agreement (including this Agreement and any other Loan Document, together with the schedules and exhibits hereto or thereto), document or instrument means such agreement, document or instrument as amended, modified, replaced, substituted for, superseded or restated.

1.03 Accounting Principles. Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters and all financial statements to be delivered pursuant to this Agreement shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate), and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP.

ARTICLE II

REVOLVING CREDIT FACILITY

2.01 Revolving Credit Loans. Subject to the terms and conditions and relying upon the representations and warranties set forth in this Agreement and the other Loan Documents, the Lender agrees to make revolving credit loans (the “**Revolving Credit Loans**”) to the Borrowers at any time or from time to time on or after the Closing Date to and including the Business Day immediately preceding the Maturity Date in an aggregate principal amount not exceeding at any one time outstanding the Borrowing Base. If at any time the sum of all Revolving Credit Loans outstanding, the outstanding Letters of Credit exceeds the Borrowing Base, the Borrowers shall immediately repay to the Lender, in funds immediately available, the amount of such excess, together with all accrued interest on the amount of such repayment. Subject to the provisions of this Agreement, the Borrowers may borrow, repay and reborrow under this Section 2.01. Unless the Lender, in its sole discretion, shall have agreed to extend the Maturity Date of the revolving credit facility, the revolving credit facility established pursuant to this Section 2.01 shall terminate and the Revolving Credit Loans shall be due and payable on the Maturity Date. The Borrowers shall use the proceeds of the Revolving Credit Loans for general working capital, general corporate purposes, letter of credit support and to refinance the outstanding obligations under its credit facility with the Existing Lender.

2.02 Revolving Credit Note. The obligations of the Borrowers to repay the unpaid principal amount of the Revolving Credit Loans made to the Borrowers by the Lender and to pay interest on the unpaid principal amount will be evidenced in part by the Revolving Credit Note of the Borrowers dated the Closing Date, in substantially the form attached as Exhibit "A" to this Agreement, with the blanks appropriately filled. The executed Revolving Credit Note will be delivered by the Borrowers to the Lender on the Closing Date.

2.03 Borrowing Base. The maximum borrowing availability under this Agreement applicable to the Revolving Credit Loans shall be equal on any day during the term of this Agreement to the lesser of (i) the Revolving Credit Commitment, or (ii) an amount equal to the sum of up to eighty-five percent (85%) of the aggregate book value of Eligible Accounts of each Borrower, *plus* the lesser of (x) up to seventy percent (70%) of the aggregate book value of Eligible Inventory of each Borrower, or (y) eighty five percent (85%) of the NOLV Percentage applicable to each category of Eligible Inventory of each Borrower; provided, however, that in no event shall the portion of the Revolving Credit Loans based on Eligible Inventory of all of the Borrowers exceed the Eligible Inventory Sublimit (the lesser of the amounts described in clauses (i) and (ii) of this sentence is sometimes referred to in this Agreement as the "**Borrowing Base**"). The maximum borrowing availability of Revolving Credit Loans for each Borrower under this Agreement shall be limited to the amount of the borrowing base availability as shown on the most recent Borrowing Base Certificate received by the Lender for such Borrower. The Borrowing Base shall be further reduced by (i) the face amount of any Letters of Credit outstanding as of the date of the determination, (ii) in the Lender's sole discretion, the outstanding Hedging Obligations, and (iii) any other reserve or reserves created and maintained by the Lender from time to time and in its sole discretion to reflect events, conditions, contingencies or risks which effect the Eligible Accounts or the Eligible Inventory or otherwise affect the assets, business, operations or financial condition of the Borrowers.

2.04 Making of Revolving Credit Loans.

(a) LIBOR Advantage Loan Request. By delivering a borrowing request to the Lender on or before 10:00 a.m., New York time, on a Business Day, the Administrative Borrower may from time to time irrevocably request, on not less than one nor more than three Business Days' notice, that a LIBOR Advantage Loan be made. On the terms and subject to the conditions of this Agreement, each LIBOR Advantage Loan shall be made available to the Administrative Borrower no later than 11:00 a.m. New York time on the day the LIBOR Advantage Loan is made by deposit to the account of the Administrative Borrower as shall have been specified in its borrowing request. Notwithstanding the foregoing, the Administrative Borrower may provide the Lender with written notice (in the form and with information required in this Section 2.04) of any such borrowing request for a LIBOR Advantage Loan by telecopy on the day, and by mail within one Business Day after the day, any such request is made. The Lender is entitled to rely on any such request made in accordance with the terms of this Agreement.

(b) Conversion to LIBOR Rate Loans. By delivering a conversion notice to the Lender on or before 10:00 a.m., New York time, on a Business Day, the Administrative Borrower may from time to time irrevocably elect, on not less than two nor more than five Business Days' notice, that all, or any portion, in an aggregate minimum amount of $1,000,000 and integral multiples of $500,000, of any LIBOR Advantage Loan be converted on any day into a LIBOR Rate Loan, with a LIBOR Interest Period of one, two or three months; provided, however, that no portion of the outstanding principal amount of any LIBOR Advantage Loans may be converted to LIBOR Rate Loans when any Event of Default has occurred and is continuing and provided, further, that all accrued interest on the principal amount of any LIBOR Advantage Loan to be converted hereunder shall be paid in full.

(c) LIBOR Loan Request. By delivering a borrowing request to the Lender on or before 10:00 a.m., New York time, on a Business Day, the Administrative Borrower may from time to time irrevocably request, on not less than two nor more than five Business Days' notice, that a LIBOR Rate Loan be made in a minimum amount of $1,000,000 and integral multiples of $500,000, with a LIBOR Interest Period of one, two or three months. On the terms and subject to the conditions of this Agreement, each LIBOR Rate Loan shall be made available to the Administrative Borrower no later than 11:00 a.m. New York time on the first day of the applicable LIBOR Interest Period by deposit to the account of the Administrative Borrower as shall have been specified in its borrowing request.

(d) Continuation and Conversion Elections. By delivering a conversion notice to the Lender on or before 10:00 a.m., New York time, on a Business Day, the Administrative Borrower may from time to time irrevocably elect, on not less than two nor more than five Business Days' notice, that all or any portion of any LIBOR Rate Loan, in an aggregate minimum amount of $1,000,000 and integral multiples of $500,000 be converted on the last day of a LIBOR Interest Period into a LIBOR Rate Loan with a different LIBOR Interest Period; provided, however, that no portion of the outstanding principal amount of any LIBOR Rate Loan may be converted to, or be continued as, a LIBOR Rate Loan when any Event of Default has occurred and is continuing, and no portion of the outstanding principal amount of any LIBOR Rate Loan may be converted to LIBOR Rate Loan of a different duration if such LIBOR Rate Loan relates to any Hedging Obligation. In the absence of delivery of a conversion notice with respect to any LIBOR Rate Loan at least two Business Days before the last day of the then current LIBOR Interest Period with respect thereto, such LIBOR Rate Loan shall, on such last day, automatically continue as a LIBOR Rate Loan with the same LIBOR Interest Period.

(e) Appointment of Administrative Borrower.

(i) Each Borrower hereby irrevocably appoints and constitutes the Administrative Borrower as its agent and attorney-in-fact to request and receive Loans and Letters of Credit pursuant to this Agreement and the other Loan Documents from Lender in the name or on behalf of such Borrower. Lender may disburse the Loans to such bank account of the Administrative Borrower or a Borrower or otherwise make such Loans to a Borrower and provide such Letters of Credit to a Borrower as the Administrative Borrower may designate or direct, without notice to any other Borrowers or Guarantor. Notwithstanding anything to the contrary contained herein, Lender may at any time and from time to time require that Loans to or for the account of any Borrower be disbursed directly to an operating account of such Borrower.

(ii) The Administrative Borrower hereby accepts the appointment by the Borrowers to act as the agent and attorney-in-fact of the Borrowers pursuant to this Section 2.04(e). The Administrative Borrower shall ensure that the disbursement of any Loans to each Borrower requested by or paid to or for the account of Parent, or the issuance of any Letter of Credit for a Borrower hereunder, shall be paid to or for the account of such Borrower.

(iii) Each Borrower and Guarantor hereby irrevocably appoints and constitutes the Administrative Borrower as its agent to receive statements on account and all other notices from the Lender with respect to the Obligations or otherwise under or in connection with this Agreement and the other Loan Documents.

(iv) Any notice, election, representation, warranty, agreement or undertaking by or on behalf of any other Borrower or Guarantor by the Administrative Borrower shall be deemed for all purposes to have been made by such Borrower or Guarantor, as the case may be, and shall be binding upon and enforceable against such Borrower or Guarantor to the same extent as if made directly by such Borrower or Guarantor.

(v) No purported termination of the appointment of the Administrative Borrower as agent as aforesaid shall be effective, except after ten (10) days' prior written notice to the Lender.

2.05 Letters of Credit Subfacility. (a) Subject to the conditions and on the terms hereinafter set forth in this Agreement, and in reliance upon the representations and warranties of the Borrowers contained in Article IV, the Administrative Borrower may request the Issuing Bank to (i) from time to time on any Business Day, during the period from the Closing Date to the day which is five (5) Business Days prior to the Maturity Date, issue standby and documentary letters of credit ("**Letters of Credit**") for the account of a Borrower in an aggregate stated amount at any one time that, together with the aggregate face or stated amount of all other outstanding Letters of Credit issued pursuant hereto, does not exceed the L/C Commitment, and to amend or renew Letters of Credit previously issued by it, and (ii) honor drafts under Letters of Credit; provided, that the Issuing Bank shall not be obligated to issue, extend or renew any Letter of Credit if as of the date of issuance, extension or renewal of such Letter of Credit (the "**Issuance Date**") and after giving effect to such issuance, extension or renewal, (A) the aggregate outstanding Revolving Credit Loans exceeds the borrowing base availability as determined pursuant to Section 2.03 of this Agreement, or (B) the L/C Obligations exceed the L/C Commitment. If on any date the L/C Obligations exceed the L/C Commitment, the Borrowers shall immediately, without further notice or demand by the Lender, prepay the outstanding principal amount of the Revolving Credit Loans by an amount equal to the applicable excess. Within the foregoing limits, and subject to the other terms and conditions hereof; the Borrowers' ability to obtain Letters of Credit shall be fully revolving, and, accordingly, the Borrowers may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit which have expired or which have been drawn upon and reimbursed.

(b) Neither the Lender nor the Issuing Bank is under any obligation to, and shall not, issue, extend or renew any Letter of Credit if:

(i) any order, judgment or decree of any Official Body or arbitrator shall by its terms purport to enjoin or restrain the Issuing Bank from issuing such Letter of Credit, or any requirement or obligation under any Law applicable to the Lender or any request or directive (whether or not having the force of law) from any Official Body with jurisdiction over the Issuing Bank shall prohibit, or request that the Issuing Bank refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the Issuing Bank with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the Lender is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon the Issuing Bank any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the Issuing Bank in good faith deems material to it;

(ii) on or prior to the Business Day prior to the requested date of issuance, extension or renewal of such Letter of Credit, one or more of the applicable conditions contained in Article V is not then satisfied;

(iii) such Letter of Credit is a standby Letter of Credit, the expiration date of such standby Letter of Credit would be (A) more than one year after the Issuance Date, or (B) after the date which is five (5) Business Days prior to the Maturity Date;

(iv) such Letter of Credit is a merchandise Letter of Credit, the expiration date of the requested merchandise Letter of Credit is (A) more than ninety days after the Issuance Date, or (B) after the date which is five (5) Business Days prior to the Maturity Date;

(v) the requested Letter of Credit does not provide for drafts, or is not otherwise in form and substance acceptable to the Lender and the Issuing Bank, or the issuance of a Letter of Credit shall violate any applicable policies of the Lender or the Issuing Bank; or

(vi) such Letter of Credit is to be denominated in a currency other than U.S. Dollars.

2.06 Issuance, Amendment and Renewal of Letters of Credit. (a) Each Letter of Credit shall be issued upon the irrevocable written request of the Administrative Borrower received by the Lender at least three (3) Business Days (or such shorter time as the Lender may agree in a particular instance in its sole discretion) prior to the proposed date of issuance. Each such request for issuance of a Letter of Credit shall be by facsimile, confirmed immediately in an original writing, in the form of an L/C Application (or such other form as shall be acceptable to the Issuing Bank), and shall specify in form and detail satisfactory to the Lender and the Issuing Bank: (i) the proposed date of issuance of the Letter of Credit (which shall be a Business Day); (ii) the face amount of the Letter of Credit; (iii) the expiration date of the Letter of Credit; (iv) the name and address of the beneficiary thereof; (v) the documents to be presented by the beneficiary of the Letter of Credit in case of any drawing thereunder; (vi) the full text of any certificate to be presented by the beneficiary in case of any drawing thereunder; and (vii) such other matters as the Issuing Bank may require.

(b) Unless such issuance is not then permitted under Section 2.05(b) or one or more conditions specified in Article V are not then satisfied, the Issuing Bank shall, subject to the terms and conditions hereof, issue a Letter of Credit for the account of a Borrower on the requested Issuance Date in accordance with the Issuing Bank’s usual and customary business practices.

(c) From time to time while a Letter of Credit is outstanding and prior to the Maturity Date, the Lender will, upon the written request of the Administrative Borrower received by the Lender at least three (3) Business Days (or such shorter time as the Lender may agree in a particular instance in its sole discretion) prior to the proposed date of amendment, cause the Issuing Bank to amend any Letter of Credit issued by it. Each such request for amendment of a Letter of Credit shall be made by facsimile, confirmed immediately in an original writing, made in the form of an L/C Application and shall specify in form and detail satisfactory to the Lender and the Issuing Bank the following: (i) the Letter of Credit to be amended; (ii) the proposed date of amendment of the Letter of Credit (which shall be a Business Day); (iii) the nature of the proposed amendment; and (iv) such other matters as the Issuing Bank may require. The Lender and the Issuing Bank shall be under no obligation to amend any Letter of Credit if (x) the Lender and the Issuing Bank would have no obligation at such time to issue such Letter of Credit in its amended form under the terms of this Agreement; or (y) the beneficiary of any such Letter of Credit does not accept the proposed amendment to the Letter of Credit.

(d) The Lender agrees that, while a Letter of Credit is outstanding and prior to the Maturity Date, at the option of the Borrower for which the Letter of Credit is issued and upon the written request of the Administrative Borrower received by the Lender at least three (3) Business Days (or such shorter time as the Lender may agree in a particular instance in its sole discretion) prior to the proposed date of notification of renewal, the Lender may cause the Issuing Bank to renew the Letter of Credit issued by it as requested by the Administrative Borrower. Each such request for renewal of a Letter of Credit shall be made by facsimile, confirmed immediately in an original writing, in the form of an L/C Application, and shall specify in form and detail satisfactory to the Lender and the Issuing Bank: (i) the Letter of Credit to be renewed; (ii) the proposed date of notification of renewal of the Letter of Credit (which shall be a Business Day); (iii) the revised expiration date of the Letter of Credit; and (iv) such other matters as the Issuing Bank may require. The Lender and the Issuing Bank shall be under no obligation so to renew any Letter of Credit if (A) the Lender and the Issuing Bank would have no obligation at such time to issue or amend such Letter of Credit in its renewed form under the terms of this Agreement; or (B) the beneficiary of any such Letter of Credit does not accept the proposed renewal of the Letter of Credit. If any outstanding Letter of Credit shall provide that it shall be automatically renewed unless the beneficiary thereof receives notice from the Issuing Bank that such Letter of Credit shall not be renewed, and if at the time of renewal the Issuing Bank would be entitled to authorize the automatic renewal of such Letter of Credit in accordance with this Section 2.06 upon the request of the Administrative Borrower but the Issuing Bank shall not have received any L/C Application from the Administrative Borrower with respect to such renewal or other written direction by the Administrative Borrower with respect thereto, the Issuing Bank shall nonetheless be permitted to allow such Letter of Credit to renew, and the Administrative Borrower and the Lender hereby authorize such renewal, and, accordingly, the Issuing Bank shall be deemed to have received an L/C Application from the Administrative Borrower requesting such renewal.

(e) The Issuing Bank may, at its election, deliver any notices of termination or other communications to any Letter of Credit beneficiary or transferee, and take any other action as necessary or appropriate, at any time and from time to time, in order to cause the expiration date of such Letter of Credit to be a date not later than the date which is five (5) Business Days prior to the Maturity Date.

(f) This Agreement shall control in the event of any irreconcilable conflict with any L/C-Related Document (other than an issued Letter of Credit).

2.07 Drawings and Reimbursements. (a) In the event of any request for a drawing under a Letter of Credit by the beneficiary or transferee thereof, the Lender will promptly notify the Administrative Borrower in writing of such request. The Borrowers shall reimburse the Lender prior to 10:00 a.m. (prevailing time in Pittsburgh, Pennsylvania), on each date that any amount is paid by the Issuing Bank under any Letter of Credit in the amount so paid by the Issuing Bank. In the event the Borrowers fail to reimburse the Issuing Bank in the full amount of any drawing under any Letter of Credit by 10:00 a.m. (prevailing time in Pittsburgh, Pennsylvania) on the date of such draw, the Borrowers shall be deemed to have requested that a Revolving Credit Loan in an amount equal to such unreimbursed amount be made by the Lender to be disbursed as of the date of the drawing under such Letter of Credit, subject to the amount of the unutilized portion of the Revolving Credit Commitment and subject to the conditions set forth in Section 5.02.

(b) With respect to any unreimbursed drawing that is not converted into a Revolving Credit Loan because of the Borrowers' failure to satisfy the conditions set forth in Section 5.02 or for any other reason, the Borrowers shall be deemed to have incurred from the Lender an extension of credit in the amount of such drawing and such amount shall be due and payable on demand (together with interest) and shall bear interest at a rate per annum equal to the LIBOR Advantage Rate plus the LIBOR Rate Margin plus two percent (2.0%).

2.08 Role of Issuing Bank. (a) The Lender and the Borrowers agree that, in paying any drawing under a Letter of Credit, the Issuing Bank shall not have any responsibility to obtain any document (other than any sight draft, other documents and certificates expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the person or entity executing or delivering any such document (other than to determine that the sight draft, other documents and certificates required to be delivered comply on their face with the requirements of the applicable Letter of Credit).

(b) The Borrowers hereby assume all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude any of the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. Neither the Lender, the Issuing Bank, any of the Lender Affiliates, nor any of the respective correspondents, participants or assignees of the Lender or the Issuing Bank, shall be liable or responsible for any of the matters described in clauses (i) through (vii) of Section 2.09; provided, however, anything in such clauses to the contrary notwithstanding, that a Borrower may have a claim against the Issuing Bank, and the Issuing Bank may be liable to such Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages as determined by a final judgment of a court of competent jurisdiction to have been caused by the Issuing Bank's willful misconduct or gross negligence or the Issuing Bank's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft, other documents and certificates strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing: (i) the Issuing Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary; and (ii) the Issuing Bank shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

2.09 Obligations Absolute. The obligations of the Borrowers under this Agreement and any L/C-Related Document to reimburse the Issuing Bank for a drawing under a Letter of Credit, and to repay the Lender for any drawing under a Letter of Credit converted into Revolving Credit Loans, shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and each such other L/C-Related Document under all circumstances, including the following:

(i) any lack of validity or enforceability of this Agreement or any L/C Related Document;

(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the obligations of the Borrowers in respect of any Letter of Credit or any other amendment or waiver of or any consent to departure from all or any of such obligation;

(iii) the existence of any claim, set-off, defense or other right that any of the Borrowers may have at any time against any beneficiary or any transferee of any Letter of Credit (or any person or entity for whom any such beneficiary or any such transferee may be acting), the Lender, the Issuing Bank or any other person or entity, whether in connection with this Agreement, the transactions contemplated hereby or by the L/C-Related Documents or any unrelated transaction;

(iv) any draft, demand, certificate or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect unless the Issuing Bank has prior knowledge thereof or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any Letter of Credit;

(v) any payment by the Issuing Bank under any Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of any Letter of Credit; or any payment made by the Issuing Bank under any Letter of Credit to any person or entity purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of any Letter of Credit, including any arising in connection with any bankruptcy or insolvency proceeding;

(vi) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guarantee, for all or any of the obligations of the Borrowers in respect of any Letter of Credit; or

(vii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrowers or any Guarantor;

provided, however, the foregoing shall not be construed to restrict or otherwise limit any claim a Borrower may have against the Lender, the Issuing Bank or any correspondent, participant or assignee of the Lender or the Issuing Bank permitted under Section 2.08(b).

2.10 Cash Collateral. Upon (i) the request of the Lender, (A) if the Issuing Bank has honored any full or partial drawing request on any Letter of Credit and such drawing has resulted in an Revolving Credit Loan hereunder, or (B) if, as of the Maturity Date, any Letters of Credit may for any reason remain outstanding and partially or wholly undrawn, (ii) the occurrence of the circumstances described in Section 2.05 requiring the Borrowers to provide cash collateral to the Lender, or (iii) the termination of the Revolving Credit Commitment, then, the Borrowers shall immediately upon demand from the Lender, pledge and deposit with or deliver to the Lender cash or deposit account balances in separate blocked accounts pursuant to documentation in form and substance satisfactory to the Lender in an amount equal to the L/C Obligations ("**Cash Collateral**"). The Lender shall have exclusive dominion and control over such account, including the exclusive right to withdraw Cash Collateral for application to the L/C Obligations. Other than any interest earned on the investment of such deposit, which investments shall be made at the option and sole discretion of the Lender, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Any cash collateral provided by the Borrowers hereunder (to the extent not applied as aforesaid) shall be returned to the Administrative Borrower within three (3) Business Days after all Events of Default have been cured or waived.

2.11 Letter of Credit Fees. The Borrowers shall pay to the Lender Letter of Credit Fees at the times and in the amounts as provided for in Section 3.07, and the Borrower shall also pay to the Lender or the Issuing Bank from time to time on demand the normal issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the Lender or the Issuing Bank relating to Letters of Credit as from time to time are in effect.

2.12 Hedging Contracts. Subject to the terms and conditions hereof, any applicable Hedging Contract and any applicable Laws, a Lender Affiliate and a Borrower may from time to time enter into interest rate protection, currency exchange and other derivative transactions in the ordinary course of the Borrower's business. The Administrative Borrower may request the Lender Affiliate to enter into any such interest rate protection, currency exchange and other derivative transaction by delivering to Lender Affiliate at the Lender Affiliate's Office, Lender Affiliate's form of Hedging Contract, completed to the satisfaction of the Lender Affiliate, and, such other certificates, documents and other papers and information as Lender may reasonably request. A Borrower may not, however, enter into any Hedging Contract to the extent that the amount of any resulting Hedging Obligation would then cause the sum of (i) the outstanding Revolving Credit Loans plus (ii) outstanding Letters of Credit plus (iii) outstanding Hedging Obligations to exceed the Borrowing Base. All disbursements or payments related to Hedging Obligations shall be deemed to be Revolving Credit Loans and shall bear interest at the interest rate or rates determined in accordance with Section 3.01 of this Agreement.

ARTICLE III

INTEREST RATES; FEES; PAYMENTS; INDEMNITIES

3.01 Interest Rates. (a) Interest on the outstanding principal amount of each Revolving Credit Loan, when classified as a: (i) LIBOR Rate Loan, shall accrue during each LIBOR Interest Period at a rate per annum equal to the sum of the Adjusted LIBOR Rate for such LIBOR Interest Period plus the LIBOR Rate Margin, and be due and payable on each Interest Payment Date and on the Maturity Date, and (ii) LIBOR Advantage Loan, shall accrue at a rate per annum equal to the sum of the LIBOR Advantage Rate for such LA Interest Period plus the LA Margin, and be due and payable on each LA Interest Payment Date and on the Maturity Date. Interest on a LIBOR Advantage Loan shall be calculated for the actual number of days elapsed on the basis of a 360-day year, including the first day of the applicable period to, but not including, the date of repayment. The Borrowers shall not have the option to select a LIBOR Rate Loan with respect to the Loans to be made on the Closing Date but may thereafter convert all or any portion to one or more LIBOR Rate Loans in accordance with the terms of this Article III.

(b) The interest rates under Section 3.01(a) above hereof shall from time to time be increased or decreased, as the case may be, based on the then applicable Excess Availability and in accordance with the following pricing grid:

Excess Availability	LIBOR Rate Plus
Greater than $10,000,000	400 basis points
Greater than $7,500,000 but less than or equal to $10,000,000	425 basis points
Greater than $5,000,000 but less than or equal to $7,500,000	450 basis points
Greater than $3,000,000 but less than or equal to $5,000,000	475 basis points

The Excess Availability shall be determined as of the end of each quarter, commencing as of the end of the fourth fiscal quarter following the Closing Date. The Excess Availability shall be as shown on the financial statements and certificates to be delivered pursuant to Section 6.01 hereof. Any interest rate adjustments made based on the foregoing pricing grid shall be applicable to the Borrowers only for so long as the applicable Excess Availability (as shown on the foregoing pricing grid) is maintained and, in the event the applicable Excess Availability is no longer maintained, the interest rates under Section 3.01(a) above shall increase or decrease to the rates applicable to the Excess Availability achieved by the Borrowers. Any applicable reduction or increase shall be effective as of the first Business Day of the month following receipt by the Lender of the financial statements and certificate showing the Excess Availability, provided that in the event the financial statements and certificates are not timely delivered, any rate reduction then in effect shall be immediately discontinued as of the day such documents were due until the first Business Day of the month following receipt by the Lender of proper documents indicating that a reduction is applicable.

3.02 Interest After Default. To the extent permitted by Law, upon the occurrence of an Event of Default and until such time such Event of Default shall have been cured or waived:

(a) the rate of interest for each Loan and the Letter of Credit Fees otherwise respectively applicable pursuant to Section 3.01 or Section 3.07 shall be increased by two percent (2.0%) per annum (until, in the case of LIBOR Rate Loans, the expiration of the applicable Interest Period); and

(b) each other Obligation hereunder if not paid when due shall bear interest at a rate per annum equal to the sum of the rate of interest applicable to LIBOR Advantage Loan plus two percent (2.0%) per annum from the time such Obligation becomes due and payable and until it is paid in full.

(c) The Borrowers acknowledge that such increased rates reflect, among other things, the fact that such Loans or other amounts have become a substantially greater risk given their default status and that the Lender is entitled to additional compensation for such risk; and, all such interest shall be payable by Borrowers upon demand by Lender.

3.03 Usury. In the event the rates of interest provided for in Section 3.01 above or any of them are finally determined by any Official Body to exceed the maximum rate of interest permitted by applicable usury or similar Laws, their or its application will be suspended and there will be charged instead the maximum rate of interest permitted by such Laws.

3.04 LIBOR Rate Lending Unlawful. If the Lender shall determine (which determination shall, upon notice thereof to the Administrative Borrower be conclusive and binding on the Borrowers) that the introduction of or any change in or in the interpretation of any law, rule, regulation or guideline, (whether or not having the force of law) makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for the Lender to make, continue or maintain any LIBOR Rate Loan as, or to convert any loan into, a LIBOR Rate Loan of a certain duration, the obligations of the Lender to make, continue, maintain or convert into any such LIBOR Rate Loans shall, upon such determination, forthwith be suspended until the Lender shall notify the Administrative Borrower that the circumstances causing such suspension no longer exist, and all LIBOR Rate Loans of such type shall automatically convert into loans accruing interest at the Prime Rate plus the LIBOR Margin at the end of the then current LIBOR Interest Periods with respect thereto or sooner, if required by such law or assertion.

3.05 Unavailability of LIBOR Rate. In the event that the Administrative Borrower shall have requested a LIBOR Rate Loan in accordance with Section 2.04 and the Lender, in its sole discretion, shall have determined that U.S. dollar deposits in the relevant amount and for the relevant LIBOR Interest Period are not available to the Lender or the Lender Affiliate in the London interbank market; or by reason of circumstances affecting the Lender or the Lender Affiliate in the London interbank market, adequate and reasonable means do not exist for ascertaining the LIBOR Rate applicable to the relevant LIBOR Interest Period; or the LIBOR Rate no longer adequately and fairly reflects the Lender’s cost of funding loans; upon notice from the Lender to the Administrative Borrower, the obligations of the Lender under Section 2.04 to make or continue any loans as, or to convert any loans into, LIBOR Rate Loans of such duration shall forthwith be suspended until the Lender shall notify the Administrative Borrower that the circumstances causing such suspension no longer exist.

3.06 Revolving Credit Fees.

(a) Facility Fee. On the Closing Date, the Borrowers shall pay the Lender, as consideration for the commitment to extend a revolving credit facility pursuant to the terms of this Agreement, a facility fee equal to $262,500 (0.75% of the Revolving Credit Commitment). Such facility fee shall be deemed fully earned as of the Closing Date.

(b) Unused Line Fee. Accruing from the date hereof until the Maturity Date, the Borrowers agree to pay to the Lender, as consideration for the Lender’s Revolving Credit Commitment hereunder, a nonrefundable fee (the “**Unused Line Fee**”) equal to 0.50% per annum (computed on the basis of a year of 360 days, as the case may be, and actual days elapsed) on the average daily difference between the amount of such Lender’s Revolving Credit Commitment as the same may be constituted from time to time and the Revolving Credit Usage. Unused Line Fees shall be payable monthly in arrears on the last Business Day of each month and on the Maturity Date or upon acceleration of the Notes.

3.07 Letter of Credit Fees. The Borrowers shall pay to Issuing Bank (i) fees for each standby Letter of Credit for the period from and excluding the Issuance Date of same to and including the date of expiration or termination, equal to the average daily face amount of each outstanding standby Letter of Credit multiplied by four and one-half percent (4.50%) per annum (or the then applicable LIBOR Rate Margin), such fees to be calculated on the basis of a 360-day year and shall be paid quarterly in arrears commencing with the last Business Day of each March, June, September and December following the issuance of each Letter of Credit and on the Maturity Date. Letters of Credit with term less than one year shall be prorated, (ii) fees for each documentary Letter of Credit equal to two percent (2.0%) of the face amount of each outstanding documentary Letter of Credit, payable coincident with, and as a condition of, the issuance or renewal of each such documentary Letter of Credit; and (iii) the Issuing Bank's then in effect customary fees and administrative expenses payable with respect to Letters of Credit (all of the foregoing fees, the "**Letter of Credit Fees**"). All Letter of Credit Fees payable hereunder shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or proration upon the termination of this Agreement for any reason.

3.08 Other Customary Fees. The Borrowers shall also pay to Lender for the Lender's sole account the Lender's then in effect customary fees and administrative expenses payable with respect to advances made under this Agreement as the Lender may generally charge or incur from time to time in connection with the issuance, maintenance, modification (if any), assignment or transfer (if any), negotiation and administration of the Loans.

3.09 LIBOR Breakage Fee. Upon: (i) any default by the Borrowers in making any borrowing of, conversion into or continuation of any LIBOR Rate Loan following the Administrative Borrower's delivery of a borrowing request or continuation/conversion notice hereunder or (ii) any prepayment of a LIBOR Rate Loan on any day that is not the last day of the relevant LIBOR Interest Period (regardless of the source of such prepayment and whether voluntary, by acceleration or otherwise), the Borrowers shall pay an amount ("LIBOR Breakage Fee"), as calculated by the Lender, equal to the amount of any losses, expenses and liabilities (including without limitation any loss of margin and anticipated profits) that Lender may sustain as a result of such default or payment. The Borrowers understand, agree and acknowledge that: (i) the Lender does not have any obligation to purchase, sell and/or match funds in connection with the use of the LIBOR Rate as a basis for calculating the rate of interest on a LIBOR Rate Loan, (ii) the LIBOR Rate may be used merely as a reference in determining such rate, and (iii) the Borrowers have accepted the LIBOR Rate as a reasonable and fair basis for calculating the LIBOR Breakage Fee and other funding losses incurred by the Lender. The Borrowers further agree to pay the LIBOR Breakage Fee and other funding losses, if any, whether or not the Lender elects to purchase, sell and/or match funds.

3.10 Repayments, Prepayments and Interest. (a) LIBOR Advantage Loans. Interest on the LIBOR Advantage Loans will be due and payable on each LA Interest Payment Date and on the Maturity Date.

(b) Repayments Continuations and Conversions. LIBOR Rate Loans shall mature and become payable in full on the last day of the LIBOR Interest Period relating to such LIBOR Rate Loan. Upon maturity, a LIBOR Rate Loan may be continued for an additional LIBOR Interest Period or may be converted to LIBOR Advantage Loan.

(c) Voluntary Prepayment of LIBOR Rate Loans. LIBOR Rate Loans may be prepaid upon the terms and conditions set forth in this Agreement. For LIBOR Rate Loans in connection with which the Borrowers have or may incur Hedging Obligations, additional obligations may be associated with prepayment, in accordance with the terms and conditions of the applicable Hedging Contracts. The Administrative Borrower shall give the Lender, no later than 10:00 a.m., New York City time, at least four (4) Business Days notice of any proposed prepayment of any LIBOR Rate Loans, specifying the proposed date of payment of such LIBOR Rate Loans, and the principal amount to be paid. Each partial prepayment of the principal amount of LIBOR Rate Loans shall be in an integral multiple of $500,000 and accompanied by the payment of all charges outstanding on such LIBOR Rate Loans (including the LIBOR Breakage Fee) and of all accrued interest on the principal repaid to the date of payment.

3.11 Payments — Generally. (a) All payments to be made in respect of principal, interest, fees or other amounts due from the Borrowers under this Agreement or under the Notes are payable at 3:00 p.m. E.S.T. on the day when due, without presentment, demand, protest or notice of any kind, all of which are expressly waived, and an action for the payments will accrue immediately. All such payments must be made to the Lender at its Office in U.S. Dollars and in funds immediately available at such Office, without setoff, counterclaim or other deduction of any nature. After maturity of any part of the Loans (by demand, at maturity, by acceleration or otherwise), interest on such part of the Loans will be due and payable on demand. All such payments shall be applied at the option of the Lender to accrued and unpaid interest, outstanding principal and other sums due under this Agreement in such order as the Lender, in its sole discretion, shall elect.

(b) Any payment required to be made by the Borrowers to the Lender under this Agreement or any other Loan Document may, at the Lender's option, be deducted when due from any deposit or other account (general or special, time or demand, provisional or final) of a Borrower with the Lender. With respect to any commitment or other fee, or any other cost or expense (including attorneys' fees), due and payable to the Lender under the Loan Documents, each of the Borrowers hereby irrevocably authorizes the Lender to debit any of its deposit accounts with the Lender in an amount such that the aggregate amount debited from all such deposit accounts does not exceed such fee or other cost or expense. If there are insufficient funds in such deposit accounts to cover the amount of the fee or other cost or expense then due, such debits will be reversed (in whole or in part, in Lender's sole discretion) and such amount not debited shall be deemed to be unpaid. No such debit under this Section 3.11 shall be deemed a set-off.

(c) If the Borrowers fail to pay any installment of principal, interest or other amount under this Agreement within ten (10) days of when due, in addition to making payment of the installment then due, the Borrowers shall pay to the Lender a late charge in an amount equal to five percent (5.0%) of such overdue installment.

3.12 Increased Costs. If, on or after the date hereof, the adoption of any applicable law, rule or regulation or guideline (whether or not having the force of law), or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Lender with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency: (a) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System of the United States) against assets of, deposits with or for the account of, or credit extended by, the Lender or shall impose on the Lender or on the London interbank market any other condition affecting its LIBOR Rate Loans or its obligation to make LIBOR Rate Loans; or (b) shall impose on the Lender any other condition affecting its LIBOR Rate Loans or its obligation to make LIBOR Rate Loans, and the result of any of the foregoing is to increase the cost to the Lender of making or maintaining any LIBOR Rate Loan, or to reduce the amount of any sum received or receivable by the Lender under this agreement with respect thereto, by an amount deemed by the Lender to be material, then, within 15 days after demand by the Lender, the Borrowers shall pay to the Lender such additional amount or amounts as will compensate the Lender for such increased cost or reduction.

3.13 Increased Capital Costs. If any change in, or the introduction, adoption, effectiveness, interpretation, reinterpretation or phase-in of, any law or regulation, directive, guideline, decision or request (whether or not having the force of law) of any court, central bank, regulator or other governmental authority affects or would affect the amount of capital required or expected to be maintained by the Lender, or person controlling the Lender, and the Lender determines (in its sole and absolute discretion) that the rate of return on its or such controlling person's capital as a consequence of its commitments or the loans made by the Lender is reduced to a level below that which the Lender or such controlling person could have achieved but for the occurrence of any such circumstance, then, in any such case upon notice from time to time by the Lender to the Administrative Borrower, the Borrowers shall immediately pay directly to the Lender additional amounts sufficient to compensate the Lender or such controlling person for such reduction in rate of return. A statement of the Lender as to any such additional amount or amounts (including calculations thereof in reasonable detail) shall, in the absence of manifest error, be conclusive and binding on the Borrowers. In determining such amount, the Lender may use any method of averaging and attribution that it (in its sole and absolute discretion) shall deem applicable.

3.14 Indemnities.

(a) ***General Indemnities*****.** The Borrowers will indemnify the Lender against any loss or expense which the Lender sustains or incurs as a consequence of an Event of Default, including, without limitation, any failure of the Borrowers to pay when due (at maturity, by acceleration or otherwise) any principal, interest, fee or any other amount due under this Agreement or the other Loan Documents. If the Lender sustains or incurs any such loss or expense it will from time to time notify the Administrative Borrower in writing of the amount determined in good faith by the Lender (which determination will be conclusive) to be necessary to indemnify the Lender for the loss or expense. Such amount will be due and payable by the Borrowers to the Lender within ten (10) days after presentation by the Lender of a statement setting forth a brief explanation of and the Lender's calculation of such amount, which statement shall be conclusively deemed correct absent manifest error. Any amount payable to the Lender under this Section 3.14 will bear interest at the LIBOR Advantage Rate *plus* the LA Margin (computed for the actual number of days elapsed on the basis of a year of 360 days) plus two percent (2.0%) from the due date until paid (before and after judgment).

(b) ***Environmental Indemnity*****.** The Borrowers covenant and agree, at the Borrowers' sole cost and expense, to indemnify, protect and save the Lender, its directors, officers, employees, agents, successors and assigns, harmless against and from any and all damages, losses, liabilities, obligations, fines, penalties, claims, assessments, litigation, demands, defenses, judgments, suits, proceedings, costs, disbursements or expenses (including, without limitation, attorneys' and experts' reasonable fees and disbursements) of any kind or of any nature whatsoever that may at any time be imposed upon, incurred by or asserted or awarded against the Lender, arising from or out of (i) the failure of any of the Borrowers to comply with, and to keep its premises in compliance with, the Environmental Laws; and (ii) the presence, use, removal, release, storage, generation, disposal or manufacture of any Hazardous Materials on, in, under or affecting all or any portion of the Borrowers' premises or (if any liability shall attach to such premises or any holder of such premises due to matters arising on and/or migrating from any surrounding area) any surrounding areas.

(c) ***Limitation on Indemnities***. In no event shall the Borrowers be liable to the Lender, or any other Person seeking indemnification pursuant to this Section 3.14, for any liabilities caused by the gross negligence or willful misconduct of the Person seeking indemnification.

3.15 Taxes. All payments by the Borrowers of principal of, and interest on, LIBOR Rate Loans and all other amounts payable hereunder shall be made free and clear of and without deduction for any present or future income, excise, stamp or franchise taxes and other taxes, fees, duties, withholdings or other charges of any nature whatsoever imposed by any taxing authority, but excluding franchise taxes and taxes imposed on or measured by the Lender's net income or receipts (such non-excluded items being called "**Taxes**"). In the event that any withholding or deduction from any payment to be made by the Borrowers hereunder is required in respect of any Taxes pursuant to any applicable law, rule or regulation, then the Borrowers will:

(a) pay directly to the relevant authority the full amount required to be so withheld or deducted;

(b) promptly forward to the Lender an official receipt or other documentation satisfactory to the Lender evidencing such payment to such authority; and

(c) pay to the Lender such additional amount or amounts as is necessary to ensure that the net amount actually received by the Lender will equal the full amount the Lender would have received had no such withholding or deduction been required.

Moreover, if any Taxes are directly asserted against the Lender with respect to any payment received by the Lender hereunder, the Lender may pay such Taxes and the Borrowers will promptly pay such additional amount (including any penalties, interest or expenses) as is necessary in order that the net amount received by the Lender after the payment of such Taxes (including any Taxes on such additional amount) shall equal the amount the Lender would have received had not such Taxes been asserted.

If the Borrowers fail to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Lender the required receipts or other required documentary evidence, the Borrowers shall indemnify the Lender for any incremental Taxes, interest or penalties that may become payable by the Lender as a result of any such failure.

3.16 Loan Account. The Lender will open and maintain on its books a loan account (the "**Loan Account**") with respect to Loans made, repayments, prepayments, the computation and payment of interest and fees and the computation and final payment of all other amounts due and sums paid to the Lender under this Agreement. Except in the case of manifest error in computation, the Loan Account will be conclusive and binding on the Borrower as to the amount at any time due to the Lender from the Borrowers under this Agreement or the Notes.

3.17 Prepayment; Termination of Commitment. In the event the Borrowers terminate the Revolving Credit Commitment prior to the Maturity Date, the Borrowers shall pay the Lender (i) an early termination premium equal to the sum of the Revolving Credit Commitment multiplied by 1.00%, if such termination occurs in the first twelve (12) month period immediately following the Closing Date, and (ii) an early termination premium equal to the sum of the Revolving Credit Commitment multiplied by 50%, if such termination occurs in the second twelve month period immediately following the Closing Date. The Borrowers shall not be required to pay the Lender an early termination premium in the third twelve month period following the Closing Date if no Event of Default has occurred and is continuing. If an Event of Default has occurred and is continuing, the Borrowers shall pay early termination premium equal to the sum of the Revolving Credit Commitment multiplied by .50% in the third twelve month period following the Closing Date. No premium will be earned if the revolving credit facilities are moved into the New York Middle Market Group of the Lender Affiliate.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

The Borrowers, individually and collectively, represent and warrant to the Lender that:

4.01 Organization and Qualification. Each of the Borrowers and each of the Other Subsidiaries is a corporation or entity duly incorporated or formed, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation. Except as described in Schedule 4.01 to this Agreement, each of the Borrowers is duly qualified or licensed to do business as a foreign corporation and is in good standing in all jurisdictions in which the ownership of its properties or the nature of its activities or both makes such qualification or licensing necessary except where the failure to be so qualified or licensed would not have a material and adverse effect on the assets, business, operations or financial condition of such Borrower or the ability of such Borrower to perform its obligations under this Agreement and the other Loan Documents to which it is a party. Schedule 4.01 to this Agreement states as of the Closing Date the jurisdiction of incorporation of each of the Borrowers and each of the Other Subsidiaries and the jurisdiction in which each of the Borrowers is qualified to do business as a foreign corporation.

4.02 Power to Carry on Business; Licenses. Each of the Borrowers and each of the Other Subsidiaries has all requisite power and authority to own and operate its properties and to carry on its business as now conducted and as presently planned to be conducted in all material respects. Each of the Borrowers and each of the Other Subsidiaries has all licenses, permits, consents and governmental approvals or authorizations necessary to carry on its business as now conducted except where the failure to have any such license, permit, consent, approval or authorization would not have a material and adverse effect on the assets, business, operations or financial condition of such Borrower or the ability of such Borrower or Subsidiary to perform its obligations under this Agreement and the other Loan Documents to which it is a party.

4.03 Authority and Authorization. Each of the Borrowers has corporate power and authority to execute and deliver this Agreement and the other Loan Documents to which it is a Party, to make the borrowings provided for in this Agreement, to execute and deliver the Notes in evidence of such borrowings and to perform its obligations under this Agreement and the other Loan Documents. All such action has been duly and validly authorized by all necessary corporate proceedings on the part of each of the Borrowers. Neither the execution and delivery of this Agreement and the other Loan Documents, nor the consummation of the transactions contemplated in any of them, nor the performance of or compliance with their terms and conditions will conflict with or result in a breach of or a default under the articles of incorporation or the by-laws of any of the Borrowers.

4.04 Execution and Binding Effect. This Agreement and the other Loan Documents have been duly and validly executed and delivered by the Borrowers and each such document or agreement constitutes a legal, valid and binding obligation of each of the Borrowers enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable Bankruptcy, insolvency, reorganization, or other similar laws affecting creditors' rights generally and by general equitable principles (regardless if whether the issue of enforceability is considered in a proceeding in equity or at law).

4.05 Absence of Conflicts. Neither the execution and delivery of this Agreement and the other Loan Documents, nor the consummation of the transactions contemplated in any of them, nor the performance of or compliance with their terms and conditions will conflict with or result in (a) a breach of or a default under any agreement or instrument to which any of the Borrowers is a party or by which it or any of its properties (now owned or acquired in the future) may be subject or bound, or (b) a violation of any applicable Law, except where such breach, default or violation would not have a material and adverse effect on the assets, business, operations or financial condition of such Borrower or the ability of such Borrower or Subsidiary to perform its obligations under this Agreement and the other Loan Documents to which it is a party. Neither the execution and delivery of this Agreement and the other Loan Documents, nor the consummation of the transactions contemplated in any of them, nor the performance of or compliance with their terms and conditions will result in the creation or imposition of any Lien upon any property (now owned or acquired in the future) of the Borrowers, other than Liens granted in favor of the Lender and other Permitted Encumbrances.

4.06 Authorizations and Filings. No authorization, consent, approval, license, exemption or other action by, and no registration, qualification, designation, declaration or filing with, any Official Body is or will be necessary in connection with the execution and delivery of this Agreement and the other Loan Documents, the consummation of the transactions contemplated in any of them, or the performance of or compliance with the terms and conditions of this Agreement and the other Loan Documents.

4.07 Ownership and Control. Schedule 4.07 to this Agreement states as of the Closing Date the authorized capitalization of each of the Borrowers (including stock of such Borrower held in treasury), the number of shares of each class of stock units issued and outstanding of such Borrower and the number and percentage of outstanding stock units of each such class of shares and, with respect to Ultralife, and based upon Exchange Act filings of beneficial ownership with the U.S. Securities and Exchange Commission, the beneficial owners of such shares holding in excess of twenty percent (20%) of such shares. The outstanding stock has been duly authorized and validly issued and is fully paid and nonassessable**.** Schedule 4.07 to this Agreement describes as of the Closing Date all outstanding options, rights and warrants issued by each of the Borrowers for the acquisition of stock of such Borrower, all outstanding securities or obligations convertible into such stock and all agreements by such Borrower to issue or sell such stock. Schedule 4.07 to this Agreement describes as of the Closing Date all options, sale agreements, pledges, proxies, voting trusts, powers of attorney and other agreements or instruments binding upon any of its members with respect to beneficial or record ownership of or voting rights with respect to shares of the stock of such Borrower.

4.08 Officers and Directors. Schedule 4.08 to this Agreement states as of the Closing Date (i) the officers and directors of each of the Borrowers, and (ii) the officers and directors of each of the Other Subsidiaries.

4.09 Subsidiaries. Schedule 4.09 to this Agreement states as of the Closing Date each of the Subsidiaries and the jurisdiction of incorporation of each such Subsidiary.

4.10 Business. Schedule 4.10 to this Agreement describes the business of each of the Borrowers and each of the Other Subsidiaries as presently conducted and presently planned to be conducted.

4.11 Title to Property. Each of the Borrowers has good title in fee simple to all real property and good title to all other property purported to be owned by it, including that reflected in the most recent audited balance sheet referred to in Section 4.12 of this Agreement or submitted pursuant to Section 6.01(a) of this Agreement (except as sold or otherwise disposed of in the ordinary course of business), subject only to the Permitted Encumbrances.

4.12 Financial Statements.

(a) **Annual Statements**. The Administrative Borrower has delivered to the Lender audited consolidated and consolidating balance sheets and related consolidated and consolidating statements of income and retained earnings and cash flow of Ultralife and its Subsidiaries for the fiscal years ending December 31, 2008 and December 31, 2007, as certified by BDO Seidman, LLC and certified with only such qualifications as are described on Schedule 4.12 to this Agreement. Such financial statements (including the notes) present fairly the consolidated and consolidating financial condition of Ultralife and its Subsidiaries as of the end of such fiscal period and the results of its operations and the changes in financial position for the fiscal periods then ended, all in conformity with GAAP applied on a basis consistent with that of the preceding fiscal period.

(b) **Year to Date Statements**. The Administrative Borrower has delivered to the Lender an internally prepared consolidated and consolidating balance sheets and related statements of income and retained earnings of Ultralife and its Subsidiaries for the calendar month and year-to-date ending December 31, 2009. Such financial statements present fairly the financial condition of Ultralife and its Subsidiaries of the end of such period and the results of its operations for the period then ended, all in conformity with accounting principles applied on a basis consistent with that of the preceding fiscal period, subject to year-end adjustments.

(c) **Financial Projections**. The Administrative Borrower has delivered to the Lender financial projections of Ultralife and its Subsidiaries for the fiscal year ending December 31, 2010 derived from various assumptions of the Administrative Borrower's management (the "**Financial Projections**"). The Financial Projections represent a reasonable range of possible results in light of the history of the business, present and foreseeable conditions and the intentions of the Borrowers' managements. The Financial Projections reasonably reflect in all material respects the estimated liabilities of Ultralife and its Subsidiaries upon consummation of the transactions contemplated hereby as of the Closing Date.

(d) **Accuracy of Financial Statements**. As of December 31, 2009, neither Ultralife nor any of its Subsidiaries had any liabilities, contingent or otherwise, or forward or long-term commitments that are not disclosed in the historical financial statements or in the notes thereto, and except as disclosed therein there are no unrealized or anticipated losses from any commitments of Ultralife or any of its Subsidiaries that might result in a Material Adverse Change.

4.13 Taxes. All tax returns required to be filed by each of the Borrowers have been properly prepared, executed and filed. All taxes, assessments, fees and other governmental charges upon each of the Borrowers or upon any of the Borrowers' properties, incomes, sales or franchises which are due and payable have been paid, except taxes, assessments or charges subject to good faith dispute for which a Borrower has created adequate reserves on its books. The reserves and provisions for taxes on the books of each of the Borrowers are adequate for all open years and for its current fiscal period. None of the Borrowers knows of any proposed additional assessment or basis for any assessment for additional taxes (whether or not reserved against).

4.14 Contracts. Except as described in Schedule 4.14 to this Agreement, neither any of the Borrowers nor any of the Other Subsidiaries is a party to nor subject to any agreement, lease or instrument of any kind other than (i) agreements, leases and instruments which are terminable at will by such Borrower or such Other Subsidiary without penalty, and (ii) agreements, leases and instruments entered into in the ordinary course of such Borrower's or such Other Subsidiary's business which are not, singly or in the aggregate, material to the assets, business, operations or financial condition of such Borrower or such Other Subsidiary.

4.15 Litigation. Except as described in Schedule 4.15 to this Agreement, there is no pending or, to the Borrowers' knowledge, contemplated or threatened action, suit or proceeding by or before any Official Body against or affecting any of the Borrowers or any of the Other Subsidiaries, at law or equity, which if adversely decided would have a material and adverse effect on the assets, business, operations or financial condition of any of the Borrowers or any of the Other Subsidiaries or on the ability of each of the Borrowers to perform its obligations under this Agreement or the other Loan Documents to which it is a party.

4.16 Compliance with Laws. Neither any of the Borrowers nor any of the Other Subsidiaries is in material violation of or subject to any material contingent liability on account of the failure to be in compliance with any Law.

4.17 Pension Plans. Except as described in Schedule 4.17 to this Agreement, (a) each Plan has been and will be maintained and funded in accordance with its terms and with all provisions of ERISA and other applicable laws; (b) no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan; (c) no liability to the PBGC has been incurred with respect to any Plan, other than for premiums due and payable; (d) no Plan has been terminated, no proceedings have been instituted to terminate any Plan, and there exists no intent to terminate or institute proceedings to terminate any Plan; (e) no withdrawal, either complete or partial, has occurred or commenced with respect to any multi-employer Plan, and there exists no intent to withdraw either completely or partially from any multi-employer Plan; and (f) there has been no cessation of, and there is no intent to cease, operations at a facility or facilities where such cessation could reasonably be expected to result in a separation from employment of more than twenty percent (20%) of the total number of employees who are participants under a Plan.

4.18 Patents, Licenses, Franchises. Each of the Borrowers and each of the Other Subsidiaries owns or is licensed to use all of the patents, trademarks, service marks, trade names, copyrights, licenses, franchises and permits and rights with respect to the foregoing necessary to own and operate their respective properties and to carry on its business as presently conducted and presently planned to be conducted without, to the Borrowers' knowledge, conflict with the rights of others, except where failure to so own or have license to use would not have a material and adverse effect on the assets, business, operations or financial condition of such Borrower or the ability of such Borrower or Subsidiary to perform its obligations under this Agreement and the other Loan Documents to which it is a party. Schedule 4.18 to this Agreement sets forth a true and correct list and description of each such patent, trademark, service mark, trade name, copyright, license, franchise and permit and right with respect to the foregoing. Except as described in Schedule 4.18 to this Agreement, no patent, trademark, service mark, trade name, copyright, license, franchise or permit or right with respect to the foregoing is of material importance to the assets, business, operations or financial condition of the Borrowers and the Borrowers know of no reason to anticipate any material liability to any of the Borrowers in respect to any claim of infringement of any of the foregoing.

4.19 Environmental Matters. Except as described on Schedule 4.19 to this Agreement:

(a) None of the Borrowers nor any of their respective Affiliates is in violation, in any material respect, of any of the Environmental Laws, the non-compliance with which could reasonably be expected to have a material and adverse effect on the assets, business, operations or financial condition of any of the Borrowers or on the ability of each of the Borrowers to perform its obligations under this Agreement or the other Loan Documents to which it is a party; and

(b) None of the Borrowers nor any of their respective Affiliates have (i) owned or operated any facility, property, or location that is or is reasonably expected to be subject to liability to any Official Body or any other person under the Comprehensive Environmental Response, Compensation, and Liability Act, 42 USC § 9601 *et seq* ("CERCLA") or under any corresponding state statute or regulation concerning cleanup of waste disposal sites (collectively, "State Superfund Laws") or (ii) disposed of, treated, transported, or arranged, by contract, agreement or otherwise, for disposal, treatment or transportation of Hazardous Materials in a manner that has resulted in, or could reasonably be expected to result in, liability to any Official Body or any other Person under CERCLA, any State Superfund Laws or any other Environmental Laws, and none of the Borrowers nor any of their respective Affiliates have received written notice of any pending or potential liability to any Official Body or any other Person under CERCLA, any State Superfund Laws or any other Environmental Laws.

(c) No predecessor in interest of any of the Borrowers has arranged, by contract, agreement or otherwise, for the disposal, treatment or transportation of Hazardous Materials in a manner that has resulted in, or could reasonably be expected to result in, liability to any Official Body or any other Person under CERCLA, any State Superfund Laws or any other Environmental Laws, other than such liability that would not have a material and adverse effect on the assets, business, operations or financial condition of any of the Borrowers or on the ability of each of the Borrowers to perform its obligations under this Agreement or the other Loan Documents to which it is a party.

4.20 Proceeds. The Borrowers will use the proceeds of the Revolving Credit Loans for payment of fees associated with the Revolving Credit Loans, working capital, general corporate purposes, letter of credit support and Hedging Contract support. The Borrowers will also use the proceeds of the Revolving Credit Loans to repay its indebtedness to the Existing Lender.

4.21 Margin Stock. The Borrowers will make no borrowing under this Agreement for the purpose of buying or carrying any "margin stock," as such term is used in Regulation U and related regulations of the Board of Governors of the Federal Reserve System, as amended from time to time. The Borrowers do not own any "margin stock". The Borrowers are not engaged in the business of extending credit to others for such purpose, and no part of the proceeds of any borrowing under this Agreement will be used to purchase or carry any "margin stock" or to extend credit to others for the purpose of purchasing or carrying any "margin stock."

4.22 Investment Company Act. None of the Borrowers is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, nor is it controlled by such a company.

4.23 Application of Certain Laws and Regulations. None of the Borrowers nor any Affiliate of any of the Borrowers is subject to any statute, rule or regulation which regulates the incurrence of any Indebtedness, including without limitation, statutes or regulations relative to common or interstate carriers or to the sale of electricity, gas, steam, water, telephone, telegraph or other public utility services.

4.24 No Event of Default; Compliance with Agreements. No event has occurred and is continuing and no condition exists which constitutes an Event of Default or Potential Default. None of the Borrowers is (i) in violation of any term of any charter instrument or operating agreement or (ii) in default under any agreement, lease or instrument to which such Borrower is a party or by which it or any of its properties (now owned or acquired in the future) may be subject or bound, except to the extent any such default would not have a material and adverse affect on the assets, business, operations or financial condition of such Borrower or the ability of such Borrower to perform its obligations under this Agreement and the other Loan Documents.

4.25 No Material Adverse Change. Except as described on Schedule 4.25 to this Agreement, since September 27, 2009, there has been no Material Adverse Change with respect to any of the Borrowers or any of the Other Subsidiaries.

4.26 Accurate and Complete Disclosure. No representation or warranty made by the Borrowers under this Agreement or the other Loan Documents and no statement made by the Borrowers in any financial statement (furnished pursuant to Sections 4.12 or 6.01 or otherwise), certificate, report, exhibit or document furnished by the Administrative Borrower to the Lender pursuant to or in connection with this Agreement is false or misleading in any material respect (including by omission of material information necessary to make such representation, warranty or statement not misleading).

4.27 Security Interest. The security interests in the Collateral granted to the Lender pursuant to the Security Agreements (i) constitute and will continue to constitute a perfected security interest under the Code entitled to all of the rights, benefits and priorities provided by the Code; and (ii) except as otherwise permitted under Section 7.01 of this Agreement, are and will continue to be superior and prior to the rights of all third parties existing on the date of this Agreement or arising after the date of this Agreement, whether by lien or otherwise, to the full extent provided by Law. All such action as is necessary or advisable to establish such rights of the Lender has been taken or will be taken at or prior to the time required for such purpose, and there will be upon execution and delivery of the Loan Documents no necessity of any further action in order to preserve, protect and continue such rights, except the filing of continuation statements with respect to such financing statements within six (6) months prior to each five (5) year anniversary of the filing of such financing statements and continued possession by the Lender of the collateral delivered to it. All filing fees and other expenses in connection with each such action shall be paid by the Borrowers and the Lender shall be reimbursed by the Borrowers for any such fees and expenses incurred by the Lender.

4.28 Account Warranties. With respect to all accounts from time to time scheduled, listed or referred to in any certificate, statement or report delivered to the Lender, the Borrowers, individually and collectively, warrant and represent to the Lender that (a) the accounts are genuine, are in all respects what they purport to be, and are not evidenced by a note, instrument or judgment; (b) the accounts represent undisputed, bona fide transactions completed in accordance with the terms and provisions contained in the documents delivered to the Lender with respect to the accounts; (c) no payments have been or will be made on the accounts except payments immediately delivered to the Lender pursuant to this Agreement; (d) except as described on Schedule 4.28, there are no material setoffs, counterclaims or disputes existing or asserted with respect to the accounts and no Borrower has made any agreement with any account debtor for any material deduction from any account; (e) there are no facts, events or occurrences which in any way impair the validity or enforcement of any account; (f) to the best of the Borrowers' knowledge, all account debtors have the capacity to contract and are solvent; (g) the services furnished and/or goods sold giving rise to any account are not subject to any lien, claim, encumbrance or security interest except that of the Lender; (h) to the best of the Borrowers' knowledge, there are no proceedings or actions which are threatened or pending against any account debtor which might result in any material adverse change in such account debtor's financial condition; (i) the account is not an account with respect to which the account debtor is an Affiliate or a director, officer or employee of the Borrowers or any Affiliate; (j) the account does not arise with respect to goods which have not been shipped or arise with respect to services which have not been fully performed and accepted as satisfactory by the account debtor; (k) the account is not an account with respect to which the account debtor's obligation to pay the account is conditional upon the account debtor's approval or is otherwise subject to any repurchase obligation or return right, as with sales made on a bill-and-hold, guaranteed sale, sale-and-return, or sale on approval basis; (1) the amounts shown on the applicable certificates, statements, each Borrower's books and records and all invoices and statements which may be delivered to the Lender with respect to such accounts are actually and absolutely owing to such Borrowers and are not in any way contingent; and (m) the accounts are not accounts which have been factored with a factoring company. The Administrative Borrower shall immediately notify the Lender in the event that any such account ceases to satisfy the above representations and warranties.

4.29 Inventory Warranties. With respect to all inventory from time to time scheduled, listed or referred to in any certificate, statement or report delivered to the Lender, the Borrowers warrant and represent that (a) such inventory is located on the premises listed on the Security Agreements and is not in transit; (b) a Borrower has good, indefeasible and merchantable title to such inventory and such inventory is not subject to any lien or security interest whatsoever except for the security interest granted to the Lender; (c) such inventory is of good and merchantable quality, free from material defects or obsolescence; (d) such inventory is not subject to any licensing, patent, royalty, trademark, trade name or copyright agreements with any third parties; and (e) the completion of manufacture and sale or other disposition of such inventory by the Lender following an Event of Default shall not require the consent of any person and shall not constitutes breach or default under any contract or agreement to which such Borrower is a party or to which the inventory is subject. The Administrative Borrower shall immediately notify the Lender in the event that any such inventory ceases to satisfy the above representations and warranties.

4.30 Swaps. None of the Borrowers is a party to, nor will it be a party to, any swap agreement whereby such Borrower has agreed or will agree to swap interest rates or currencies unless same provides that damages upon termination following an event of default thereunder are payable on an unlimited "two-way basis" without regard to fault on the part of either party.

4.31 Solvency. Prior to the Closing Date, each of the Borrowers was Solvent. Effective as of the Closing Date and after giving effect to the Revolving Credit Loans to be made under this Agreement, each of the Borrowers will be Solvent.

ARTICLE V

CONDITIONS OF LENDING

5.01 Initial Loans. The obligation of the Lender to make any Loan on the Closing Date is subject to the accuracy as of the Closing Date of the representations and warranties contained in this Agreement and the other Loan Documents, to the performance by the Borrowers of their obligations to be performed under this Agreement and under the other Loan Documents on or before the Closing Date and to the satisfaction of the following further conditions:

(a) ***Representations and Warranties; Events of Default and Potential Defaults*****.** The representations and warranties contained in Article IV shall be true and correct on and as of the Closing Date. On the Closing Date, the Administrative Borrower shall have delivered a Certificate to that effect signed by the President or other authorized officer of the Administrative Borrower. On the Closing Date, no Event of Default and no Potential Default shall have occurred and be continuing or exist or shall occur or exist after giving effect to the Loan to be made on such date. On the Closing Date, the Administrative Borrower shall have delivered a Certificate to that effect signed by the President or other authorized officer of the Administrative Borrower.

(b) ***Proceedings and Incumbency — Borrowers*****.** On the Closing Date, each of the Borrowers shall have delivered to the Lender a certificate, in form and substance satisfactory to the Lender, dated the Closing Date and signed on behalf of such Borrower by the Secretary or other authorized officer of such Borrower, certifying as to (a) true copies of the certificate/articles of incorporation and bylaws of such Borrower, each as in effect on such date; (b) true copies of all corporate action taken by such Borrower relative to this Agreement and the other Loan Documents, including, but not limited to, that described in Section 4.03 of this Agreement; and (c) the names, true signatures and incumbency of the officers of such Borrower authorized to execute and deliver this Agreement and the other Loan Documents. The Lender may conclusively rely on such certificate unless and until a later certificate revising the prior certificate has been furnished to the Lender.

(c) ***Opinion of Counsel*****.** On the Closing Date, there shall have been delivered to the Lender the written opinion, dated the Closing Date of Harter Secrest & Emery, LLP, counsel for the Borrowers, in substantially the form attached as Exhibit "B" to this Agreement.

(d) ***Agreement and Notes*****.** On the Closing Date, this Agreement and the Revolving Credit Note, satisfactory in terms, form and substance to the Lender, shall have been executed and delivered by the Borrowers to the Lender.

(e) ***Security Agreements*****.** On the Closing Date, a Security Agreement, each satisfactory in terms, form and substance to the Lender, shall have been executed and delivered by each of the Borrowers to the Lender and shall be in effect, and all filings contemplated by such Security Agreement shall have been made.

(f) ***UCC Financing Statements*****.** On or before the Closing, all UCC-1 financing statements to be filed pursuant to the Security Agreements and the other Loan Documents shall have been duly filed and shall be in effect.

(g) ***Patent Security Agreement*****.** On the Closing Date, a Patent Security Agreement, satisfactory in terms, form and substance to the Lender, shall have been executed and delivered by Ultralife to the Lender, and shall be in effect, and all filings contemplated by such Patent Security Agreement shall have been made.

(h) ***Trademark Security Agreement*****.** On the Closing Date, a Trademark Security Agreement, each satisfactory in terms, form and substance to the Lender, shall have been executed and delivered by Ultralife to the Lender, and shall be in effect, and all filings contemplated by such Trademark Security Agreements shall have been made.

(i) ***Pledge Agreements***. On the Closing Date, the Pledge Agreement, described in clause (i) of the definition of "Pledge Agreements", satisfactory in terms, form and substance to the Lender, shall have been executed and delivered by Ultralife to the Lender. Within sixty (60) days after the Closing Date, the Pledge Agreements described in clause (ii) of the definition of "Pledge Agreements", satisfactory in terms, form and substance to the Lender, shall be executed and delivered by Ultralife to the Lender as required by the Lender.

(j) ***Negative Pledge Agreement***. On the Closing Date, the Negative Pledge Agreement, satisfactory in terms, form and substance to the Lender, shall have been executed and delivered by Ultralife to the Lender.

(k) ***Subordination Agreement*****.** On the Closing Date, the Subordination Agreement, satisfactory in terms, form and substance to the Lender, shall have been executed and delivered by and among the Lender, William Maher and Ultralife. The Lender shall have received true and correct copies of each document, instrument and agreement governing or evidencing the obligations of Ultralife to William Maher and each such document, instrument and agreement shall be satisfactory in terms, forms and substance to the Lender.

(l) ***Landlord/Bailee Waivers.*** On or before the Closing Date, the Borrowers shall have delivered an executed landlord's waiver or bailee waiver, as applicable, for each Eligible Location and each such landlord or bailee waiver shall be satisfactory to the Lender in form and substance.

(m) ***Assignment of Claims.*** On or before the Closing Date, the Borrowers shall have delivered an executed assignment of claims with respect to each contract with the United States government for which the Borrowers intend to have the Accounts arising thereform be "Eligible Accounts", other than contracts related to the Unassigned US Accounts. Each such assignment of claim shall be satisfactory to the Lender in form and substance and all required Notices of Assignment shall have been submitted to and acknowledged by the appropriate government contracting and disbursing officers.

(n) ***Borrowing Base; Excess Availability.*** On the Closing Date, the Borrowers shall have delivered a Borrowing Base certificate, dated as of the Closing Date and satisfactory in form and substance to the Lender, showing an Excess Availability in excess of $7,500,000 after giving effect to the Revolving Loans to be made on the Closing Date.

(o) ***Operating Accounts; Cash Management.*** The Borrowers shall have established its operating accounts and cash management systems at Citizens Bank, N.A. or another Lender Affiliate designated by the Lender.

(p) ***Other Documents and Conditions*****.** On or before the Closing Date, the following documents and conditions shall have been delivered or satisfied by or on behalf of the Borrowers to the Lender:

(i) *Good Standing and Tax Lien Certificates.* Good Standing Certificate of the Department of State of its jurisdiction of incorporation certifying to the good standing and corporate status of each of the Borrowers, good standing/foreign qualification certificates from other jurisdictions in which each of the Borrowers is qualified to do business and tax lien or similar certificates of each of the Borrowers from each jurisdiction in which each of the Borrowers is qualified to do business.

(ii) *Financial Statements and Projections — Borrowers.* Financial statements and projections of Ultralife and its Subsidiaries, in form and substance satisfactory to the Lender, as described in Section 4.12 of this Agreement, including any available management letters. Lender shall have had an opportunity to discuss Ultralife's consolidated financial statements for the fiscal year ending December 31, 2009 with the auditors of such statements and the results of such discussions shall have been satisfactory to the Lender in its sole discretion.

(iii) *Insurance.* Evidence, in form and substance satisfactory to the Lender, that the business and all assets of the Borrowers are adequately insured, together with a copy of each casualty insurance policy or policies evidencing coverage satisfactory to the Lender and endorsements providing that the Lender has been named as additional insured and lenders loss payee on all policies of insurance covering the Collateral (as defined in the Security Agreements).

(iv) *Inventory Appraisal.* An appraisal, satisfactory in form and substance to the Lender, of the inventory appraisal conducted by Great American Group dated September 2009 and addressed to the Lender.

(v) *Lien Search.* Copies of record searches (including UCC searches, real property title reports, and judgment, suits, tax and other lien searches) evidencing that the Lender has a first priority security interest in the Collateral described in the Security Agreements, except as otherwise provided in Section 7.01 of this Agreement.

(vi) *No Material Adverse Change.* Evidence satisfactory to the Lender that no Material Adverse Change has occurred with respect to the Borrowers since September 27, 2009, other than the matters described on Schedule 4.25 to this Agreement.

(vii) *Evidence of Ownership*. Evidence satisfactory to the Lender regarding the identity of each beneficial owner of common shares of Ultralife holding in excess of five percent (5%) of such shares as of the date of this Agreement.

(viii) *Pay-off Letter*. A pay-off letter from the Existing Lender indicating the amount of outstanding indebtedness to be repaid and confirming that its liens and security interests will be released upon its receipt of such amount.

(ix) *Termination Statements — Releases.* Evidence satisfactory to the Lender that UCC termination or release statements with respect to the liens on the Borrowers' property not permitted under Section 7.01 of this Agreement have been filed or satisfactory arrangements have been made for such filing.

(x) *Other Documents and Conditions.* Such other documents and conditions as may be required to be submitted to the Lender by the terms of this Agreement or of any Loan Document.

(q) ***Details, Proceedings and Documents*****.** All legal details and proceedings in connection with the transactions contemplated by this Agreement shall be satisfactory to the Lender and the Lender shall have received all such counterpart originals or certified or other copies of such documents and proceedings in connection with such transactions, in form and substance satisfactory to the Lender, as the Lender may from time to time request.

(r) ***Fees and Expenses*****.** The Borrowers shall have paid all fees and charges as required for the Closing and relating to the Closing, including legal fees, closing costs, filing and notary fees, and any other similar matters pertinent to the closing.

5.02 Each Additional Loan. At the time of making any Loans other than Loans made on the Closing Date and after giving effect to the proposed borrowings, the representations and warranties of the Borrowers contained in Article IV of this Agreement shall be true on and as of the date of such additional Loan with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which expressly relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein), and the Borrowers shall have performed and complied with all covenants and conditions of this Agreement; no Event of Default or Potential Default shall have occurred and be continuing or shall exist, the making of the Loans shall not contravene any Law applicable to the Borrowers or Lender, and the Administrative Borrower shall have delivered to the Lender a duly executed and completed Borrowing Base Certificate.

ARTICLE VI

AFFIRMATIVE COVENANTS

The Borrowers, individually and collectively, covenant to the Lender, unless the Lender shall otherwise consent in writing, as follows:

6.01 Reporting and Information Requirements.

(a) ***Annual Audited Reports*****.** As soon as practicable, and in any event within one hundred twenty (120) days after the close of each fiscal year of Ultralife, the Administrative Borrower will furnish to the Lender audited consolidated statements of income, retained earnings and cash flow of Ultralife and its Subsidiaries for such fiscal year and an audited consolidated balance sheet of Ultralife and its Subsidiaries as of the close of such fiscal year, and notes to each, all in reasonable detail, setting forth in comparative form the corresponding figures for the preceding fiscal year, prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year (except for changes in application in which such accountants concur) with such statements and balance sheet to be certified by independent certified public accountants of recognized standing selected by the Administrative Borrower and reasonably satisfactory to the Lender. The certificate or report of such accountants shall be free of exception or qualifications not acceptable to the Lender and shall in any event contain a written statement of such accountants substantially to the effect that such accountants examined such statements and balance sheet in accordance with generally accepted auditing standards.

(b) ***Monthly Reports*****.** As soon as practicable, and in any event within thirty (30) days after the close of each calendar month, during the term of this Agreement, the Administrative Borrower will furnish to the Lender consolidated and consolidating statements of income for Ultralife and its Subsidiaries for such month and for the portion of the fiscal year to the end of such month, and a consolidated and consolidating balance sheet of Ultralife and its Subsidiaries as of the close of such month, all in reasonable detail. All such income statements and balance sheets shall be prepared by the Administrative Borrower and certified by the President, Treasurer or Chief Financial Officer of the Administrative Borrower as presenting fairly the financial position of Ultralife and its Subsidiaries as of the end of such month and the results of its operations for such periods, subject to year end adjustment, in conformity with generally accepted accounting principles applied in a manner consistent with that of the most recent audited financial statements furnished to the Lender.

(c) ***Compliance Certificate*****.** Within one hundred twenty (120) days after the end of each fiscal year of Ultralife, and within thirty (30) days after the end of each fiscal quarter of the Borrower, the Administrative Borrower will deliver to the Lender a certificate, in the form attached to this Agreement as Exhibit "C," dated as of the end of such fiscal year or quarter, as the case may be, signed on behalf of the Administrative Borrower by its President, Treasurer or Chief Financial Officer, including a calculation of the financial maintenance covenants set forth in Section 7.16 of this Agreement, and stating that, as of the date of the certificate, no Event of Default or Potential Default has occurred and is continuing or exists, or if an Event of Default or Potential Default has occurred and is continuing or exists, specifying in detail the nature and period of existence of the Event of Default or Potential Default and any action taken or contemplated to be taken by the Borrowers.

(d) ***Borrowing Base Certificate*****.** Each week, and more frequently upon the Lender's request, the Administrative Borrower will deliver to the Lender a completed Borrowing Base Certificate, in the form attached hereto as Exhibit "D", setting forth the borrowing base calculations for each of the Borrowers, on a consolidating and consolidated basis, together with, if requested by the Lender, an appropriately completed Collections Report, on a form supplied by, and satisfactory to, the Lender, and such back up documentation and evidence as the Lender shall reasonably request.

(e) ***Accounts Receivable Statements and Collateral Reports*****.** Within fifteen (15) days after the end of each calendar month, and more frequently upon the Lender's request, the Administrative Borrower will deliver to the Lender (i) a schedule of each of the Borrower's accounts receivable, identifying all Eligible Accounts and the aging thereof by open invoice of each customer owed to such Borrower, (ii) an Accounts Receivable Reconciliation in the form of Exhibit "E", and (iii) a Monthly Collateral Recap on a form supplied by, and satisfactory to, the Lender; and (iv) such other reports concerning the Eligible Accounts as the Lender shall require, all certified as to accuracy by the President, Treasurer or Chief Financial Officer of the Administrative Borrower and all in such form as the Lender shall require. The reports delivered under this clause (f) shall be prepared and delivered to the Lender on a consolidated and consolidating basis. The Administrative Borrower shall also provide the Lender with all information requested by the Lender with respect to any account debtor.

(f) ***Accounts Payable Statements.*** Within fifteen (15) days after the end of each calendar month, and more frequently upon the Lender's request, the Administrative Borrower will deliver to the Lender a detailed listing of each of the Borrower's existing accounts payable on a consolidating and consolidated basis, specifying the names of each creditor and the amount owed to such creditor and such matters and information relating to the status of Borrowers' accounts payable so scheduled as the Lender may from time to time reasonably request. The reports delivered under this clause (g) shall be prepared and delivered to the Lender on a consolidated and consolidating basis.

(g) ***Inventory Certifications.*** Within fifteen (15) days after the end of each calendar month, and more frequently upon the Lender's request, the Administrative Borrower will deliver to the Lender a current schedule of the inventory of each of the Borrower's in the form and substance satisfactory to the Lender and a FIFO basis, itemizing and describing the kind, type, quality and quantity of such inventory, as determined by physical counts taken annually, each Borrower's costs therefor and selling price thereof, and the daily withdrawals therefrom and additions thereto, and such other matters relating to the status of the inventory so scheduled as the Lender may from time to time reasonably request. The reports delivered under this clause (h) shall be prepared and delivered to the Lender on a consolidated and consolidating basis.

(h) ***Audit Reports.*** Promptly upon receipt thereof, the Administrative Borrower will deliver to the Lender one copy of each other report submitted to the Administrative Borrower by independent accountants, including "comment" or management letters, in connection with any annual, interim or special audit report made by them of the books of any of the Borrowers.

(i) ***Guarantors' Financial Statements.*** As soon as practicable, and in any event within one hundred twenty (120) days after the close of each fiscal year of each Guarantor, the Administrative Borrower will furnish to the Lender financial statements of such Guarantor for such fiscal year, all in reasonable detail and in such form as the Lender shall reasonably request.

(j) ***Projections.*** Not taken later than thirty (30) days prior to the commencement of the applicable fiscal year, the Administrative Borrower will deliver to the Lender an annual budget of the Borrowers, prepared on a consolidated and consolidating basis, for such fiscal year, together with projections of profit and loss statements, cash flows, balance sheets and revolving credit availability prepared on a quarterly basis.

(k) ***Visitation; Audits.*** Up to three (3) times in each year during the term of this Agreement, each of the Borrowers will permit such persons as the Lender may designate to visit and inspect any of its properties, to conduct field examinations of the collateral, to examine, and to make copies and extracts from, its books and records and to discuss its affairs with its officers, employees and independent accountants during normal business hours and after reasonable notice, unless an Event of Default shall have occurred and be continuing, in which case at such times and as often as the Lender may request. The Borrowers shall pay to the Lender the Lender's then current field examination fee ($900 per person-day as of the date of this Agreement) and shall reimburse the Lender for the Lender's out-of-pocket costs in connection with any such audit. Each of the Borrowers authorizes its officers, employees and independent accountants to discuss with the Lender its affairs.

(l) ***Inventory Appraisals.*** Upon the Lender's request, the Borrowers shall, at their expense, no more than one (1) time in any twelve (12) month period, but at any time or times as the Lender may request on or after an Event of Default, deliver or cause to be delivered to the Lender written appraisals as to the inventory of the Borrowers in form, scope and methodology acceptable to the Lender and by an appraiser acceptable to the Lender, addressed to the Lender and upon which the Lender is expressly permitted to rely. The first such appraisal shall be delivered to the Lender not more than ninety (90) days after the Closing Date.

(m) ***Notice of Event of Default.*** Promptly upon becoming aware of an Event of Default or Potential Default, the Administrative Borrower will give the Lender notice of the Event of Default or Potential Default, together with a written statement of the President, Treasurer or Chief Financial Officer of the Administrative Borrower, setting forth the details of the Event of Default or Potential Default and any action taken or contemplated to be taken by the Borrowers.

(n) ***Notice of Material Adverse Change*****.** Promptly upon becoming aware thereof, the Administrative Borrower will give the Lender telephonic or telegraphic notice (with written confirmation set on the same or next Business Day) about any Material Adverse Change.

(o) ***Exchange Act Filings*****.** Promptly after the same become publicly available, the Administrative Borrower will deliver to the Lender notice of the availability at http://www.sec.gov and/or http://www.edgar-online.com of, or alternatively shall provide copies of, any periodic and other reports, proxy statements and other materials filed by Ultralife with the Securities and Exchange Commission, or any Official Body succeeding to any or all of the functions of the Securities and Exchange Commission, or with any national securities exchange, or distributed by Ultralife to its shareholders generally, as the case may be. All such statements and filings shall be filed in compliance with the Exchange Act and other applicable securities laws.

(p) ***Rating Agencies*****.** Promptly after Moody's or S&P shall have announced a change in the rating established or deemed to have been established for any of Ultralife's Debt, the Administrative Borrower will deliver to the Lender written notice of such rating change.

(q) ***Reports to Governmental Agencies and other Creditors*****.** With reasonable promptness, the Administrative Borrower will deliver to the Lender copies of all such financial reports, statements and returns which any of the Borrowers shall file with any federal or state department, commission, board, bureau, agency or instrumentality, other than the Exchange Act filings described in Section 6.01(o) of this Agreement, and any report, statement or return delivered by a Borrowers to any supplier or other creditor.

(r) ***Notice of Proceedings*****.** Promptly upon becoming aware thereof, the Administrative Borrower will give the Lender notice of the commencement, existence or threat of all proceedings by or before any Official Body against or affecting any of the Borrowers which, if adversely decided, would have a material adverse effect on the assets, business, operations or financial condition of such Borrower.

(s) ***Updates to Schedules*****.** In the event that any of the information or disclosures provided on any of the Schedules attached to this Agreement become incorrect in any material respect, the Administrative Borrower shall promptly provide the Lender in writing with such revisions or updates to such Schedule as may be necessary or appropriate to correct such Schedule (except to the extent that the Administrative Borrower has given the Lender written notice under this Section 6.01); provided, however, that no Schedule shall be deemed to have been amended, modified or superseded by any such correction or update, nor shall any breach of warranty or representation resulting from the inaccuracy or incompleteness of any such Schedule be deemed to have been cured thereby, unless and until the Lender, in its sole discretion, shall have accepted in writing such revisions or updates to such Schedule.

(t) ***Further Information*****.** The Administrative Borrower will promptly furnish to the Lender such other information concerning the Borrowers and the Collateral granted under the Security Agreements, and in such form, as the Lender may reasonably request from time to time.

6.02 Preservation of Existence and Franchises. Each of the Borrowers will maintain, and shall cause each Subsidiary to maintain, its corporate existence, rights and franchises in full force and effect in its jurisdiction of incorporation. Each of the Borrowers will qualify and remain qualified, and shall cause each Subsidiary to qualify and remain qualified, as a foreign corporation in each jurisdiction in which failure to receive or retain qualification would have a material adverse effect on the assets, business, operations or financial condition of such Borrower.

6.03 Insurance. Each of the Borrowers will maintain, and shall cause each Subsidiary to maintain, with financially sound and reputable insurers insurance with respect to its properties and business and against such liabilities, casualties and contingencies and of such types and in such amounts as is satisfactory to the Lender and as is customary in the case of corporations or other entities engaged in the same or similar business or having similar properties similarly situated. The Administrative Borrower will add the Lender as lenders loss payee to all policies of insurance which insure against loss of or damage to the Collateral (as defined in the Security Agreements) to provide the Lender with thirty (30) days' advance notice of the termination of any such policy of insurance.

6.04 Maintenance of Properties. Each of the Borrowers will maintain, and shall cause each Subsidiary to maintain, or cause to be maintained in good repair, working order and condition the properties now or in the future owned, leased or otherwise possessed by the Borrowers and shall make or cause to be made all needful and proper repairs, renewals, replacements and improvements to the properties so that the business carried on in connection with the properties may be properly and advantageously conducted at all times. The Administrative Borrower shall notify the Lender prior to any change in the location of any of its properties or business.

6.05 Payment of Liabilities. The Borrowers will pay or discharge, and cause each Subsidiary to pay or discharge:

(a) on or prior to the date on which penalties attach, all taxes, assessments and other governmental charges or levies imposed upon it or any of its properties or income except taxes, assessments or charges subject to good faith dispute for which such Borrower or Subsidiary has created adequate reserves on its books;

(b) on or prior to the date when due, all lawful claims of materialmen, mechanics, carriers, warehousemen, landlords and other like persons which, if unpaid, might result in the creation of a Lien upon any of its property, except such claims which are subject to good faith dispute and as to which such Borrower or Subsidiary has created adequate reserves on its books;

(c) on or prior to the date when due, all other lawful claims which, if unpaid, might result in the creation of a Lien upon any of its property, except such claims which are subject to good faith dispute and as to which such Borrower or Subsidiary has created adequate reserves on its books;

(d) all intercompany trade liabilities so that none is due more than sixty (60) days after the invoice date for each such liability owing to another Borrower or Subsidiary, as the case may be; and

(e) all other current liabilities so that none is due more than ninety (90) days after the due date for each liability, except current liabilities which are subject to good faith dispute and as to which such Borrower or Subsidiary has created adequate reserves on its books.

6.06 Financial Accounting Practices. The Borrowers will make and keep, and cause each Subsidiary to make and keep, books, records and accounts in conformity with generally accepted accounting principles applied in a manner consistent with past practice.

6.07 Compliance with Laws. The Borrowers shall comply, and cause each Subsidiary to comply, with all applicable Laws including, without limitation, all applicable Environmental Laws, the non-compliance with which could reasonably be expected to result in Lender Environmental Damages or have a material and adverse effect on the assets, business, operations or financial condition of any of the Borrowers or on the ability of each of the Borrowers to perform its obligations under this Agreement or the other Loan Documents to which it is a party.

6.08 Pension Plans. The Borrowers shall (a) keep in full force and effect any and all Plans which are presently in existence or may, from time to time, come into existence under ERISA unless such Plans can be terminated without material liability to the Borrowers in connection with such termination; (b) make contributions to all of the Borrower’s Plans in a timely manner and in a sufficient amount to comply with the requirements of ERISA; (c) comply with all material requirements of ERISA which relate to such Plans so as to preclude the occurrence of any Reportable Event, Prohibited Transaction (other than a Prohibited Transaction subject to an exemption under ERISA) or material “accumulated funding deficiency” as such term is defined in ERISA; and (d) notify the Lender immediately upon receipt by the Borrower of any notice of the institution of any proceeding or other action which may result in the termination of any Plan. With respect to any Plan, the Administrative Borrower shall deliver to the Lender, promptly after the filing or receipt thereof, copies of all reports or notices which any of the Borrowers files or receives under ERISA with or from the Internal Revenue Service, the Pension Benefit Guaranty Corporation, or the U.S. Department of Labor, other than reports or notices which do not materially or adversely (i) affect such Borrower, its business, assets or financial condition, or (ii) such Borrower’s ability to perform its obligations under this Agreement.

6.09 Continuation of and Change in Business. The Borrowers will continue to engage in the businesses and activities described in Schedule 4.10 to this Agreement and the Borrowers will not engage in any other businesses or activities without prior written consent of the Lender.

6.10 Use of Proceeds. The Borrowers will use the proceeds of the Revolving Credit Loans for payment of fees associated with the Revolving Credit Loans, working capital, general corporate purposes, letter of credit support and Hedging Contract support. The Borrowers will also use a portion of the proceeds of the Revolving Credit Loans to repay its indebtedness to the Existing Lender.

6.11 Lien Searches. The Lender may, but shall not be obligated to, conduct lien searches of the Borrowers and their respective assets and properties on an annual basis and at such other times as the Lender, in its sole discretion, may determine to be necessary. The Borrowers shall reimburse the Lender for the Lender's out-of-pocket costs in connection with such lien searches.

6.12 Environmental Matters. The Borrowers shall comply, and cause each Subsidiary to comply, with all reasonable requests made by the Lender relating to compliance with all applicable Environmental Laws and regulations, including, without limitation, performance of tests and studies regarding environmental status of Borrowers' principal places of business and correction of violations of any applicable Environmental Laws and regulations that could reasonably be expected to have a material and adverse effect on the assets, business, operations or financial condition of any of the Borrowers or on the ability of each of the Borrowers to perform its obligations under this Agreement or the other Loan Documents to which it is a party. Within forty-five (45) days after the end of each fiscal year, the Administrative Borrower shall provide the Lender with a letter or certificate, satisfactory in form and substance to the Lender, confirming that the Borrowers are not in violation of any Environmental Laws the non-compliance with which could reasonably be expected to have a material and adverse effect on the assets, business, operations or financial condition of any of the Borrowers or on the ability of each of the Borrowers to perform its obligations under this Agreement or the other Loan Documents to which it is a party.

6.13 Cash Management and Operating Accounts. Each of the Borrowers shall establish and maintain at Citizens Bank, N.A. or another Lender Affiliate designated by the Lender, its operating accounts, blocked accounts and cash management accounts for the Security Agreements. Each if the Borrowers will, upon the Lender's request, establish and maintain a lockbox account for the collection of the Accounts with Citizens Bank, N.A. or another Lender Affiliate designed by the Lender. In the event that any Borrower establishes, with the Lender's prior written consent, an operating account at a financial institution which is not a Lender Affiliate, the Lender shall receive a Deposit Control Agreement or Blocked Account Agreement, satisfactory in terms, form and substance to the Lender (in either case, a "**Blocked Account Agreement**"), to perfect the Lender's security interests in such account.

6.14 Interest Rate Protection. On the Closing Date, or within thirty (30) days after the Closing Date, the Administrative Borrower shall have entered into an interest rate protection agreement with a Lender Affiliate (or another financial institution acceptable to the Lender) for a period of at least one year in an amount equal to at least seventy percent (70%) of the aggregate principal amount of the Revolving Credit Loans funded on the Closing Date and with such other terms and conditions as shall be acceptable to the Lender Affiliate (the "**Interest Rate Protection Agreement**"). Documentation for the Interest Rate Protection Agreement shall be as that in a standard International Swap Dealer Association Agreement, shall provide for the method of calculating the reimbursable amount of the provider's credit exposure in a reasonable and customary manner, shall be reasonably satisfactory to the Lender and the Lender Affiliate. The Interest Rate Protection Agreement shall be deemed to be a Hedging Contract under this Agreement.

6.15 Equipment Leasing Commitment Letter. On or before March 31, 2010, the Borrowers shall have received a commitment letter for an equipment leasing transaction, on terms and pursuant to documentation satisfactory to the Lender, with an equipment lender acceptable to the Lender (the "**Equipment Lessor**"). On or before such date, the Lender and the Borrowers shall have received confirmation that an intercreditor agreement, satisfactory in terms, form and substance to the Lender, shall be entered into with the Equipment Lessor.

6.16 Further Assurances. Each of the Borrowers, at the Borrowers' own cost and expense, will cause to be promptly and duly taken, executed, acknowledged and delivered all such further acts, documents and assurances as the Lender may from time to time reasonably request in order more effectively to carry out the intent and purposes of this Agreement and the transactions contemplated by this Agreement and to cause the security interest or interests, the liens, or conveyance granted under the Security Agreements or any other Loan Documents to be, at all times, valid, perfected and enforceable against each of the Borrowers and all third parties.

ARTICLE VII

NEGATIVE COVENANTS

During the term of this Agreement, the Borrowers, individually and collectively, covenant and agree that, unless the Lender shall otherwise consent in writing, the Borrowers will not and will not allow any Subsidiary to:

7.01 Liens. Create, incur, assume or suffer to exist any Lien on any of its property or assets, tangible or intangible, now owned or acquired in the future, or agree to become liable to do so, except the following, being collectively referred to herein as the "**Permitted Encumbrances**":

(a) Liens existing on the Closing Date and described in Schedule 7.01 to this Agreement, Liens in favor of the Lender, and Liens securing Debt permitted under Section 7.02 of this Agreement;

(b) Liens arising from taxes, assessments, charges, levies or claims described in Section 6.05(a) of this Agreement that are not yet due or that remain payable without penalty or to the extent permitted to remain unpaid under the exception to Section 6.05(a) of this Agreement;

(c) deposits or pledges to secure worker's compensation, unemployment insurance, old age benefits or other social security obligations, or in connection with or to secure the performance of bids, tenders, trade contracts or leases, or to secure statutory obligations, or stay, surety or appeal bonds, or other pledges or deposits of like nature and all in the ordinary course of business;

(d) mechanics', carriers', workmen's, repairmen's or similar liens arising in the ordinary course of business in respect of obligations which are not overdue, or deposits made to obtain the release of such mechanics', carriers', workmen's, repairmen's or similar liens which are being contested in good faith by appropriate proceedings and with respect to which the Borrower has created reserves which are determined to be adequate by the application of GAAP consistently applied; and

(e) zoning restrictions, easements, minor restrictions on the use of real property, minor irregularities in title to real property and other minor Liens that do not secure the payment of money or the performance of an obligation and that do not in the aggregate materially detract from the value of a property or asset to, or materially impair its use in the business of, the Borrower.

7.02 Debt. Create, incur, assume or suffer to exist any Debt, except:

(a) Debt under this Agreement, the Notes, the other Loan Documents or under any other document, instrument or agreement between the Borrowers (or any one or more of them) and the Lender;

(b) Debt existing on the Closing Date and described in Schedule 7.02 to this Agreement, provided, however, that none of such indebtedness shall be extended, renewed or refinanced without the prior written consent of the Lender;

(c) current accounts payable, accrued expenses and other current items arising out of transactions (other than borrowings and other than those described in clause (d) below) in the ordinary course of business;

(d) current intercompany accounts payable, accrued expenses and other current items arising out of transactions among Borrowers and/or Subsidiaries in the ordinary course of business, provided that no such payable, expense or other item is due more than sixty (60) days after the invoice date therefor;

(e) Hedging Obligations to the Lender or any Lender Affiliate (or other financial institution acceptable to the Lender in accordance with Section 6.14 of this Agreement);

(f) Capitalized Lease Obligations described in Section 6.15 to this Agreement;

(g) Debt secured by purchase money security interests and capitalized leases in equipment and fixtures, provided that the aggregate principal amount (including Capitalized Lease Obligations) of all such additional Debt shall not exceed $500,000 in any fiscal year of the Borrower and provided that the liens and security interests securing such indebtedness are limited to the specific identified asset purchased with such indebtedness; and

(h) Debt of any Subsidiary or any Borrower to Ultralife, subject in each case to the limitations set forth in Section 7.04 of this Agreement.

7.03 Guarantees and Contingent Liabilities. Directly or indirectly assume, guarantee, endorse or otherwise agree, become or remain directly or contingently liable upon or with respect to any obligation or liability of any other person, firm or entity, except:

(a) guarantees existing on the Closing Date and described on Schedule 7.03 to this Agreement, provided, however, that, except as permitted under clause (b) of this Section 7.03, the maximum obligation represented by any such guarantee (as disclosed on Schedule 7.03 to this Agreement) shall not be increased without the prior written consent of the Lender; and

(b) guarantees made or given by any Borrower after the Closing Date of indebtedness of any other Borrower or Subsidiary and by any Subsidiary of indebtedness of any Borrower, provided that (i) the aggregate sum of all such guarantees shall not in any event exceed $2,000,000 at any one time outstanding, and (ii) no such guarantee shall be secured by any of the assets of the guarantor.

7.04 Loans and Investments. Make or suffer to remain outstanding any loan or advance to, or purchase, acquire or own any stock, bonds, notes or securities of, or any partnership interest (whether general or limited) in, or any other interest in, or make any capital contribution to, any other person, including any Subsidiary, or agree, become or remain liable to do any of the foregoing, except:

(a) loans, advances and investments existing on the Closing Date and described on Schedule 7.04 to this Agreement, provided, however, that, except as permitted under clauses (b), (c) or (d) of this Section 7.04, the principal outstanding amount of any such loan, advance or investment shall not be increased without prior written consent of the Lender.

(b) loans or other advances and/or investments made by Ultralife after the Closing Date to or in any of the other Borrowers in an aggregate amount not to exceed $1,000,000 at any one time outstanding.

(c) loans or other advances and/or investments made by Ultralife after the Closing Date to or in Able New Energy – Hong Kong and/or Able New Energy — China not to exceed $2,000,000 at any one time outstanding, and

(d) loans or other advances and/or investments made by Ultralife after the Closing Date to or in Ultralife UK and/or Ultralife India in an aggregate amount not to exceed $1,000,000 at any one time outstanding (notwithstanding the existence of any revolving credit commitment which Ultralife has provided or may provide to Ultralife UK).

The Borrowers will not, and will not allow any Subsidiary to, make any loans or other advances and/or investments to or in any Subsidiary which is not a Subsidiary as of the Closing Date.

7.05 Dividends and Related Distributions. Declare, make, pay, or agree, become or remain liable to make or pay, any dividend or other distribution of any nature (whether in cash, property, securities or otherwise) on account of or in respect of any shares of the capital stock of Ultralife or on account of the purchase, redemption, retirement or acquisition of any shares of the capital stock (or warrants, options or rights for any shares of the capital stock) of Ultralife.

7.06 Leases. Enter into or suffer to remain in effect any agreement to lease, as lessee, any real or personal property, except:

(a) leases cancelable by the lessee without penalty on not more than thirty (30) days' notice;

(b) leases existing on the Closing Date and described on Schedule 7.06 to this Agreement; and

(c) leases of personal property (other than Capitalized Lease Obligations) not listed on Schedule 7.06 having aggregate rentals not in excess of $300,000 in any fiscal year of the Borrower.

7.07 Merger; Consolidation; Business Acquisitions. Merge or agree to merge with, or acquire any material portion of the stock or assets or business of, any other person, corporation, firm or other entity, other than a Borrower or a Subsidiary.

7.08 Dispositions of Assets. Sell, convey, assign, lease, abandon or otherwise transfer or dispose of, voluntarily or involuntarily, any properties or assets, tangible or intangible, to any other person, corporation, firm or other entity, other than a Borrower, except for sales of inventory in the ordinary course of business.

7.09 Self-Dealing. Enter into or carry out any loan, advance or other transaction (including, without limitation, purchasing property or services or selling property or services) with any Affiliate except that:

(a) Affiliates of a Borrower may render services to such Borrower for compensation at the same rates generally paid by corporations engaged in the same or similar businesses for the same or similar services; and

(b) a Borrower may, with the prior written consent of the Lender, enter into and carry out other transactions with Affiliates if in the ordinary course of business, pursuant to the reasonable requirements of the Borrower's business upon terms reasonably found by the board of directors of the Borrower after due inquiry to be fair and reasonable and no less favorable to the Borrower than would be obtained in a comparable arm's-length transaction.

7.10 Margin Stock. Use the proceeds of any Loans directly or indirectly to purchase or carry any "margin stock" (within the meaning of Regulations U, G, T, or X of the Board of Governors of the Federal Reserve System) or to extend credit to others for the purpose of purchasing or carrying, directly or indirectly, any margin stock.

7.11 Consolidated Tax Returns. File, or consent to the filing of, any consolidated income tax return with any person, corporation, firm or other entity, other than a Subsidiary.

7.12 Ownership and Control. Except as provided on Schedule 4.07 to this Agreement, directly or indirectly, issue, transfer, sell or otherwise dispose of any interest in any Borrower or any Subsidiary to any other person, corporation, firm or other entity, other than to a Borrower.

7.13 Changes in Organizational Documents. Amend in any respect its articles of organization (including any provisions or resolutions relating to membership units), operating agreement or other organizational documents without providing at least thirty (30) calendar days' prior written notice to the Lender.

7.14 Foreign Assets Control Regulations, Etc. Become a "blocked person" as described in the Executive Order, the Trading with the Enemy Act or the Foreign Assets Control Regulations or engage in any dealings or transactions, or be otherwise associated, with any such "blocked person". In addition, none of the requesting or borrowing of the Loans or the requesting or issuance, extension or renewal of any Letter of Credit or the use of the proceeds of any thereof will violate the Trading With the Enemy Act (50 USC §1 et seq., as amended) (the "**Trading With the Enemy Act**") or any of the foreign assets control regulations of the United States Treasury Department (31 C.F.R., Subtitle B, Chapter V, as amended) (the "**Foreign Assets Control Regulations**") or any enabling legislation or executive order relating thereto (including, but not limited to (a) Executive order 13224 of September 21, 2001 Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the "**Executive Order**") and (b) the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Public Law 107-56).

7.15 Negative Pledges. Enter into any agreement (for purposes of this Section 7.15, a "**Negative Pledge**") with any Person which prohibits any of the Borrowers or any of the Subsidiaries from granting any Liens to the Lender, in the Collateral or the other assets or properties of such Borrower or Subsidiary, other than Negative Pledges granted in connection with indebtedness secured by purchase money security interests and capitalized leases permitted under Section 7.02(f) and Section 7.02(g), provided that any such Negative Pledge granted in accordance with this clause be limited to the asset acquired and be an ordinary and customary requirement of such purchase money financing.

7.16 Financial Maintenance Covenants.

(a) Permit or suffer the Fixed Charge Coverage Ratio to be less than 1.20 to 1.00 as of March 28, 2010, or as of any fiscal quarter end thereafter.

(b) Permit or suffer the Excess Availability to be less than $3,000,000 at any time.

ARTICLE VIII

DEFAULTS

8.01 Events of Default. An "**Event of Default**" means the occurrence or existence of one or more of the following events or conditions (whatever the reason for such Event of Default and whether voluntary, involuntary or effected by operation of Law):

(a) The Borrowers shall fail to pay principal or interest on the Loans when due; or

(b) The Borrowers shall fail to pay when due any other fee, or other amount payable pursuant to this Agreement, the Notes, the Security Agreement, any of the other Loan Documents or any other document, instrument or agreement creating, evidencing or governing indebtedness of the Borrowers to the Lender, including all agreements between the Lender or any Lender Affiliate and a Borrower which give rise to Hedging Obligations, and such failure shall have continued for a period of ten (10) days or for any other applicable grace period; or

(c) Any representation or warranty made by the Borrowers under this Agreement or any of the other Loan Documents or by any Guarantor under a Guaranty Agreement or any statement made by any Borrower or any Guarantor in any financial statement, certificate, report, exhibit or document furnished by or for the Borrowers or the Guarantors, as the case may be, to the Lender pursuant to this Agreement or the other Loan Documents shall prove to have been false or misleading in any material respect as of the time when made; or

(d) The Lender's security interest under any of the Security Agreements is or shall become unperfected; or

(e) The Borrowers shall be in default in the performance or observance of Sections 6.04, 6.06, 6.11 and 6.16 of this Agreement and such default shall continue for a period of fifteen (15) days after the Lender shall have given notice to the Administrative Borrower of such default; or

(f) The Borrowers shall be in default in the performance or observance of any other covenant, agreement or duty under this Agreement, the other Loan Documents or any Hedging Contract beyond any applicable grace or cure period expressly provided in such Loan Document; or

(g) A Borrower shall (i) default (as principal or guarantor or other surety) in any payment of principal of or interest on any obligation (or set of related obligations) for borrowed money, beyond any period of grace with respect to the payment or, if an obligation (or set of related obligations), is or are payable or repayable on demand, fails to pay or repay such obligation or obligations when demanded, or (ii) default in the observance of any other covenant, term or condition contained in any agreement or instrument by which an obligation (or set of related obligations), is or are created, secured or evidenced, if the effect of such default is to cause, or to permit the holder or holders of such obligation or obligations (or a trustee or agent on behalf of such holder or holders) to cause, all or part of such obligation or obligations to become due before its or their otherwise stated maturity; or

(h) One or more judgments for the payment of money shall have been entered against a Borrower, which judgment or judgments shall have remained undischarged or unstayed for a period of thirty (30) days; or

(i) A writ or warrant of attachment, garnishment, execution, distraint or similar process shall have been issued against a Borrower or any of its properties which shall have remained undischarged or unstayed for a period of thirty (30) days; or

(j) The indictment or threatened indictment of a Borrower or any guarantor under any criminal statute, or commencement or threatened commencement of criminal or civil proceedings against Borrower or any Guarantor pursuant to which statute or proceedings the penalties or remedies sought or available include forfeiture of any of the property of the Borrowers or such Guarantor;

(k) A Material Adverse Change has occurred; or

(l) A Change of Control shall occur or exist; or

(m) NASDAQ either delists the Ultralife securities that are currently included for quotation on the NASDAQ Global Market or issues a delisting determination letter to Ultralife for said securities; or

(n) A proceeding shall be instituted in respect of any of the Borrowers:

(i) seeking to have an order for relief entered in respect of such Borrower, or seeking a declaration or entailing a finding that such Borrower is insolvent or a similar declaration or finding, or seeking dissolution, winding-up, charter revocation or forfeiture, liquidation, reorganization, arrangement, adjustment, composition or other similar relief with respect to such Borrower, its assets or its debts under any law relating to Bankruptcy, insolvency, relief of debtors or protection of creditors, termination of legal entities or any other similar law now or in the future in effect; or

(ii) seeking appointment of a receiver, trustee, custodian, liquidator, assignee, sequestrator or other similar official for such Borrower or for all or any substantial part of its property; or

(o) A Borrower shall become insolvent, shall become generally unable to pay its debts as they become due, shall voluntarily suspend transaction of its business, shall make a general assignment for the benefit of creditors, shall institute a proceeding described in Section 8.01(n)(i) of this Agreement or shall consent to any order for relief, declaration, finding or relief described in Section 8.01(n)(i) of this Agreement, shall institute a proceeding described in Section 8.01(n)(ii) of this Agreement or shall consent to the appointment or to the taking of possession by any such official of all or any substantial part of its property whether or not any proceeding is instituted, dissolves, winds-up or liquidates itself or any substantial part of its property, or shall take any action in furtherance of any of the foregoing.

8.02 Consequences of an Event of Default.

(a) If an Event of Default specified in Sections 8.01(a) through (m) of this Agreement occurs and continues or exists, the Lender will be under no obligation to make Loans and may demand the unpaid principal amount of the Notes, interest accrued on the unpaid principal amount and all other amounts owing by the Borrowers under this Agreement and the other Loan Documents to be immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are expressly waived, and an action for any amounts due shall accrue immediately.

(b) If an Event of Default specified in Section 8.01(n) or (o) of this Agreement occurs and continues or exists, the Lender will be under no further obligation to make Loans and the unpaid principal amount of the Notes, interest accrued on the unpaid principal amount and all other amounts owing by the Borrowers under this Agreement and the other Loan Documents shall become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are expressly waived, and an action for any amounts due shall accrue immediately.

(c) If an Event of Default occurs and continues or exists, the Lender may, without notice to the Administrative Borrower increase the rate of interest applicable to the Loans to the rate of interest applicable to the Loans to the rate of interest specified in Section 3.02 of this Agreement.

(d) If an Event of Default occurs or exists, the Lender may, in its sole discretion, reduce the Borrowing Base by adjusting the advance rates or by creating such additional reserves as the Lender shall, in its sole discretion, deem appropriate.

(e) If an Event of Default occurs and continues or exists, the Lender may, upon notice to the Administrative Borrower, require the Borrowers to cause cash to be deposited and maintained in an account with Lender, as cash collateral, in an amount equal to one hundred and five percent (105%) of the outstanding Letters of Credit, and the Borrowers hereby irrevocably authorizes Lender, in its discretion, on the Borrowers' behalf and in the Administrative Borrower's name, to open such an account and to receive and maintain deposits therein, in the amounts required to be made by the Borrowers. Lender will invest such cash collateral (less applicable reserves) in such short-term money-market items as to which Lender and the Administrative Borrower mutually agree and the net return on such investments shall be credited to such account and constitute additional cash collateral. The Borrowers may not withdraw amounts credited to any such account except upon payment and performance in full of all Obligations and termination of this Agreement.

(f) If an Event of Default occurs and continues or exists, and whether or not the Lender shall have accelerated the maturity of Loans pursuant to any of the foregoing provisions of this Section 8.02, the Lender, if owed any amount with respect to the Notes, may proceed to protect and enforce its rights by suit in equity, action at law and/or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement or the Notes, including as permitted by applicable Law the obtaining of the *ex parte* appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of the Lender.

(g) If an Event of Default occurs and continues or exists, the Lender may exercise each and every right and remedy granted to the Lender under the Loan Documents and under any applicable Law.

8.03 Set-Off. If the unpaid principal amount of the Notes, interest accrued on the unpaid principal amount or other amount owing by the Borrowers under this Agreement or the other Loan Documents shall have become due and payable (at maturity, by acceleration or otherwise), the Lender, any Lender Affiliate and the holder of any participation in any Loan will each have the right, in addition to all other rights and remedies available to it, without notice to the Borrowers (or any of them), to set-off against and to appropriate and apply to such due and payable amounts any debt owing to, and any other funds held in any manner for the account of, the Borrowers (or any of them) by the Lender, by the Lender Affiliate or by such holder, including, without limitation, all funds in all deposit accounts (whether time or demand, general or special, provisionally credited or finally credited, or otherwise) now or in the future maintained by a Borrower with the Lender, the Lender Affiliate or such holder. The Borrowers consent to and confirm the foregoing arrangements and confirms the rights of lender's lien and set-off described in this Section 8.03. Nothing in this Agreement will be deemed a waiver or prohibition of or restriction on the Lender's rights, the Lender Affiliates' rights or any such holder's rights of lender's lien or set-off.

8.04 Payments Set Aside. To the extent that the Borrowers make a payment to the Lender, or the Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any bankruptcy or insolvency proceeding or otherwise, then to the extent of such recovery the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred.

ARTICLE IX

JOINT AND SEVERAL LIABILITY

9.01 Joint and Several Liability. (a) It is the intention of the Borrowers and the Lender that all of the Obligations shall be the joint and several obligations of all of the Borrowers without preferences or distinction among them. Each of the Borrowers, jointly and severally, hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with each other Borrower, with respect to the payment and performance of all of the Obligations. If and to the extent that any of the Borrowers shall fail to make any payment with respect to any of the Obligations as and when due or to perform any of such Obligations in accordance with the terms thereof, then in each such event each other Borrower will make such payment with respect to, or perform, such Obligations.

(b) The obligations and liabilities of each Borrower under this Section 9.01 shall be absolute and unconditional, and joint and several, irrespective of the genuineness, validity, priority, regularity or enforceability of this Agreement or any of the other Loan Documents or any other circumstance which might otherwise constitute a legal or equitable discharge of such obligations and liabilities. Each Borrower expressly agrees that the Lender may, in its sole and absolute discretion, without notice to or further assent of such Borrower and without in any way releasing, affecting or in any way impairing the joint and several obligations and liabilities of such Borrower under this Section 9.01: (i) waive compliance with, or any defaults under, or grant any other indulgences under or with respect to any of the Loan Documents; (ii) modify, amend, change or terminate any provisions of any of the Loan Documents in accordance with the provisions of this Agreement including, without limitation, the agreements of necessary parties; (iii) grant extensions or renewals of or with respect to the Revolving Credit Loans or any of the Loan Documents; (iv) effect any release, subordination, compromise or settlement in connection with this Agreement or any of the other Loan Documents; (v) agree to the substitution, exchange, release or other disposition of the Collateral or any part thereof or any other collateral for the Loans or to the subordination of any lien or security interest therein; (vi) make advances for the purpose of performing any term, provision or covenant contained in this Agreement or any of the Loan Documents with respect to which the Borrowers shall then be in default; (vii) make future advances pursuant to this Agreement or any of the other Loan Documents; (viii) assign, pledge, hypothecate or otherwise transfer the Obligations, any of the Loan Documents or any interest therein, all as and to the extent permitted by the provisions of this Agreement; (ix) deal in all respects with the other Borrowers; (x) effect any release, compromise or settlement with any of the other Borrowers; and (xi) provide debtor-in-possession financing or allow use of cash collateral in proceedings under the Bankruptcy Code, it being expressly agreed by all of the Borrowers that any such financing and/or use would be part of the Obligations.

(c) The obligations and liabilities of each Borrower under this Section 9.01 shall be primary, direct and immediate, shall not be subject to any counterclaim, recoupment, set off, reduction or defense based upon any claim that a Borrower may have against any one or more of the other Borrowers or the Lender and shall not be conditional or contingent upon pursuit or enforcement by the Lender of any remedies it may have against the Borrowers with respect to this Agreement or any of the other Loan Documents, whether pursuant to the terms thereof or by operation of law. Without limiting the generality of the foregoing, the Lender shall not be required to make any demand upon any of the Borrowers, or to sell the Collateral or otherwise pursue, enforce or exhaust its or their remedies against the Borrowers, the Collateral either before, concurrently with or after pursuing or enforcing its rights and remedies against any Borrower. Any one or more successive or concurrent actions or proceedings may be brought against each Borrower, either in the same action, if any, brought against any one or more of the Borrowers or in separate actions or proceedings, as often as the Lender may deem expedient or advisable. Without limiting the foregoing, it is specifically understood that any modification, limitation or discharge of any of the liabilities or obligations of any one or more of the Borrowers, or any obligor under any of the Loan Documents, arising out of, or by virtue of, any Insolvency Proceeding initiated by or against any one or more of the Borrowers shall not modify, limit, lessen, reduce, impair, discharge, or otherwise affect the liability of each of the other Borrowers under this Section 9.01 in any manner whatsoever, and this Section 9.01 shall remain and continue in full force and effect. It is the intent and purpose of this Section 9.01 that each Borrower shall and does hereby waive all rights and benefits which might accrue by reason of any such proceeding, and the Borrowers agree that they shall be liable for the full amount of the obligations and liabilities under this Section 9.01, regardless of, and irrespective to, any modification, limitation or discharge of the liability of any one or more of the Borrowers, any guarantor or any obligor under any of the Loan Documents, that may result from any such proceedings. Except as otherwise expressly provided for herein, the joint and several liability of the Borrowers hereunder shall continue in full force and effect notwithstanding any absorption, merger, amalgamation or any other change whatsoever in the name, membership, constitution or place of formation of any Borrower or the Lender. If at any time, any payment, or any part thereof, made in respect of any of the Obligations, is rescinded or must otherwise be restored or returned by the Lender upon the insolvency, bankruptcy or reorganization of any of the Borrowers or any guarantors, or otherwise, the provisions of this Section 9.01 will forthwith be reinstated in effect, as though such payment had not been made.

(d) Each Borrower as a guarantor under this Article IX hereby unconditionally, jointly and severally, irrevocably and expressly waives (i) presentment and demand for payment of the Obligations and protest of non-payment; (ii) notice of acceptance of the joint and several liability of the Borrowers under this Section 9.01 and of presentment, demand and protest thereof; (iii) notice of the occurrence of any Event of Default and notice of all indulgences; (iv) notice of any increase in the amount of any portion of or all of the Obligations; (v) demand for observance, performance or enforcement of any of the terms or provisions of this Agreement or any of the other Loan Documents; (vi) all errors and omissions in connection with the Lender’s administration of the Obligations, except errors and omissions resulting from acts of bad faith; (vii) any right or claim of right to cause a marshaling of the assets of any one or more of the other Borrowers; and (viii) any act or omission of the Lender which changes the scope of the risk of the Borrowers.

(e) Each Borrower is accepting joint and several liability hereunder in consideration of the financial accommodations to be provided by the Lender under this Agreement, for the mutual benefit, directly and indirectly, of each Borrower and in consideration of the undertakings of each Borrower to accept joint and several liability for the obligations of each Borrower. The Borrowers represent and warrant to the Lender that each of them will derive benefits, directly and indirectly, from the financial accommodations to be provided by the Lender under this Agreement (both in their separate capacity and as a member of the integrated group to which each of the Borrowers is a part, the continued successful operation of which is dependent, in part, upon performance of the functions of the integrated group as a whole), because, among other reasons, (i) the terms of the consolidated financing provided under this Agreement are more favorable than would otherwise be obtainable by the Borrowers individually, and (ii) the Borrowers' additional administrative and other costs and reduced flexibility associated with individual financing arrangements which would otherwise be required if obtainable would substantially reduce the value to the Borrowers of the financing. The Borrowers in the discretion of their respective management are to agree among themselves as to the allocation of the benefits of the proceeds of the Loans, and the purposes for which such benefits and proceeds will be used so long as any such allocations or purpose is not in violation of this Agreement.

(f) Without implying any limitation on the joint and several nature of the Obligations, the Lender agrees that, subject to the limitations set forth in Sections 2.03 and 7.04 of this Agreement, the Borrowers may create reasonable intercompany Indebtedness between or among the Borrowers with respect to the allocation of the benefits and proceeds of the Loans made under this Agreement. The Borrowers agree among themselves, and the Lender consents to that agreement, that each Borrower shall have rights of contribution from all of the other Borrowers to the extent such Borrower incurs Obligations in excess of the proceeds of the Loans received by, or allocated to purposes for the direct benefit of, such Borrower. All such indebtedness and rights shall be, and are hereby agreed by the Borrowers to be, subordinate in priority and payment to the indefeasible repayment in full of the Obligations, and, unless the Lender agrees in writing otherwise, shall not be exercised or repaid in whole or in part until all of the Obligations have been satisfied. The Borrowers agree that all of such intercompany indebtedness and rights of contribution are part of the Collateral and secure the Obligations. Each Borrower hereby waives all rights of counterclaim, recoupment and offset between or among themselves arising on account of that indebtedness and otherwise. Each Borrower shall not evidence the intercompany indebtedness or rights of contribution by note or other instrument unless the same are assigned to the Lender, and shall not secure such indebtedness or rights of contribution with any Lien or security, even though any such Lien and security shall be part of the Collateral, unless the same are assigned to the Lender.

ARTICLE X

MISCELLANEOUS

10.01 Holidays. Except as otherwise provided in this Agreement, whenever any payment or action to be made or taken under this Agreement or under any of the other Loan Documents is stated to be due on a day which is not a Business Day, such payment or action will be made or taken on the next following Business Day and such extension of time will be included in computing interest or fees, if any, in connection with such payment or action.

10.02 Records. The unpaid principal amount of the Notes, the unpaid interest accrued thereon, the interest rate or rates applicable to such unpaid principal amount and the duration of such applicability shall at all times be ascertained from the records of the Lender, which shall be conclusive absent manifest error.

10.03 Amendments and Waivers. The Lender and the Borrowers may from time to time enter into agreements amending, modifying or supplementing this Agreement or any other Loan Document or changing the rights of the Lender or of the Borrower under this Agreement or under any other Loan Document and the Lender may from time to time grant waivers or consents to a departure from the due performance of the obligations of the Borrowers under this Agreement, under the Notes or under any other Loan Document. Any such agreement, waiver or consent must be in writing and will be effective only to the extent specifically set forth in such writing. In the case of any such waiver or consent relating to any provision of this Agreement, any Event of Default or Potential Default so waived or consented to will be deemed to be cured and not continuing, but no such waiver or consent will extend to any other or subsequent Event of Default or Potential Default or impair any right consequent to any other or subsequent Event of Default or Potential Default.

10.04 No Implied Waiver; Cumulative Remedies. No course of dealing and no delay or failure of the Lender in exercising any right, power or privilege under this Agreement or any other Loan Document will affect any other or future exercise of any such right, power or privilege or exercise of any other right, power or privilege, except as and to the extent that the assertion of any such right, power or privilege shall be barred by an applicable statute of limitations; nor shall any single or partial exercise of any such right, power or privilege or any abandonment or discontinuance of steps to enforce such a right, power or privilege preclude any further exercise of such right, power or privilege or of any other right, power or privilege. The rights and remedies of the Lender under this Agreement or any other Loan Document are cumulative and not exclusive of any rights or remedies which the Lender would otherwise have.

10.05 Notices. All notices, requests, demands, directions and other communications (collectively "**Notices**") under the provisions of this Agreement must be in writing (including telecopied communication) unless otherwise expressly permitted under this Agreement and must be sent by first-class or first-class express mail, private overnight or next Business Day courier or by telecopy with confirmation in writing mailed first class, in all cases with charges prepaid, and any such properly given Notice will be effective when received. All notices will be sent to the applicable party at the addresses stated below or in accordance with the last unrevoked written direction from such party to the other parties.

If to the Borrowers:	Ultralife Corporation 2000 Technology Parkway Newark, NY 14513 Attention: General Counsel Telephone: (315) 359-6609
with a copy to:	Harter Secrest & Emery LLP 1600 Bausch & Lomb Place Rochester, NY 14604-2711 Attention: Jeffrey H. Bowen, Esq. Telephone: (585) 231-1149 Telecopy: (585) 232-2152

If to the Lender RBS Business Capital,
a division of RBS Asset Finance, Inc.
525 William Penn Place
Mailstop 153-2470
Pittsburgh, PA 15219
Attention: Paul Rebholz, Vice President
Telephone: (412) 867-4216
Telecopy: (412) 867-4744

with a copy to: Hiscock & Barclay, LLP
1701 Genesee Street
Utica, NY 13501
Attention: Francis X. Matt, III, Esq.
Telephone: (315) 624-7360
Telecopy: (315) 624-7359

10.06 Expenses; Taxes; Attorneys' Fees. The Borrowers agree to pay or cause to be paid and to save the Lender harmless against liability for the payment of all reasonable out-of-pocket expenses, including, but not limited to, fees and expenses of counsel and paralegals for the Lender, incurred by the Lender from time to time (i) arising in connection with the preparation, execution, delivery and performance of this Agreement and the other Loan Documents; (ii) relating to any requested amendments, waivers or consents to this Agreement, the Notes or any of the other Loan Documents; (iii) arising in connection with the Lender's enforcement or preservation of rights under this Agreement or any of the other Loan Documents, including, but not limited, to such expenses as may be incurred by the Lender in the collection of the outstanding principal amount of the Lender; and (iv) arising in connection with any case under the Bankruptcy Code filed by or against the Borrowers (or any of them). The Borrowers agree to pay all stamp, document, transfer, recording or filing taxes or fees and similar impositions now or in the future determined by the Lender to be payable in connection with this Agreement or any other Loan Document. The Borrowers agree to save the Lender harmless from and against any and all present or future claims, liabilities or losses with respect to or resulting from any omission to pay or delay in paying any such taxes, fees or impositions. In the event of termination adverse to the Borrowers of any action at law or suit in equity in relation to this Agreement or the other Loan Documents, the Borrowers will pay, in addition to all other sums which the Borrowers may be required to pay, a reasonable sum for attorneys' and paralegals' fees incurred by the Lender or the holder of the Notes in connection with such action or suit. All payments due from the Borrowers under this Section 10.06 will be added to and become part of the Loans until paid in full.

10.07 Severability. The provisions of this Agreement are intended to be severable. If any provision of this Agreement is held invalid or unenforceable in whole or in part in any jurisdiction, the provision will, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability of the provision in any other jurisdiction or the remaining provisions of this Agreement in any jurisdiction.

10.08 LIMITATION OF LIABILITY. NEITHER THE LENDER NOR ANY OF THE LENDER AFFILIATES OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, AGENTS, CONTRACTORS, SERVANTS, EMPLOYEES, LICENSEES, SUCCESSORS AND ASSIGNS SHALL HAVE ANY LIABILITY WITH RESPECT TO, AND THE BORROWERS HEREBY WAIVE, RELEASE AND AGREE NOT TO SUE ANY OF THEM UPON, ANY CLAIM FOR ANY SPECIAL, INDIRECT, INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES SUFFERED OR INCURRED BY THE BORROWERS IN CONNECTION WITH, ARISING OUT OF, OR IN ANY WAY RELATED TO, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS EXCEPT TO THE EXTENT ARISING FROM THE GROSS NEGLIGENCE, BAD FAITH, FRAUD OR CRIMINAL OR WILLFUL MISCONDUCT OF THE LENDER.

10.09 Governing Law; Consent to Jurisdiction. This Agreement will be deemed to be a contract under the laws of the State of New York and for all purposes will be governed by and construed and enforced in accordance with the laws of said State. The Borrowers consent to the exclusive jurisdiction and venue of the federal and state courts located in Erie County, New York, in any action on, relating to or mentioning this Agreement, the other Loan Documents, or any one or more of them.

10.10 Prior Understandings. This Agreement and the other Loan Documents supersede all prior understandings and agreements, whether written or oral, among the parties relating to the transactions provided for in this Agreement and the other Loan Documents.

10.11 Duration; Survival. All representations and warranties of the Borrowers contained in this Agreement or made in connection with this Agreement or any of the other Loan Documents shall survive the making of and will not be waived by the execution and delivery of this Agreement and the other Loan Documents, by any investigation by the Lender, or the making of any Loan. Notwithstanding termination of this Agreement or an Event of Default, all covenants and agreements of the Borrowers will continue in full force and effect from and after the date of this Agreement so long as the Borrowers may borrow under this Agreement and until payment in full of the Notes, interest thereon, and all fees and other obligations of the Borrowers under this Agreement and the Notes. Without limitation, it is understood that all obligations of the Borrowers to make payments to or indemnify the Lender will survive the payment in full of the Notes and of all other obligations of the Borrowers under this Agreement and the other Loan Documents.

10.12 Term of Agreement. This Agreement will terminate when all indebtedness of the Borrower to Lender, including, without limitation, the Loans and interest on the Loans is paid in full, and the Borrowers have no right to borrow under this Agreement and the Lender has no obligation to make Loans under this Agreement.

10.13 Counterparts. This Agreement may be executed in any number of counterparts and by the different parties to this Agreement on separate counterparts each of which, when so executed, will be deemed an original, but all such counterparts will constitute but one and the same instrument.

10.14 Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the Lender, the Borrowers and their respective successors and assigns, except that none of the Borrowers may assign or transfer any of its rights under this Agreement without the prior written consent of the Lender.

10.15 No Third-Party Beneficiaries. The rights and benefits of this Agreement and the other Loan Documents are not intended to, and shall not, inure to the benefit of any third party.

10.16 Participation. The Lender may from time to time sell, assign or grant one or more participations in all or any part of the Loans made by the Lender or which may be made by the Lender, or its right, title and interest in the Loans or in or to this Agreement, to another lending officer, lender or financial institution. Except to the extent otherwise required by the context of this Agreement, the word "**Lender**" where used in this Agreement means and includes any holder of a Note originally issued to the Lender and each such holder of a Note will be bound by and have the benefits of this Agreement, the same as if such holder had been a signatory to this Agreement. In connection with any such sale, assignment or grant of participation, the Lender may make available to any prospective purchaser, assignee or participant any information relative to the Borrowers in the Lender's possession.

10.17 Patriot Act Notice. The Lender hereby notifies the Borrowers that, pursuant to the requirements of the Patriot Act, the Lender is required to obtain, verify and record information that identifies the Borrowers and each of the Guarantors, which information includes the name and address of the Borrowers and each of the Guarantors in accordance with the Patriot Act. The Administrative Borrower shall provide, to the extent commercially reasonable, such information and take such actions as are reasonably requested by the Lender in order to assist the Lender in maintaining compliance with the Patriot Act.

10.18 Exhibits. All exhibits and schedules attached to this Agreement are incorporated and made a part of this Agreement.

10.19 WAIVER OF TRIAL BY JURY. EACH OF THE BORROWERS AND THE LENDER EXPRESSLY, KNOWINGLY AND VOLUNTARILY WAIVE ALL BENEFIT AND ADVANTAGE OF ANY RIGHT TO A TRIAL BY JURY, AND NEITHER THE BORROWERS NOR THE LENDER WILL AT ANY TIME INSIST UPON, OR PLEAD OR IN ANY MANNER WHATSOEVER CLAIM OR TAKE THE BENEFIT OR ADVANTAGE OF A TRIAL BY JURY IN ANY ACTION ARISING IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS.

IN WITNESS WHEREOF, and intending to be legally bound, the parties, by their duly authorized officers, have executed and delivered this Agreement as of the date set forth at the beginning of this Agreement.

ATTEST:

/s/ Peter F. Comerford
Secretary

[CORPORATE SEAL]

ULTRALIFE CORPORATION

By: /s/ Philip A. Fain
Philip A. Fain, Chief Financial Officer

ATTEST:

/s/ Peter F. Comerford
Secretary

[CORPORATE SEAL]

McDOWELL RESEARCH CO., INC.

By: /s/ Philip A. Fain
Philip A. Fain, Treasurer

ATTEST:

/s/ Peter F. Comerford
Secretary

[CORPORATE SEAL]

REDBLACK COMMUNICATIONS, INC.

By: /s/ Philip A. Fain
Philip A. Fain, Treasurer

ATTEST:

/s/ Peter F. Comerford
Secretary

[CORPORATE SEAL]

STATIONARY POWER SERVICES, INC.

By: /s/ Philip A. Fain
Philip A. Fain, President

RBS BUSINESS CAPITAL,
a division of RBS Asset Finance, Inc.

By: /s/ Ronald L. Tassone
Ronald L. Tassone
Senior Vice President

Exhibit 10.34

REVOLVING CREDIT NOTE

$35,000,000.00 February 17, 2010

This Revolving Credit Note (this “Revolving Credit Note”) is executed and delivered pursuant to the terms of that certain Credit Agreement dated as of February 17, 2010 (together with all extensions, renewals, amendments, modifications, supplements, substitutions or replacements the “Credit Agreement”) by and between ULTRALIFE CORPORATION, a Delaware corporation (“Ultralife”), McDOWELL RESEARCH CO., INC., a Delaware corporation (“McDowell”), REDBLACK COMMUNICATIONS, INC., a Maryland corporation (“RedBlack Communications”), and STATIONARY POWER SERVICES, INC., a Florida corporation (“Stationary Power Services”, and together with Ultralife, McDowell and RedBlack Communications, each individually a “Borrower” and collectively, the “Borrowers”), and RBS BUSINESS CAPITAL, a division of RBS Asset Finance, Inc., a New York corporation (the “Lender”).

FOR VALUE RECEIVED, the Borrowers hereby promise to pay to the Lender, on February 17, 2013, the lesser of (i) the principal sum of THIRTY FIVE MILLION DOLLARS ($35,000,000.00) or (ii) the aggregate unpaid principal amount of all Revolving Credit Loans made by the Lender to the Borrowers pursuant to the Credit Agreement. The Borrowers further promise to pay to the order of the Lender interest on the unpaid principal amount of this Revolving Credit Note from time to time outstanding at the rate or rates per annum determined pursuant to, or otherwise provided in, the Credit Agreement and with such amounts being payable on the dates set forth, or as otherwise provided in, the Credit Agreement.

All payments and prepayments to be made in respect of principal, interest or other amounts due from the Borrowers under this Revolving Credit Note shall be payable at 12:00 noon, New York time, on the day when due. Such payments shall be made to the Lender at its office located at 525 William Penn Place, Mailstop 153-2470, Pittsburgh, PA 15219, or at such other place as Lender may designate in writing to the Administrative Borrower, in lawful money of the United States of America in immediately available funds without setoff, counterclaim or other deduction of any nature. The Borrowers expressly waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note.

If any payment of principal or interest under this Revolving Credit Note becomes due on a day which is a Saturday, Sunday or other day on which lending institutions are authorized or obligated to close in Pittsburgh, Pennsylvania, such payment will be made on the next following business day on which the Lender is open for business and such extension of time will be included in computing interest in connection with such payment.

This Revolving Credit Note is the “Revolving Credit Note” referred to in, and is entitled to the benefits of, the Credit Agreement. This Revolving Credit Note is secured by, and is entitled to the benefits of, certain other Loan Documents. Capitalized terms used in this Revolving Credit Note which are defined in the Credit Agreement have the meanings assigned to them in the Credit Agreement unless otherwise expressly defined in this Revolving Credit Note.

This Revolving Credit Note is governed by, and will be construed and enforced in accordance with, the laws of the State of New York without regard to principles of conflicts of law in the State of New York. The Borrower consents to the exclusive jurisdiction and venue of the Federal and State courts located in Erie County, New York with respect to any suit arising out of or relating to this Revolving Credit Note.

IN WITNESS WHEREOF, and intending to be legally bound, the Borrower has executed, issued and delivered this Revolving Credit Note as of the day and year first above written.

ATTEST:

/s/ Peter F. Comerford
Secretary

[CORPORATE SEAL]

ULTRALIFE CORPORATION

By: /s/ Philip A. Fain
Philip A. Fain, Chief Financial Officer

ATTEST:

/s/ Peter F. Comerford
Secretary

[CORPORATE SEAL]

McDOWELL RESEARCH CO., INC.

By: /s/ Philip A. Fain
Philip A. Fain, Treasurer

ATTEST:

/s/ Peter F. Comerford
Secretary

[CORPORATE SEAL]

REDBLACK COMMUNICATIONS, INC.

By: /s/ Philip A. Fain
Philip A. Fain, Treasurer

ATTEST:

/s/ Peter F. Comerford
Secretary

[CORPORATE SEAL]

STATIONARY POWER SERVICES, INC.

By: /s/ Philip A. Fain
Philip A. Fain, President

Exhibit 10.35

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this “**Security Agreement**”), made and entered into as of the 17th day of February, 2010, by ___________, a ___________ corporation (the “**Debtor**”), and **RBS BUSINESS CAPITAL, a division of RBS Asset Finance, Inc.**, a New York corporation (the “**Secured Party**”).

WITNESSETH:

WHEREAS, the Debtor has requested the Secured Party to enter into a certain Credit Agreement of even date herewith, by and among the Secured Party, the Debtor and certain affiliated borrowing entities, (the “**Co-Borrowers**”) (as may be further amended, modified or supplemented from time to time, the “**Credit Agreement**”) providing the Debtor with Revolving Credit Loans in an aggregate amount outstanding at any time not to exceed $35,000,000.00; and

WHEREAS, as an inducement to the Secured Party to enter into the Credit Agreement, and as a condition thereto, the Debtor has agreed to enter into this Security Agreement to grant the Secured Party the security interests contemplated in this Security Agreement as security for the prompt and full payment and performance of the indebtedness and obligations of the Debtor and the Co-Borrowers under the Credit Agreement and the other Loan Documents (as defined in the Credit Agreement), and such other indebtedness and obligations as more fully set forth herein; and

WHEREAS, it is a condition precedent to the making of the Revolving Credit Loans, that the Debtor grants the Secured Party the security interests contemplated in this Security Agreement; and

WHEREAS, the Secured Party is not willing to enter into the Credit Agreement unless and until the Debtor enters into this Security Agreement upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and intending to be legally bound hereby, the Debtor and the Secured Party hereby covenant and agree as follows:

ARTICLE I. DEFINITIONS

Unless otherwise defined herein, terms defined in the Credit Agreement are used herein as therein defined, and the following terms shall have the following meanings (such meanings being equally applicable to both the singular and plural forms of the terms defined):

“Accounts” shall mean any “account,” as such term is defined in the UCC, now owned or hereafter acquired by the Debtor and, in any event, shall include, without limitation, all accounts receivable, book debts and other forms of payment obligations (other than forms of obligations evidenced by Chattel Paper, Documents or Instruments) now owned or hereafter received or acquired by or belonging or owing to the Debtor (whether held in the name of the Debtor or any division thereof or in any applicable trade name or trade style) whether arising out of property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of or out of services rendered or to be rendered by the Debtor or from any

other transaction, whether or not the same involves the sale of goods or services by the Debtor (including, without limitation, any such obligation that might be characterized as an account or contract right under the UCC), and all of the Debtor's rights in, to and under all purchase orders or receipts now owned or hereafter acquired by it for goods or services sold or rendered by the Debtor (or by any Person from whom the Debtor acquired such rights), and all of the Debtor's rights to any goods represented by any of the foregoing (including, without limitation, unpaid seller's rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods), and choses in action and causes of action (whether arising in contract, tort or otherwise and whether or not currently in litigation) and all other debts, obligations and liabilities in whatever form owing to the Debtor, documents of title, warehouse receipts, leases, investment accounts, deposit accounts, Cash, contract rights, insurance policies, dividends, distributions, judgments, covenants, licenses, franchises, warranties, indemnities, partnership and joint venture interests, and other rights, including all rights to the payment of moneys due or to become due to the Debtor, under all contracts for the sale, lease, license or assignment of goods or the performance of services or both by the Debtor (whether or not yet earned by performance on the part of the Debtor or in connection with any other transaction), now in existence or hereafter occurring, including, without limitation, the right to receive the Proceeds of said purchase orders and contracts, and all collateral security and guarantees of any kind given by any Person with respect to any of the foregoing.

"Cash" shall mean cash or cash equivalents now owned or hereafter acquired by the Debtor.

"Chattel Paper" shall mean any "chattel paper", "Tangible Chattel Paper" and "Electronic Chattel Paper" as such terms are defined in the UCC, now owned or hereafter acquired by the Debtor, or in which the Debtor now has or hereafter acquires any rights.

"Commercial Tort Claims shall mean any "commercial tort claim", as such term is defined in the UCC, now owned or hereafter acquired by the Debtor, or in which the Debtor now has or hereafter acquires any rights.

"Contracts" shall mean all contracts, undertakings, or other agreements (other than rights evidenced by Chattel Paper, Documents or Instruments) in or under which the Debtor may now or hereafter have any right, title or interest, including, without limitation, with respect to an Account and any agreement relating to the terms of payment or the terms of performance of such Account.

“Copyrights” shall mean all of the following now or hereafter acquired by the Debtor: (i) all copyrights, registrations and applications therefor, (ii) all renewals and extensions thereof, (iii) all income, royalties, damages and payments now and hereafter due or payable or both with respect thereto, including, without limitation, damages and payments for past or future infringements or misappropriations thereof, (iv) all rights to sue for past, present and future infringements or misappropriations thereof, and (v) all other rights corresponding thereto throughout the world.

“Deposit Accounts” shall mean any “deposit account” as such term is defined in the UCC, now owned or hereafter acquired by the Debtor or in which the Debtor now has or hereafter acquires any rights.

“Documents” shall mean any “documents,” as such term is defined in the UCC, now owned or hereafter acquired by the Debtor or in which the Debtor now has or hereafter acquires any rights.

“Equipment” shall mean any “equipment,” as such term is defined in the UCC, now owned or hereafter acquired by Debtor and, in any event, shall include, without limitation, all machinery, equipment, furnishings, fixtures, vehicles and computers and other electronic data-processing and other office equipment now owned or hereafter acquired by Debtor and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto.

“Fixtures” shall mean any “fixtures” as such term is defined in the UCC, now owned or hereafter acquired by Debtor.

“General Intangibles” shall mean any “general intangibles,” as such term is defined in the UCC, now owned or hereafter acquired by the Debtor and, in any event, shall include, without limitation, all right, title and interest that the Debtor may now or hereafter have in or under any Contract, in or to any partnerships, joint ventures and similar entities and rights to distribution of income therefrom, all tax refunds, tax refund claims, customer lists, Payment Intangibles, Copyrights, Trademarks, Trademark licenses, Patents, Patent licenses, rights in intellectual property, permits, Trade Secrets, proprietary or confidential information, inventions (whether patented or patentable or not) and technical information, procedures, designs, knowledge, know-how, software, computer programs, computer records and discs, computer data, data bases, data, skill, expertise, experience, processes, models, drawings, materials and records, now owned or hereafter acquired by the Debtor, and the goodwill and rights of indemnification related thereto and associated therewith.

“Goods” shall mean any “goods”, as such term is defined in the UCC, now owned or hereafter acquired by the Debtor, wherever located.

“Instruments” shall mean any “instrument,” as such term is defined the UCC, now owned or hereafter acquired by the Debtor or in which the Debtor now has or hereafter acquires any rights, including promissory notes, but not including instruments that constitute, or are a part of a group of writings that constitute, Chattel Paper.

“Inventory” shall mean any “inventory,” as such term is defined in the UCC, now owned or hereafter acquired by the Debtor and, in any event, shall include, without limitation, all inventory, merchandise, goods and other personal property now owned or hereafter acquired by the Debtor that are held for sale or lease or are furnished or are to be furnished under a contract of service or that constitute raw materials, work in process or materials used or consumed or to be used or consumed in the Debtor’s business, or the processing, packaging, delivery or shipping of the same, and all finished goods.

“Investment Property” shall mean any “investment property,” as such term is defined in the UCC, now owned or hereafter acquired by Debtor and, in any event, shall include, without limitation, all securities, securities accounts and security entitlements.

“Letter of Credit Rights” shall mean any “letter of credit right” as such term is defined in the UCC, now owned or hereafter acquired by the Debtor, or in which the Debtor now has or hereafter acquires any rights.

“Patents” shall mean all of the following now or hereafter owned by the Debtor, if any: (i) all patents and patent applications, (ii) all inventions and improvements described and claimed therein, (iii) all reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof, (iv) all income, royalties, damages and payments now and hereafter due and/or payable to the Debtor with respect thereto, including, without limitation, damages and payments for past or future infringements or misappropriations thereof, (v) all rights to sue for past, present and future infringements or misappropriations thereof and (vi) all other rights corresponding thereto throughout the world.

“Payment Intangible” means any “payment intangible” as such term is defined in the UCC, now owned or hereafter acquired by the Debtor, or in which the Debtor now has or hereafter acquires any rights.

“Person” shall mean any individual, corporation, joint venture, general or limited partnership, limited liability company, trust, association, unincorporated organization or other business entity.

"Proceeds" shall mean "proceeds," as such term is defined in the UCC and, in any event, shall include, without limitation, (i) any and all proceeds of any insurance**,** indemnity or warranty payable to the Debtor from time to time with respect to any of the Collateral, (ii) any and all payments (in any form whatsoever) made or due and payable to the Debtor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental body, authority, bureau or agency (or any person acting under color of governmental authority), (iii) any claim of the Debtor against third parties (A) for past, present or future infringement of any Patent or Patent license or (B) for past, present or future infringement or dilution of any Trademark or Trademark license or for injury to the goodwill associated with any Trademark, Trademark registration or Trademark licensed under any Trademark license and (iv) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Secured Obligations" shall mean (i) all indebtedness and obligations of the Debtor and the Co-Borrowers to the Secured Party under the Credit Agreement and the other Loan Documents (including this Security Agreement), now existing or hereafter incurred, and (ii) the payment of amounts that would become due from the Debtor and the Co-Borrowers to the Secured Party but for the operation of the automatic stay provisions of Section 362(a) of the Bankruptcy Code, 11 U.S.C. Section 362(a).

"Supporting Obligation" means any "supporting obligation" as such term is defined in the UCC.

"Trademarks" shall mean all of the following, now owned or hereafter acquired by the Debtor: (i) all trademarks (including service marks and trade names, whether registered or at common law), registrations and applications therefor, and the entire product lines and goodwill of the Debtor's business connected therewith and symbolized thereby, (ii) all renewals thereof, (iii) all income, royalties, damages and payments now and hereafter due or payable or both with respect thereto, including, without limitation, damages and payments for past or future infringements or misappropriations thereof, (iv) all rights to sue for past, present and future infringements or misappropriations thereof and (v) all other rights corresponding thereto throughout the world.

"Trade Secrets" shall mean all of the following, now owned or hereafter acquired by the Debtor: (i) trade secrets, (ii) income, royalties, damages and payments now and hereafter due and/or payable to the Debtor with respect to trade secrets, including, without limitation, damages and payments for past or future infringements or misappropriations thereof, (iii) rights to sue for past, present and future infringements or misappropriations of trade secrets, and (iv) all other rights corresponding to trade secrets throughout the world.

"UCC" shall mean the Uniform Commercial Code as enacted in New York State and as amended, supplemented or superseded from time to time (the "UCC"); provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of the Secured Party's security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than New York State, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

ARTICLE II. SECURITY INTEREST

(a) As security for the prompt and full payment and performance of the Secured Obligations, the Debtor hereby assigns and pledges, and hereby creates and grants, to the Secured Party, a continuing lien on and security interest in and to all of the following items and types of properties, now owned or hereafter arising or acquired by the Debtor, wheresoever located, and all right, title and interest of the Debtor therein (collectively, the "**Collateral**"):

(i) All Accounts, Chattel Paper (including Tangible Chattel Paper and Electronic Chattel Paper), Documents, Instruments, Commercial Tort Claims and Contracts;

(ii) All Inventory;

(iii) All Equipment and Fixtures;

(iv) All General Intangibles (including Payment Intangibles), Trademarks, Patents, Copyrights and Trade Secrets;

(v) All Cash, Deposit Accounts, Letter of Credit Rights, Supporting Obligations and Investment Property;

(vi) All other Goods and personal property of the Debtor, whether tangible or intangible, now owned or hereafter acquired by the Debtor, wheresoever located; and

(vii) All Proceeds and products relating to each of the foregoing.

(b) The Collateral includes all of the items described above in paragraphs (i) through (vii), whether now owned or hereafter at any time arising or acquired by the Debtor and wherever located, and includes all replacements, additions, accessions, substitutions, repairs, guaranties and securities therefor, Proceeds and products relating thereto or therefrom, and all documents, records (including but not limited to, manual records, computer runs, print outs, tapes, disks, software, programs, source codes and other computer prepared information and equipment of any kind), ledger sheets and files of the Debtor relating thereto. Proceeds hereunder include any insurance now or hereafter payable by reason of loss or damage to any item of Collateral or any Proceeds thereof, and all unearned refund premiums and dividends which may become payable under such policies of insurance and loss payments under such policies, which shall reduce the unearned premiums.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

Except as may otherwise be represented or warranted in the Credit Agreement, the Debtor represents and warrants to the Secured Party that:

(i) The Debtor is (or to the extent that this Security Agreement states that the Collateral is to be acquired after the date hereof, will be) the sole owner of the Collateral except to the extent the Collateral is leased or licensed by the Debtor pursuant to leases or licenses with other Persons entered into in the ordinary course of business; the liens and security interests granted hereby to the Secured Party in the Collateral which can be perfected by the filing of UCC financing statements will be perfected liens and security interests upon the filing of such financing statements having priority over all other Liens except Liens permitted pursuant to the Credit Agreement, and there are no other Liens in such Collateral or any portion thereof except Liens permitted pursuant to the Credit Agreement; and no financing statement, mortgage or deed of trust covering the Collateral or any portion thereof exists or is on file in any public office except those related to a Lien permitted pursuant to the Credit Agreement;

(ii) Schedule One attached hereto (the "**Disclosure Schedule**") contains a complete list of, among other items, (A) the current and former corporate and fictitious names utilized by the Debtor, (B) the chief executive office of the Debtor, (C) the office where the Debtor keeps its records concerning the Collateral, (D) each place of business of the Debtor, (E) as to Inventory, a complete list of each location where Inventory is located, and (F) as to Equipment, a complete list of each location where Equipment is located. All information contained in the Disclosure Schedule is true, complete and correct and the Debtor hereby acknowledges and agrees that the Secured Party and its legal counsel may fully rely upon the information contained therein as representations and warranties of the Debtor, the falsity of which may constitute a Default (as hereinafter defined);

(iii) Except as otherwise disclosed to the Secured Party, the Debtor has exclusive possession and control of all its Inventory and Equipment, and the Debtor has not and will not allow any of its contractors, processors or suppliers to have possession or control of any Inventory and Equipment;

(iv) Except as required by the Loan Documents, no consent, authorization, approval, or other action by and no notice to or filing with, any Official Body is required for (A) the grant by the Debtor of the Liens granted hereby or for the execution, delivery or performance of this Security Agreement by the Debtor, (B) the perfection or maintenance of the Liens created hereby which may be perfected by the filing of financing statements, or (C) the exercise by the Secured Party of any of its rights and remedies hereunder, except for the filing of financing statements necessary to perfect or continue the perfection of the security interests granted by this Security Agreement;

(v) This Security Agreement creates a valid security interest in the Collateral, and the filing of the financing statements in the jurisdictions listed in the Disclosure Schedule perfects and establishes the first priority of those security interests (except for Liens permitted pursuant to the Credit Agreement) in such Collateral which can be perfected by the filing of financing statements;

(vi) Neither the execution and delivery of this Security Agreement by the Debtor, the consummation of the transactions herein contemplated nor the fulfillment of the terms hereof will (A) result in a breach of any of the terms or provisions of, or constitute a default under, or constitute an event which, with notice or lapse of time or both will result in a breach of or constitute a default under, any agreement, indenture, mortgage, deed of trust, equipment lease, instrument or other document to which the Debtor is a party, or (B) conflict with any Law, except to the extent that any such breach, default, event or conflict would not have a material adverse effect on the business, operations or financial condition of the Debtor; and

(vii) The Debtor is incorporated in Delaware under the Delaware General Corporation Law.

ARTICLE IV. COVENANTS OF THE DEBTOR

The Debtor covenants and agrees to perform each of the covenants set forth below in this Article IV unless specifically provided for otherwise in the Credit Agreement or the Secured Party shall otherwise give its prior written consent.

(i) The Debtor will defend the Collateral against all claims and demands of all Persons at any time claiming the same or any interest therein;

(ii) The Debtor will not change the location of its chief executive office or the office where it keeps its records concerning Accounts from the locations set forth in the Disclosure Schedule except with thirty (30) days’ prior written notice to the Secured Party, nor will the Debtor move, or permit to be moved, the Collateral or any portion thereof to any location other than those set forth in the Disclosure Schedule other than sales of Inventory in the ordinary course of business;

(iii) The Debtor will not voluntarily or involuntarily change its name, identity or corporate structure;

(iv) The Debtor will, promptly upon request by the Secured Party, procure or execute and deliver any document (including, without limitation, mortgagee or landlord waivers with respect to any and all Inventory which is a part of the Collateral), give any notices, execute and file any financing statements, mortgages or other documents, all in form and substance satisfactory to the Secured Party, mark any Chattel Paper, deliver any Chattel Paper or Instruments to the Secured Party and take any other actions which are necessary or, in the reasonable judgment of the Secured Party, desirable to perfect or continue the perfection and priority of the Secured Party's liens on and security interests in the Collateral, to protect the Collateral against the rights, claims or interests of any Person other than the Secured Party or to effect the purposes of this Security Agreement, and will pay all reasonable costs and expenses incurred in connection therewith;

(v) The Debtor will not in any way hypothecate or create or permit to exist any Lien on or other interest in the Collateral except Liens permitted pursuant to the Credit Agreement and those created by this Security Agreement, nor will the Debtor sell, transfer, assign, exchange or otherwise dispose of the Collateral except sales of Inventory in the ordinary course of business. If the Proceeds of any such sale are notes, Instruments or Chattel Paper, such Proceeds shall be promptly delivered to the Secured Party to be held as part of the Collateral. If the Collateral, or any part thereof, is sold, transferred, assigned, exchanged or otherwise disposed of in violation of these provisions, the lien and security interest of the Secured Party shall continue in such Collateral or part thereof notwithstanding such sale, transfer, assignment, exchange or other disposition, and the Debtor will hold the Proceeds thereof in a separate account for the Secured Party's benefit. The Debtor will, at the Secured Party's request, transfer such Proceeds to the Secured Party in kind;

(vi) The Debtor will not enter into, modify or amend any existing or future contracts or agreements relating to the sale or disposition of the Collateral or any part thereof except those made in the ordinary course of business. Upon the Secured Party's request, the Debtor will provide the Secured Party with copies of all existing and hereafter created contracts and agreements and of all amendments and modifications thereto;

(vii) The Debtor will not grant any extension of the time of payment of any Accounts, or compromise, compound or settle the same for less than the full amount thereof, release, in whole or in part, any Person liable for the payment thereof, or allow any credit or discount whatsoever thereon, except extensions, credits, discounts, compromises, settlements or releases granted or made in the ordinary course of business and involving Accounts having a value of less than $250,000;

(viii) The Debtor will pay and discharge all taxes, assessments and governmental charges or levies against the Collateral prior to delinquency thereof except taxes, assessments or charges subject to good faith dispute for which the Debtor has created adequate reserves on its books and will keep the Collateral free of all unpaid charges whatsoever where the failure to make any of such payments could result in a material adverse effect on the business, operations or financial condition of the Debtor;

(ix) The Debtor will at all times be in substantial compliance with all Laws pertaining to the use or ownership of the Collateral;

(x) The Debtor will keep accurate and correct records of the Inventory, itemizing and describing the kind, type and quantity of Inventory, the Debtor's cost therefor and (where applicable) the current price list for such Inventory;

(xi) The Debtor will cause the Collateral to be kept insured at its own expense under one or more policies with such companies, in such amounts, and against such risks and liabilities as is ordinarily maintained by companies engaged in the same or similar businesses and similarly situated and as are satisfactory to the Secured Party in its sole discretion. Such policies shall include loss payable endorsements or such other mortgagee indemnity clauses in favor of the Secured Party as the Secured Party shall direct, and shall name the Secured Party as an additional insured. No such policy shall be subject to reduction or cancellation without thirty (30) days' prior written notice to the Secured Party and an original of such policy shall be delivered to the Secured Party. If the Debtor fails to effect and keep in full force and effect such insurance, or fails to pay the premiums when due, the Secured Party may, but shall not be obligated to, do so for the account of the Debtor and add the cost to the Secured Obligations. The proceeds of any casualty insurance in respect of any casualty loss of any of the Collateral shall (i) so long as no Default shall have occurred and be continuing and to the extent that the amount of such proceeds is less than $500,000, be disbursed to the Debtor for direct application by the Debtor solely to the repair of damaged Collateral or replacement of destroyed Collateral with Collateral of the same or similar type and function, provided such replacement collateral is made subject to the lien and security interest created by this Security Agreement and constitutes a perfected first priority lien on and security interest (except Liens permitted pursuant to the Credit Agreement) in such Collateral, and (ii) in all other circumstances be disbursed directly to the Secured Party. The Secured Party may, in its sole and absolute discretion, turn over to the Debtor the proceeds of any such insurance collected by it on the condition that the Debtor apply such proceeds either (A) to the repair of damaged Collateral, or the replacement of destroyed Collateral with Collateral of the same or similar type and function and of at least equivalent value (in the sole judgment of the Secured Party), provided such replacement Collateral is made subject to the lien and security interest created by this Security Agreement and constitutes a perfected first priority lien on and security interest (except Liens permitted pursuant to the Credit Agreement) in such Collateral, or (B) applied by the Secured Party to the payment of the Secured Obligations. Any balance of insurance proceeds remaining in the possession of the Secured Party after payment in full of the Secured Obligations shall be paid over to the Debtor;

(xii) The Debtor will, upon the Secured Party's request, deliver to the Secured Party copies of records and schedules which show the status, condition and location of all its Inventory and Equipment. The Secured Party shall have the right to review and verify such records, schedules, notices and financial information, and the Debtor will reimburse the Secured Party for all costs incurred thereby;

(xiii) If any Accounts, other than Unassigned US Accounts, arise out of a contract with the United States or any department, agency, or instrumentality thereof, the Debtor will immediately notify the Secured Party thereof in writing and execute any instruments and take any steps required by the Secured Party in order that all monies due and to become due under such contracts shall be assigned to the Secured Party and notice thereof given to the U. S. Government under the Federal Assignment of Claims Act;

(xiv) If any Accounts shall be evidenced by promissory notes, trade acceptances, or other instruments for the payment of money, the Debtor will immediately deliver the same to the Secured Party, appropriately endorsed to the order of the Secured Party, and the Debtor hereby waives presentment, demand, notice of dishonor, protest and notice of protest and all other notices with respect thereto;

(xv) The Debtor shall, at any time and from time to time, take such steps as the Secured Party may require for the Secured Party, to obtain an acknowledgment, in form and substance satisfactory to the Secured Party, of any third party having possession of any of the Collateral that the third party holds such Collateral for the benefit of the Secured Party, or to obtain "control" (as described in the UCC) of any Investment Property, Deposit Accounts, Letter of Credit Rights or Electronic Chattel Paper, with any agreements establishing control to be in form and substance satisfactory to the Secured Party;

(xvi) The Debtor hereby authorizes the Secured Party, its agents and employees, to execute, deliver and file UCC financing statements, in form and substance satisfactory to the Secured Party, to assure the protection, perfection and enforcement of the Liens in the Collateral in favor of the Secured Party, and the Debtor will pay all filing fees and taxes related thereto. The Debtor further agrees that a carbon, photographic, facsimile or other reproduction of such financing statements or this Security Agreement shall be sufficient as a financing statement and may be filed as such;

(xvii) As provided in the Credit Agreement, the Debtor will permit the Secured Party to enter into and upon any premises where any of the Collateral or records with respect thereto are located for the purpose of inspecting the same, making copies of records, observing the use of any part of the Collateral, or otherwise protecting its security interest in the Collateral;

(xviii) The Secured Party shall have the right at any time to make any payments and do any other acts the Secured Party may deem reasonably necessary to protect its security interest in the Collateral, including, without limitation, the right to pay, purchase, contest or compromise any Lien which is prior to or superior to the liens and security interests granted hereunder, and appear in and defend any action or proceeding purporting to affect its security interest in the Collateral, and in exercising any such powers or authority, the right to pay all reasonable costs and expenses incurred in connection therewith, including reasonable attorneys' fees. The Debtor hereby agrees to reimburse the Secured Party for all such payments made and expenses incurred, which amounts shall be secured under this Security Agreement, and agree they shall be bound by any payment made or act taken by the Secured Party hereunder. The Secured Party shall have no obligation to make any of the foregoing payments or perform any of the foregoing acts; and

(xix) After the occurrence of an Event of Default the Debtor hereby grants to the Secured Party for a term to commence on the date of this Security Agreement and continuing thereafter until all of the Secured Obligations are fully paid and discharged, the right to use all premises or places of business which the Debtor presently owns, leases or otherwise occupies or may hereafter own, lease or otherwise occupy and where any Collateral may be located, at a total rental for the entire period of $1.00. The Secured Party agrees not to exercise the foregoing right granted unless and until the Secured Party determines to exercise its rights against the Collateral pursuant to the Credit Agreement.

ARTICLE V. COLLECTIONS

Section 5.01. Deposit and Collection Accounts. The Debtor shall (i) cause all checks, drafts, Cash, payments, Proceeds, other remittances and the like in payment or on account of any Inventory and any other Collateral (collectively, "**Remittances**") to be deposited directly by the Debtor in, at the Secured Party's direction, blocked or other accounts (collectively, the "**Deposit Accounts**") at a bank or banks selected by the Debtor and approved by the Secured Party, and (ii) cause all funds in the Deposit Accounts to be transferred to a collections account opened, maintained and designated by the Secured Party (the "**Collections Account**"), such transfer to be done by electronic transfer on the same day on which such funds were deposited in such Deposit Accounts or the next succeeding Business Day thereafter. The Secured Party shall have sole dominion and control over all Remittances and other items deposited in the Collections Account, and such Remittances and items may be withdrawn only by the Secured Party, it being the intention of the parties hereto that the Debtor shall have no control over or withdrawal rights in respect of the Collections Account. The Secured Party may credit (conditional upon final collection) all Remittances received against the principal or interest of the Secured Obligations, provided, however, for purposes of computing interest, any items

requiring clearance or payment shall not be considered to have been credited against the Secured Obligations until one (1) Business Day after receipt by the Secured Party of any such items. The order and method of such application shall be in the sole discretion of the Secured Party and any portion of such funds which the Secured Party elects not to so apply, or any funds remaining in the Collections Account after all outstanding Secured Obligations have been paid in full after such application, shall be paid over promptly from time to time by the Secured Party to the Debtor. In the event the Debtor receives any Remittances, the Debtor shall receive such Remittances in trust for the Secured Party and shall immediately deliver such Remittances to the Secured Party in the same form received except for the endorsement of the Debtor where necessary to permit collection of any Remittances, which endorsement the Debtor hereby agrees to make; until delivered to the Secured Party, such Remittances shall not be commingled with the Debtor's other funds. Upon request of the Secured Party, the Debtor shall notify and direct each of its account debtors to make all Remittances directly to the Collections Account.

Section 5.02. Authority of Secured Party. The Debtor hereby irrevocably constitutes and appoints the Secured Party and any agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the name of the Debtor or in its own name to take any and all action and to execute any and all documents and instruments which the Secured Party, at any time and from time to time after the occurrence of a Default, deems necessary or desirable to accomplish the purposes of this Security Agreement and, without limiting the generality of the foregoing, the Debtor hereby gives the Secured Party the power and right on behalf of the Debtor and in its own name to do any of the following at any time and from time to time after the occurrence of a Default (as hereinafter defined), without notice to or the consent of the Debtor:

(i) to execute, deliver, file and record any such financing statements in the name of the Debtor at any time and, as applicable, under the rules of the UCC;

(ii) to demand, sue for, collect, or receive in the name of the Debtor or in its own name, any money or property at any time payable or receivable on account of or in exchange for any of the Collateral and, in connection therewith, endorse checks, notes, drafts, acceptances, money orders, documents of title, or any other instruments for the payment of money under the Collateral or any policy of insurance;

(iii) to pay or discharge taxes, Liens, security interests, or other encumbrances levied or placed on or threatened against the Collateral;

(iv) to send requests for verification to account debtors and other obligors;

(v) to notify post office authorities to change the address for delivery of mail of the Debtor to an address designated by the Secured Party and to receive, open and dispose of mail addressed to the Debtor;

(vi) to endorse any draft or check which may be payable to the Debtor in order to collect the proceeds of insurance pursuant to subsection (x) of Article IV of this Security Agreement; and

(vii) (A) to direct the account debtors and any other parties liable for any payment under any of the Collateral to make payment of any and all monies due and to become due thereunder directly to the Secured Party or as the Secured Party shall direct; (B) to receive payment of and receipt for any and all monies, claims, and other amounts due and to become due at any time in respect of or arising out of any Collateral; (C) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against the Debtor, assignments, proxies, stock powers, verifications and notices in connection with an account and other documents relating to the Collateral; (D) to commence and prosecute any suit, action, or proceeding at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action, or proceeding brought against the Debtor with respect to any Collateral; (F) to settle, compromise or adjust any suit, action, or proceeding described above and, in connection therewith, to give such discharges or releases as the Secured Party may deem appropriate; (G) to exchange any of the Collateral for other property upon any merger, consolidation, reorganization, recapitalization, or other readjustment of the issue thereof and, in connection therewith, deposit any of the Collateral with any committee, depositary, transfer agent, registrar, or other designated agency upon such terms as the Secured Party may determine; (H) to add or release any guarantor, endorser, surety, or other party to any of the Collateral; (I) to renew, extend, or otherwise change the terms and conditions of any of the Collateral; (J) to insure, and to make, settle, compromise, or adjust claims under any insurance policy covering any of the Collateral; and (K) to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Secured Party were the absolute owner thereof for all purpose, and to do, at the Secured Party's option and the Debtor's expense, at any time, or from time to time, all acts and things which the Secured Party deems necessary to protect, preserve, or realize upon the Collateral and the Secured Party's security interest therein.

This power of attorney is a power coupled with an interest and shall be irrevocable so long as this Security Agreement remains in effect. This power of attorney shall not be deemed to revoke any other power of attorney granted by the Debtor nor shall any subsequent power granted by the Debtor revoke this power unless there is a specific reference to this power and such revocation is permitted under this Security Agreement. The Secured Party shall be under no duty to exercise or withhold the exercise of any of the rights, power, privileges, and options expressly or implicitly granted to the Secured Party in this Security Agreement, and shall not be liable for any failure to do so or any delay in doing so. The Secured Party shall not be liable for any act or omission or error of judgment or any notice of act or law in its individual capacity or in its capacity as attorney-in-fact except acts or omissions resulting from its willful misconduct or gross negligence. This power of attorney is conferred on the Secured Party to protect, preserve, and realize upon its lien and security interest in the Collateral. The Secured Party shall not be responsible for any decline in the value of the Collateral, be required to take any steps to preserve rights against prior parties or to protect, preserve, or maintain any security interest given to secure the Collateral.

ARTICLE VI. DEFAULTS AND REMEDIES

Section 6.01. Defaults. The occurrence of any one or more of the following events or conditions shall constitute a default under this Security Agreement (a "**Default**"):

(i) The occurrence of an Event of Default under the Credit Agreement or any other Loan Document.

(ii) The Debtor fails to perform any obligation or covenant required to be performed by it in accordance with the terms and conditions of this Security Agreement, after the expiration of any applicable grace period.

Section 6.02. Remedies. Upon the occurrence of a Default, the Secured Party may, at its option, without notice to or demand upon the Debtor, do any one or more of the following:

(i) Declare all of the Secured Obligations immediately due and payable.

(ii) Exercise any or all of the rights and remedies provided for by the UCC of the state or states having jurisdiction with respect to all or any portion of the Collateral from time to time, specifically including, without limitation, the right to recover reasonable attorneys' fees and other expenses incurred by the Secured Party in the enforcement of this Security Agreement or in connection with the Debtor's redemption of the Collateral.

(iii) Require the Debtor to assemble the Collateral or any part thereof and make it available at one or more places as the Secured Party may designate, and to deliver possession of the Collateral or any part thereof to the Secured Party, who shall have full right to enter upon any or all of the Debtor's premises and property to exercise the Secured Party's rights hereunder.

(iv) Use, manage, operate and control the Collateral and the Debtor's business and property to preserve the Collateral or its value, including, without limitation, the right to take possession of all of the Debtor's premises and property, to exclude the Debtor and any third parties, whether or not claiming under a the Debtor, from such premises and property, to make repairs, replacements, alterations, additions and improvements to the Collateral and to dispose of all or any portion of the Collateral in the ordinary course of the Debtor's business.

(v) Use, in connection with any assembly, use or disposition of the Collateral, any Trademark, Trade Secret, trade name, trade style, copyright, Patent or technical knowledge or process used or utilized by the Debtor.

(vi) Enforce one or more remedies hereunder, successively or concurrently, and such action shall not operate to estop or prevent the Secured Party from pursuing any other or further remedy which it may have, and any repossession or retaking or sale of the Collateral pursuant to the terms hereof shall not operate to release the Debtor until full and final payment of any deficiency has been made in cash. The Debtor shall reimburse the Secured Party upon demand for, or the Secured Party may apply any Proceeds of the Collateral to, the costs and expenses (including reasonable attorneys' fees, transfer taxes and any other charges) incurred by the Secured Party in connection with any sale, disposition or retention of any Collateral hereunder.

(vii) In connection with any public sale under the applicable UCC, the Secured Party shall give the Debtor at least ten (10) days' prior written notice of the time and place of any public sale of the Collateral which shall be deemed to be reasonable notice of such sale. In connection with any private sale under the applicable UCC, the Secured Party shall give the Debtor at least ten (10) days' prior written notice of the time after which any private sale or other intended disposition thereof is to be made, which shall be deemed to be reasonable notice of such sale or other disposition. Such notice may be mailed to the Debtor at the address set forth in the Credit Agreement for delivery of notices, provided that such notice shall be deemed to be given as and when described in Section 10.05 of the Credit Agreement. Further, in the event of any public sale hereunder, the Secured Party shall exhibit the Collateral for a reasonable period of time not later than three (3) Business Days before such sale is to take place, and, if practicable, shall exhibit the Collateral at the time and place of such sale; provided, however, that the Secured Party shall have no obligation to exhibit any part of the Collateral at or prior to the sale thereof, if, at the time of default, such Collateral is in the Debtor's possession or under its control, and if the Secured Party sends the Debtor a written demand for possession thereof under clause (iii) of Section 6.02 and the Debtor fails to comply with such demand at least three (3) Business Days prior to the date set for sale of such Collateral.

(viii) Proceed by an action or actions at law or in equity to recover the Secured Obligations or to foreclose under this Security Agreement and sell the Collateral, or any portion thereof, pursuant to a judgment or decree of a court or courts of competent jurisdiction.

(ix) In the event the Secured Party recovers possession of all or any part of the Collateral pursuant to a writ of possession or other judicial process, whether prejudgment or otherwise, the Secured Party may thereafter retain, sell or otherwise dispose of such collateral in accordance with this Security Agreement or the applicable UCC, and following such retention, sale or other disposition, the Secured Party may voluntarily dismiss without prejudice the judicial action in which such writ of possession or other judicial process was issued. The Debtor hereby consents to the voluntary dismissal by the Secured Party of such judicial action, and the Debtor further consents to the exoneration of any bond which the Secured Party filed in such action.

ARTICLE VII. MISCELLANEOUS PROVISIONS

Section 7.01. Notices. Any notice or consent required or permitted by this Security Agreement shall be in writing and shall be delivered in the manner and to the addresses specified in the Credit Agreement for delivery of notice.

Section 7.02. Headings. The various headings in this Security Agreement are inserted for convenience only and shall not affect the meaning or interpretation of this Security Agreement or any provision hereof.

Section 7.03. Governing Law. This Security Agreement shall be construed in accordance with and governed by the laws of the State of New York without giving effect to its conflict of laws principles.

Section 7.04. Amendments. This Security Agreement or any provision hereof may be changed, waived, or terminated only by a statement in writing signed by the party against which such change, waiver or termination is sought to be enforced.

Section 7.05. No Waiver. No delay in enforcing or failure to enforce any right under this Security Agreement shall constitute a waiver by the Secured Party of such right. No waiver by the Secured Party of any default hereunder shall be effective unless in writing, nor shall any waiver operate as a waiver of any other default or of the same default on a future occasion.

Section 7.06. Time of the Essence. Time is of the essence in each provision of this Security Agreement of which time is an element.

Section 7.07. Binding Agreement. All rights of the Secured Party hereunder shall inure to the benefit of its successors and assigns. The Debtor shall not assign any of its interest under this Security Agreement without the prior written consent of the Secured Party. Any purported assignment inconsistent with this provision shall, at the option of the Secured Party, be null and void.

Section 7.08. Entire Security Agreement. This Security Agreement and the other Loan Documents are intended by the parties as a final expression of their agreement and is intended as a complete and exclusive statement of the terms and conditions thereof. Acceptance of or acquiescence in a course of performance rendered under this Security Agreement shall not be relevant to determine the meaning of this Security Agreement even though the accepting or acquiescing party had knowledge of the nature of the performance and opportunity for objection.

Section 7.09. Attorneys' Fees. In any action or proceeding brought to enforce any provision of this Security Agreement, or to seek damages for a breach of any provision hereof, or where any provision hereof is asserted as a defense, the Debtor shall pay the Secured Party's reasonable attorneys' fees in addition to any other remedy available under this Security Agreement.

Section 7.10. Severability. If any provision of this Security Agreement should be found to be invalid or unenforceable, all of the other provisions shall nonetheless remain in full force and effect to the maximum extent permitted by law.

Section 7.11. Survival of Provisions. All representations, warranties and covenants of the Debtor contained herein shall survive the execution and delivery of this Security Agreement, and terminate only upon full and final payment and performance of the Secured Obligations.

Section 7.12. Set-off. The Secured Party shall have the right, at any time after the occurrence of a Default, to set off any indebtedness or obligation of the Debtor to the Secured Party against any indebtedness or obligation of the Secured Party to the Debtor, without notice to or demand upon the Debtor and whether or not any such indebtedness or obligations are liquidated or mature at the time of such offset. The Secured Party's right of offset hereunder shall be in addition to and not in limitation of any other rights or remedies which may exist in favor of the Secured Party.

Section 7.13. Authority of the Secured Party. The Secured Party shall have and be entitled to exercise all powers hereunder which are specifically delegated to the Secured Party by the terms hereof, together with such powers as are reasonably incident thereto. The Secured Party may perform any of its duties hereunder or in connection with the Collateral by or through agents or employees and shall be entitled to retain counsel to act in reliance upon the advice of counsel concerning all such matters. Neither the Secured Party nor any director, officer, employee, attorney or agent of the Secured Party shall be liable to the Debtor for any action taken or omitted to be taken by it or them hereunder, except for its or their own gross negligence or willful misconduct; nor shall the Secured Party be responsible for the validity, effectiveness or sufficiency hereof or of any document or security furnished pursuant hereto. The Secured Party shall be entitled to rely on any communication, instrument or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. The Debtor agrees to indemnify and hold harmless the Secured Party and/or any such other person from and against any and all costs, expenses (including reasonable attorneys' fees), claims or liability incurred by the Secured Party or such other persons hereunder, unless such claim or liability shall be due to willful misconduct or gross negligence on the part of the Secured Party or such other person.

Section 7.14. Counterparts. This Security Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same agreement.

Section 7.15. Termination of Security Agreement. This Security Agreement shall continue in force so long as any portion of the Secured Obligations remain unpaid. If the Secured Party receives any payment or payments on account of the Secured Obligations which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver, or any other party under the Bankruptcy Code, 11 U.S.C. Section 101 et seq., as amended, or any other state or federal law, common law or equitable doctrine, then to the extent of any sum not finally retained by the Secured Party, the Debtor's obligations to the Secured Party shall be reinstated and this Security Agreement, and any security therefore, shall remain in full force and effect (or be reinstated) until payment shall have been made to the Secured Party, notwithstanding termination of this Security Agreement or the cancellation of any note, instrument or agreement evidencing the Secured Obligations, and such payment shall be due on demand by the Secured Party. If any proceeding seeking such repayment is pending or, in the Secured Party's sole judgment, threatened, this Security Agreement and any security therefor shall remain in full force and effect notwithstanding that the Debtor may not be obligated to the Secured Party.

Section 7.16. Sealed Document. This Security Agreement is intended as a document under seal.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be executed by their duly authorized officers as of the day and year first above written.

ATTEST:

/s/ Peter F. Comerford
Secretary

DEBTOR

By: /s/ Philip A. Fain
Philip A. Fain, Officer

RBS BUSINESS CAPITAL, a division of RBS Asset Finance, Inc.

By: /s/ Ronald L. Tassone
Ronald L. Tassone, Senior Vice President

Exhibit 10.36

PLEDGE AND SECURITY AGREEMENT

THIS PLEDGE AND SECURITY AGREEMENT (this "Pledge Agreement") is made as of the 17th day of February, 2010, by and between **ULTRALIFE CORPORATION**, a Delaware corporation (referred to herein as "Pledgor"), in favor of **RBS BUSINESS CAPITAL, a division of RBS ASSET FINANCE, INC.** ("Lender") under the Credit Agreement referred to below.

W I T N E S S E T H:

WHEREAS, Pledgor, certain of Pledgor's subsidiaries (the "Co-Borrowers") and Lender are parties to that certain Credit Agreement, dated as of even date herewith (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), pursuant to which, among other things, Lender will make available to Pledgor and the Co-Borrowers revolving credit loans in an aggregate amount of up to Thirty Five Million Dollars ($35,000,000) (the "Revolving Loans"); and

WHERAS, the Secured Party and Pledgor have entered into a Security Agreement as the date hereof (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Security Agreement").

WHEREAS, Pledgor owns the percentages of the issued and outstanding shares of capital stock described on Exhibit A attached hereto ("Shares") of its subsidiaries listed thereon (each, a "Subsidiary" and collectively, the "Subsidiaries"); and

WHEREAS, as a condition to Lender's entry into the Credit Agreement and to the making of the Revolving Loans and the other extensions of credit thereunder, Lender has required that Pledgor enter into this Pledge Agreement, pursuant to which, among other things, Pledgor shall grant a security interest in all of its right, title and interest in and to the Shares, and related collateral more fully described herein as security for its obligations under the Credit Agreement and each of the agreements, documents and instruments executed and delivered in connection with the Credit Agreement; and

WHEREAS, Pledgor desires to obtain the Revolving Loans, and/or the other extensions of credit under the Credit Agreement, and has determined that it is and will be in its best interest and to the direct advantage of Pledgor to agree to make and execute this Pledge Agreement in favor of Lender to induce Lender to enter into the Credit Agreement and to extend to Pledgor the credit contemplated by the Credit Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, Pledgor hereby agrees, for the benefit of Lender, as follows:

1. Definitions. When used herein, the following terms shall have the following respective meanings:

"Code" means the Internal Revenue Code of 1986, and the rules and regulations thereunder, each as amended, or supplemented from time to time.

"Collateral" shall have the meaning given such term in Section 2 hereof.

"Event of Default" means the occurrence of any one or more of the following events:

(a) the occurrence of any Event of Default under, and as such term is defined in, the Credit Agreement; or

(b) any of the Collateral shall be attached or levied upon or seized in any legal proceedings, or held by virtue of any lien or distress, or any other event or condition shall occur or exist which shall result in Lender no longer having a perfected, first priority security interest in the Collateral, subject only to Permitted Liens; or

(c) this Pledge Agreement ceases to be in full force and effect or Pledgor renounces or disputes any of its obligations hereunder.

"Foreign Subsidiary" means any Subsidiary that is a foreign corporation within the meaning of Section 7701 of the Code. As of the date of this Agreement, each of the Subsidiaries is a Foreign Subsidiary.

"Permitted Liens" means the Liens on the Collateral expressly permitted under Section 7.01 of the Credit Agreement.

"Pledged Stock" shall have the meaning given such term in Section 2(a) hereof.

"Secured Obligations" means (a) any and all principal, interest, fees and other sums due or to become due in connection with the Revolving Loans and other extensions of credit made pursuant to the Credit Agreement; and (b) any and all other indebtedness, liabilities and obligations of the Pledgor and the Co-Borrowers to Lender of every kind and description, whether direct, indirect or contingent, now or hereafter existing, due or to become due, whether arising under this Pledge Agreement, the Credit Agreement or any other Loan Document.

"Stock" means all shares, options, interests, participations or other equivalents (howsoever designated) of or in any Person, whether certificated or uncertificated, and whether voting or non-voting, including, without limitation, common stock, warrants, preferred stock, convertible debentures and all agreements, instruments and documents convertible, in whole or in part, into any one or more or all of the foregoing.

Except to the extent otherwise defined herein, all other capitalized terms contained in this Pledge Agreement shall have the meanings ascribed to such terms in the Credit Agreement.

2. Pledge. Pledgor hereby pledges, conveys, hypothecates, mortgages, assigns, sets over, delivers and grants to Lender, as security for the payment and performance when due of all the Secured Obligations, a security interest in, all of Pledgor's right, title and interest in and to the following, whether now owned or hereafter acquired (collectively, the "Collateral"):

(a) not more than sixty-six percent (66%) of the Shares of the voting Stock of each Subsidiary and each other Foreign Subsidiary, from time to time acquired by Pledgor in any manner from and after the date hereof, whether or not represented by certificates (collectively, the "Pledged Stock"), including, without limitation, all stock rights, rights to subscribe, stock splits, stock dividends, new securities and certificates, subscriptions, additions and replacements declared or issued with respect to or on account of any Pledged Stock,

(b) all cash, dividends, distributions, payments, additional securities, interests, investment property, general intangibles, accounts and other property at any time and from time to time arising or receivable or otherwise distributed in respect of or in exchange for any and all such Pledged Stock, whether now owned or existing or hereafter acquired or arising; and

(c) all products and proceeds of any of the foregoing.

3. Representations and Warranties of Pledgors. Except as may otherwise be represented or warranted in the Credit Agreement, Pledgor represents and warrants to Lender as follows:

(a) Corporate Existence and Qualification. Pledgor is a corporation duly organized, validly existing and in good standing under the laws of its state of organization and is duly qualified as a foreign limited liability company in good standing in each other state wherein the conduct of its business or the ownership of its property requires such qualification.

(b) Authority; Valid and Binding Effect. Pledgor has the power and authority, corporate or otherwise, to execute, deliver and perform its obligations under this Pledge Agreement and the other Loan Documents to which it is a party, and has taken all necessary and appropriate action, corporate or otherwise, to authorize the execution, delivery and performance of this Pledge Agreement and such other Loan Documents to which it is a party. This Pledge Agreement and the other Loan Documents to which Pledgor is a party constitute the valid and legally binding obligations of Pledgor, enforceable against Pledgor and each in accordance with their respective terms except to the extent enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization and other similar laws applicable to creditors generally.

(c) No Conflict. The execution, delivery and performance by Pledgor of this Pledge Agreement (a) is not in contravention of any provisions of Applicable Law; (b) will not violate or result in a default under any agreement or indenture to which Pledgor is a party or by which Pledgor or any of its assets or properties are bound; (c) does not contravene Pledgor's Certificate of Incorporation, By-Laws, or other applicable organizational documents; and (d) will not result in or require the creation or imposition of any Lien on any of the property or assets of Pledgor other than Liens in favor of Lender created by this Pledge Agreement.

(d) Governmental Action. The execution, delivery and performance of this Pledge Agreement does not require any registration with, consent or approval of, or any notice to, or other action to, with or by any Governmental Authority, except for (a) filings, consents or notices which have been obtained and a copy thereof furnished to Lender; and (b) filings necessary to perfect the Liens granted by this Pledge Agreement.

(e) Security Interest. This Pledge Agreement and the pledge of the Collateral pursuant hereto create a valid and, together with and upon the physical delivery of certificates evidencing the Shares to Lender, perfected first priority security interest in the Collateral in favor of Lender, securing the payment of the Secured Obligations, and all filings and all other actions necessary or desirable to perfect such security interest have been taken.

(f) Title. Pledgor is the legal and equitable owner of, and has the complete and unconditional authority to pledge, its Collateral and holds the same free and clear of any and all liens, claims, charges, encumbrances and security interests of any nature whatsoever, except for the security interest created by this Pledge Agreement; no effective financing statement or other instrument similar in effect covering all or any part of the Collateral is on file in any recording office, except such as may have been filed in favor of Lender, relating to this Pledge Agreement; Pledgor has not granted or given any proxy, power of attorney, option or right of first refusal with respect to any of the Collateral except to Lender; and Pledgor is not a party to any agreement which restricts its right to vote, assign, pledge, transfer or give a proxy or power of attorney with respect to any of the Collateral or any interest therein.

(g) Pledged Shares. The Pledged Shares constitute not more than sixty-six percent (66%) of the issued and outstanding shares of Stock of each of the Subsidiaries of Pledgor, all of which Shares have been duly authorized, are validly issued in full compliance with all applicable securities laws and other Applicable Law, and are fully paid and nonassessable; and there are no existing options, warrants or commitments of any kind or nature or any outstanding securities or other instruments convertible into shares of any class of voting stock of such Subsidiaries, and no stock of such Subsidiaries is held in treasury of such Subsidiaries.

(h) No Violation of Securities Laws. Pledgor's execution and delivery of this Pledge Agreement does not directly or indirectly violate or result in a violation of any securities laws.

(i) Uncertificated Shares. Except as described on Exhibit A hereto, all shares of Stock included in the Collateral are evidenced by stock certificates and constitute "certificated securities" as such term is defined in Article 8 of the Uniform Commercial Code. There are no certificates or other instruments or documents evidencing or representing any of the shares of Stock shown on Exhibit A hereto as being uncertificated (the "Uncertificated Stock"), and Pledgor will cause any and all instruments, documents, or certificates hereafter issued evidencing or representing such Uncertificated Stock or other Collateral hereafter issued or arising which is not evidenced by any documents or instruments (each in transferable form, duly endorsed if required or accompanied by executed undated instruments of transfer in blank satisfactory to Lender) to be forthwith delivered to

and deposited with Lender in pledge hereunder (and held apart separately in trust for the benefit of Lender, pending such delivery). The Uncertificated Stock has not been represented by any certificates since the issuance thereof and at all times subsequent thereto and including the date of this Pledge Agreement. The Uncertificated Stock is not credited to a "securities account" within the meaning of the Uniform Commercial Code. After giving effect to this Pledge Agreement and the other Loan Documents, no Person other than Lender has "control" within the meaning of Article 8 of the Uniform Commercial Code in respect of the Uncertificated Stock. Pledgor has not elected and will not cause or elect to have the Uncertificated Stock governed by Article 8 of the Uniform Commercial Code. Pledgor shall not permit or suffer (i) the Uncertificated Stock to be represented by any certificates or otherwise become "certificated securities" or to be credited to a "securities account" within the meaning of the Uniform Commercial Code or (ii) any Person other than Lender to have "control" within the meaning of Article 8 of the Uniform Commercial Code in respect of the Uncertificated Stock.

(j) Principal Place of Business, Etc. The current and former corporate and fictitious names utilized by the Pledgor, the chief executive office of the Pledgor, the office where the Pledgor keeps its records concerning the Collateral and each place of business of the Pledgor are all set forth in the Disclosure Schedule to the Security Agreement.

4. Covenants and Agreements of Pledgors. Unless specifically provided for otherwise in the Credit Agreement or in a prior written consent or waiver from the Lender, Pledgor covenants and agrees as follows:

(a) Delivery of Certificates. Concurrently with the execution of this Pledge Agreement, Pledgor will deliver to Lender all certificates evidencing the Collateral, accompanied by executed stock powers in blank, and such other instruments or documents as Lender or their counsel may reasonably request.

(b) After Acquired Collateral Delivery. Promptly, and in any event within ten (10) days after Pledgor acquires any additional Stock or receives or is issued any Stock or other securities or property in respect of any of the Collateral, whether or not for value paid for it, Pledgor shall (1) deliver such Stock or other securities or property (including, but not limited to, any and all certificates evidencing any such Stock or securities) to Lender together with stock powers or other necessary instruments of transfer, executed in blank, all to be held subject to the terms of this Pledge Agreement; and (2) execute and deliver such pledge agreements, security agreements, financing statements or other instruments, documents or agreements as may be necessary to confirm, evidence or perfect the security interests granted hereby.

(c) No New Stock. Except as permitted by the Credit Agreement, Pledgor will not, subsequent to the date of this Pledge Agreement, cause or permit any of its Subsidiaries to issue any Stock or securities convertible into Stock.

(d) No New Pledges; Voting Rights. Pledgor shall not grant, give or pledge or permit to exist any other liens, claims, charges, encumbrances and security interests of any nature whatsoever with respect to any of the Shares, except for the security interest created by this Pledge Agreement. Pledgor shall not grant or give any proxy, power of attorney, option or right of first refusal with respect to any of the Shares except to Lender. Pledgor shall not be a party to any agreement which restricts its right to vote, assign, pledge, transfer or give a proxy or power of attorney with respect to any of the Shares or any interest therein.

(e) Taxes. Pledgor will pay all taxes, assessments and charges levied, assessed or imposed upon the Collateral owned by it prior to the date on which penalties attach thereto, except where the same may be contested in good faith by appropriate proceedings and for which adequate reserves have been established.

(f) No Transfer. Other than as permitted under Section 7.08 of the Credit Agreement, Pledgor will not sell, assign, transfer or otherwise dispose of all or any portion of the Collateral owned by Pledgor, or any rights therein.

(g) Further Assurances. Pledgor agrees at any time and from time to time, at Pledgor's expense, to execute and deliver all further instruments and documents and to perform all acts and do all things that may be reasonably necessary or desirable or that Lender may request, now or hereafter, to evidence, preserve or protect the creation, attachment or perfection of the security interests herein granted to Lender, or to enable Lender, to exercise and enforce its rights and remedies hereunder with respect to the Collateral including, without limitation, all action specified in Section 6 hereof.

(h) No Amendments. Pledgor will not approve or consent to any changes to the Certificate of Formation, Operating Agreement or other organizational document of any Subsidiary which would in any way impair or diminish the rights of Lender hereunder.

(i) Right to Perform. In the event that Pledgor fails or refuses to perform any of its respective obligations set forth herein, Lender, shall have the right, without obligation, to do all things it deems necessary to discharge the same, and any sums paid by Lender, or the cost thereof, including without limitation, attorneys' fees, shall constitute Secured Obligations, be secured by the Collateral and bear interest as provided in the Credit Agreement until paid.

(j) No Obligation. Pledgor acknowledges and agrees that nothing contained herein shall obligate Lender, or impose a duty upon Lender to assume any duties or obligations of Pledgor with respect to any of the Collateral.

5. Distributions; Etc.

(a) Right of Pledgor to Receive Distributions. So long as no Event of Default has occurred and is continuing hereunder or under the Credit Agreement, or would exist upon the payment of the distribution amounts described in this Section 5(a), Pledgor shall have the right to receive cash distributions declared and paid with respect to the Collateral owned by Pledgor, to the extent such distributions are permitted by the Credit Agreement. Any and all stock or liquidating distributions, other distributions in property, return of capital or other distributions made on or in respect of Collateral, whether resulting from a subdivision, combination or reclassification of the outstanding capital stock of any Subsidiary or received in exchange for Collateral or any part thereof or as a result of any merger, consolidation, acquisition or other exchange of assets to which any Subsidiary may be a party or otherwise, shall be and become part of the Collateral pledged hereunder and, if received by Pledgor, shall be received in trust, for the benefit of Lender, shall be segregated from other funds of Pledgor and shall be forthwith paid over to Lender, as Collateral in the same form as so received (together with any necessary endorsements).

(b) Holding Collateral; Exchanges. Lender may hold any of the Collateral, endorsed or assigned in blank, and may deliver any of the Collateral to Pledgor for the purpose of making denominational exchanges or registrations or transfers or for such other reasonable purpose in furtherance of this Pledge Agreement as Lender may deem desirable. Lender shall have the right, at any time in its discretion and without notice to Pledgor to transfer to or register in the name of Lender, or any of its nominees, any or all of the Collateral; provided that notwithstanding the foregoing, until any transfer of beneficial ownership with respect to the Collateral pursuant to any exercise of remedies under Section 6 hereof, Pledgor shall continue to be the beneficial owner of the Collateral.

(c) Termination of Pledgor's Right to Receive Distributions. Upon and after the occurrence of any Event of Default and during the continuation thereof, all rights of Pledgor to receive any cash distributions pursuant to Section 5(a) hereof shall cease, and all such rights shall thereupon become vested in Lender, and Lender shall have the sole and exclusive right to receive and retain the distributions which Pledgor would otherwise be authorized to receive and retain pursuant to Section 5(a) hereof. In such event, Pledgor shall pay over to Lender any distributions received by it with respect to the Collateral and any and all money and other property paid over to or received by Lender pursuant to the provisions of this Section 5(c) shall be retained by Lender as Collateral hereunder and/or shall be applied to the repayment of the Secured Obligations in accordance with the provisions hereof.

6. Remedies. Upon and after the occurrence and during the continuance of an Event of Default, Lender shall have the following rights and remedies:

(a) Set-Off. The right of Lender to set-off, without notice to Pledgor, any and all deposits at any time credited by or due from Lender to Pledgor whether in a general or special, time or demand, final or provisional account or any other account or represented by a certificate of deposit and whether or not matured or contingent, against the Secured Obligations.

(b) Secured Creditor. All of the rights and remedies of a secured party under the Uniform Commercial Code of the state where such rights and remedies are asserted, or under other applicable law all of which rights and remedies shall be cumulative, and none of which shall be exclusive, to the extent permitted by law, in addition to any other rights and remedies contained in this Pledge Agreement.

(c) Right of Sale. Lender may, without demand and without advertisement, notice or legal process of any kind (except as may be required by law), all of which Pledgor waives, at any time or times (1) apply any cash distributions received by Lender pursuant to Section 5(c) hereof to the Secured Obligations; and (2) if following such application there remains outstanding any Secured Obligations, sell the remaining Collateral, or any part thereof, at public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as Lender shall deem appropriate. At any such sale, the Collateral, or any portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as Lender may (in its sole and absolute discretion) determine. Lender shall not be obligated to make any sale of the Collateral if it shall determine not to do so, regardless of the fact that notice of the sale of the Collateral may have been given. In case the sale of all or part of the Collateral is made on credit or for future delivery, the Collateral so sold may be retained by Lender until the sale price is paid by the purchaser or purchasers thereof, but Lender shall not incur any liability in case any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may be sold again. At any sale or sales made pursuant to this Section 6(c), Lender may bid for and purchase, free from any claim or right of whatever kind, including any equity of redemption, of Pledgor any such demand, notice, claim, right or equity being hereby expressly waived and released, any or all of the Collateral offered for sale, and may make any payment on the account thereof by using any claim for moneys then due and payable to Lender by Pledgor as a credit against the purchase price; and Lender, upon compliance with the terms of sale, may hold, retain and dispose of the Collateral without further accountability therefor to Pledgor or any third party. Lender shall be authorized at any sale (if, on the advice of counsel, it deems it advisable to do so) to restrict the prospective bidders or purchasers to Persons who will represent and agree that they are purchasing the Collateral for their own account for investment and not with a view to the distribution or resale thereof, and upon consummation of any sale Lender shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each purchaser at any sale shall hold the property sold absolutely free from any claim or right on the part of Pledgor, and Pledgor hereby waives (to the extent permitted by law) all rights of redemption, stay and/or appraisal which Pledgor now has or may have at any time in the future under any rule of law or statute now existing or hereafter enacted. The proceeds realized from the sale of any Collateral shall be applied first to the reasonable costs, expenses and attorneys' fees incurred by Lender for collection and for acquisition, completion, protection, removal, sale and delivery of the Collateral; second, to interest due upon any of the Secured Obligations; and third, to the principal of the Secured Obligations. If any deficiency shall arise, Pledgor shall remain liable to Lender therefor in accordance with the terms of the Credit Agreement. If any surplus shall remain, Lender shall pay such surplus to the Pledgor.

(d) Notice. Any notice required to be given by Lender of a sale, or other disposition of the Collateral or any other intended action by such Lender, given to Pledgor in the manner specified in Section 9(i) at least ten (10) days prior to the date of such intended action, shall constitute commercially reasonable and fair notice thereof to Pledgor.

(e) Securities Laws. Pledgor understands that compliance with the Securities laws may very strictly limit the course of Lender's conduct if Lender attempts to dispose of all or any part of the Collateral and may also limit the extent to which or the manner in which any subsequent transferee of any Collateral may dispose of the same. Pledgor agrees that even if Lender shall accept the first offer received or does not approach more than one possible purchaser such sale shall still be deemed commercially reasonable. Without limiting the generality of the foregoing, Pledgor clearly understands and agrees that Lender shall be entitled to place all or any part of the Collateral for private placement by an investment banking firm, that any such investment banking firm may purchase all or any part of the Collateral for its own account, and that Lender shall be entitled to place all or any part of the Collateral privately with a purchaser or purchasers.

7. Power of Attorney; Proxy.

(a) Appointment of Lender as Pledgor's Attorney-In-Fact. Pledgor irrevocably designates, makes, constitutes and appoints Lender, (and all Persons designated by Lender), as its true and lawful attorney (and agent-in-fact) and Lender, or Lender's agent, may, without notice to Pledgor, in the name of Pledgor, or in the name of Lender: (i) after the occurrence of an Event of Default at such time or times thereafter (so long as such default shall be continuing) as Lender or said agent, in its reasonable discretion may determine, endorse the name of Pledgor, upon any checks, notes, acceptance, money orders, certificates, drafts or other forms of payment of security that come into Lender's possession; and (ii) after the occurrence of an Event of Default, (1) transfer the Collateral on the books of Pledgor with full power of substitution in the premises, and (2) do all acts and things necessary, in Lender's reasonable discretion, to fulfill the obligations of Pledgor under this Pledge Agreement. This power of attorney shall not be deemed to revoke any other power of attorney granted by Pledgor nor shall any subsequent power granted by Pledgor revoke this power unless there is a specific reference to this power and such revocation is permitted under this Pledge Agreement.

(b) Irrevocable Proxy. Following the occurrence of any Event of Default, upon the delivery of notice from Lender to Pledgor affirmatively assuming voting rights with respect to the Stock included in the Collateral, Lender, or its nominee, without further notice or demand of any kind to Pledgor shall have the sole and exclusive right to exercise all voting powers pertaining to any and all of the Collateral (and to give written consents in lieu of voting thereon) and may exercise such power in such manner as Lender, in its sole discretion, shall determine. THIS PROXY IS COUPLED WITH AN INTEREST AND IS IRREVOCABLE. The exercise by Lender of any of its rights and remedies under this Section shall not be deemed a disposition of Collateral under Article 9 of the Uniform Commercial Code nor an acceptance by Lender of any of the Collateral in satisfaction of any of the Secured Obligations.

8. Release and Termination. Pledgor acknowledges and agrees that this Pledge Agreement shall continue in full force and effect unless and until all Secured Obligations have been fully and irrevocably paid and performed and all financing arrangements between Pledgor and Lender have been terminated. After this Pledge Agreement has terminated, Lender, at Pledgor's expense, shall return all Collateral then in its possession and control to Pledgor and take such further action as Pledgor may reasonably request to evidence such termination.

9. Miscellaneous.

(a) Modification of Agreement; Sale of Interest. This Pledge Agreement may not be modified, altered or amended, except by an agreement in writing signed by Pledgor, and Lender. Pledgor may not sell, assign or transfer this Pledge Agreement or any portion thereof, including, without limitation, Pledgor's rights, title, interests, remedies, powers, and/or duties hereunder. Pledgor hereby consents to Lender's assignment and transfer of this Pledge Agreement including, without limitation, Lender's rights, title, interests, remedies, powers, and/or duties hereunder upon the appointment of any successor to Lender. Pledgor also hereby consents to the assignment or transfer, at any time or times hereafter, of the beneficial interests granted under this Pledge Agreement or of any portion thereof, upon the participation, sale, assignment, transfer, or other disposition by Lender in accordance with the Credit Agreement.

(b) Expenses. Pledgor will upon demand pay to Lender the amount of all reasonable expenses, including, without limitation, the reasonable fees and expenses of its counsel, that Lender may actually incur in connection with (1) the administration of this Pledge Agreement, (2) the custody, preservation or sale of or the collection from, or other realization upon, any of the Collateral, (3) the exercise, enforcement of any rights of Lender hereunder, and/or (4) the failure by Pledgor to perform or observe any of the provisions hereof.

(c) Loan Document. This Pledge Agreement shall be construed as a Loan Document and shall be subject to all of the benefits, terms and conditions of the Credit Agreement with respect thereto.

(d) Waiver by Lender. Each and every right and remedy granted to Lender under this Pledge Agreement, or any other document delivered hereunder or in connection herewith or allowed it by law or in equity, shall be cumulative and may be exercised from time to time. The failure of Lender, at any time or times hereafter, to require strict performance of any provision of this Pledge Agreement by Pledgor shall not waive, affect or diminish any right of Lender thereafter to demand strict compliance and performance therewith. Any suspension or waiver by Lender of an Event of Default by Pledgor under this Pledge Agreement shall not suspend, waive or affect any other Event of Default by Pledgor under this Pledge Agreement, whether the same is prior or subsequent thereto and whether of the same or of a different type. None of the undertakings, agreements, warranties, covenants and representations of Pledgor contained in this Pledge Agreement and no Event of Default hereunder shall be deemed to have been suspended or waived by Lender, unless such suspension or waiver is by an instrument in writing signed by a duly authorized representative of Lender and directed to Pledgor specifying such suspension or waiver.

(e) Severability. Wherever possible, each provision of this Pledge Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Pledge Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Pledge Agreement.

(f) Parties. This Pledge Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of Pledgor and Lender. This provision, however, shall not be deemed to modify Section 9(a) hereof.

(g) Conflict of Terms. If any provision contained in this Pledge Agreement is in conflict with, or inconsistent with, any provision in the Credit Agreement, the provision contained in the Credit Agreement shall govern and control.

(h) Waivers by Pledgor. Except as otherwise provided for in this Pledge Agreement, Pledgor hereby waives (1) presentment, demand and protest and notice of presentment, protest, default, non-payment, maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guaranties at any time held by Lender on which Pledgor may in any way be liable and hereby ratifies and confirms whatever Lender may do in this regard; (2) any bond or security which might be required by any court prior to allowing Lender to exercise any of Lender's remedies; and (3) the benefit of all valuation, appraisement and exemption laws.

(i) Notices. All notices, requests, demands and other communications under this Pledge Agreement shall be in writing and shall be deemed to have been given or made when delivered in the manner set forth in Section 10.05 of the Credit Agreement.

(j) Survival. All representations, warranties and covenants made herein shall survive the execution and delivery of all of this Pledge Agreement and the other Loan Documents. The terms and provisions of this Pledge Agreement shall continue in full force and effect until all of the Secured Obligations have been paid in full and Lender has terminated the Credit Agreement in writing, whichever last occurs; provided, further that Pledgor's obligations under Section 9(b) shall survive the repayment of the Secured Obligations and the termination of this Pledge Agreement.

(k) Time of the Essence. Time is of the essence in each provision of this Pledge Agreement of which time is an element.

(l) Section Titles. The section titles contained in this Pledge Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

(m) Reinstatement. This Pledge Agreement shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Secured Obligations is rescinded or must otherwise be restored or returned by Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Pledgor, or any of them, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or custodian, trustee or similar officer for Pledgor, or any of them, or any part of their respective property, or otherwise, all as though such payments had not been made.

(n) Counterparts. This Pledge Agreement may be executed in two (2) or more counterparts, each of which when fully executed shall be an original and all of said counterparts taken together, shall constitute one and the same agreement. Any signature page to this Pledge Agreement may be witnessed by a telecopy or facsimile of any original signature page and any signature page of any counterpart hereof may be appended to any other counterpart hereof to form a completely executed counterpart hereof.

(o) Master Pledge and Security Agreement. This Pledge Agreement is a master agreement and it is the intent of the parties hereto that the identity of Pledgor hereunder may change from time to time if new Subsidiaries of Pledgor are required to join this Pledge Agreement as additional Pledgors (the “Additional Pledgors”). Any such Subsidiary may join this Pledge Agreement as an Additional Pledgor by executing and delivering to Lender, a joinder agreement, in a form satisfactory to Lender (a “Joinder Agreement”), with a copy of this Pledge Agreement attached thereto. Upon execution and delivery of a Joinder Agreement by an Additional Pledgor, such Additional Pledgor shall thereafter be regarded as a “Pledgor” hereunder as if such Additional Pledgor had been an original party to this Pledge Agreement and Lender shall have received, by virtue of this Pledge Agreement and such Joinder Agreement, a valid Lien on and security interest in any Collateral described in such Joinder Agreement and in all other collateral relating thereto. Neither the addition of any Additional Pledgor to this Pledge Agreement nor the release by Lender of any Pledgor party to this Pledge Agreement shall affect the obligations of any other Pledgor under this Pledge Agreement or any other Loan Document and Pledgor waives any defenses it may have arising out of the addition of any Additional Pledgor or the release of any Pledgor or any Collateral hereunder.

(p) GOVERNING LAW; JURISDICTION. This Agreement will be deemed to be a contract under the laws of the State of New York and for all purposes will be governed by and construed and enforced in accordance with the laws of said State. The Pledgor consents to the exclusive jurisdiction and venue of the federal and state courts located in Erie County, New York, in any action on, relating to or mentioning this Agreement the other Loan Documents, or any one or more of them.

(q) WAIVER OF JURY TRIAL. **THE PLEDGOR AND THE LENDER EXPRESSLY, KNOWINGLY AND VOLUNTARILY WAIVE ALL BENEFIT AND ADVANTAGE OF ANY RIGHT TO A TRIAL BY JURY, AND NEITHER WILL AT ANY TIME INSIST UPON, OR PLEAD OR IN ANY MANNER WHATSOEVER CLAIM OR TAKE THE BENEFIT OR ADVANTAGE OF A TRIAL BY JURY IN ANY ACTION ARISING IN CONNECTION WITH THIS PLEDGE AGREEMENT OR ANY OF THE LOAN DOCUMENTS.**

IN WITNESS WHEREOF, Pledgor has caused this Pledge Agreement to be executed by its duly authorized officers as of the day and year first above written.

Pledgor

ULTRALIFE CORPORATION

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

Exhibit 10.37

NEGATIVE PLEDGE — REAL PROPERTY

Date:	February 17, 2010
Borrower(s):	Ultralife Corporation
Lender:	RBS Business Capital, a division of RBS Asset Finance, Inc.
Credit Agreement:	Dated as of February 17, 2010
Credit Facility:	$35,000,000 Revolving Credit

Ultralife Corporation, a Delaware corporation, (the "**Borrower**") is now or hereafter may be indebted to RBS Business Capital, a division of RBS Asset Finance, Inc. (the "**Lender**") and has agreed to enter into a certain Credit Agreement of even date herewith (as such agreement may be further amended, modified or supplemented from time to time, the "**Credit Agreement**"). Unless otherwise defined herein, terms shall have the meaning as defined in the Credit Agreement. Further, if any provision contained herein is in conflict with, or inconsistent with, any provision in the Credit Agreement, the provision contained in the Credit Agreement shall govern and control.

ACCORDINGLY, in consideration of the Revolving Credit Loans and other financial accommodations made to Borrower and certain of its Subsidiaries (the "Co-Borrowers") by Lender pursuant to the Credit Agreement, and for other good and valuable consideration, receipt of which is hereby acknowledged, and in order to secure (1) the payment of the principal of, and interest on the Revolving Credit Note issued in connection with the Credit Agreement and (2) the performance and observance by the Borrower and the Co-Borrowers of all of the covenants, agreements, representations and warranties in the Credit Agreement and the Loan Documents, Borrower hereby agrees and pledges that it shall not, without the prior written consent of the Lender, assign, mortgage, hypothecate, pledge, grant a lien on and security interest in, all of the estate, right, title and interest of the Borrower, to any third party, in, to and under any and all of the following described property, whether now owned or held or hereafter acquired (the "**Property**"):

(A) All respective right, title and interest of the Borrower in and to the real estate (more particularly described in Exhibit "A" attached hereto) (the "**Land**") including, without limitation, any and all agreements or contracts to use the Land or any portion thereof, and all appurtenances and incidence thereto, including all rights and interest of the Borrower to any streets, ways or alleys adjoining the Land;

(B) All right, title and interest of the Borrower in and to all buildings, structures, improvements and appurtenances now standing, or at any time hereafter constructed or placed, upon the Land or any part thereof, including all right, title and interest of the Borrower in and to all building materials and fixtures of every kind and nature whatsoever on the Land or in any building now or hereafter standing on the Land or any part thereof;

(C) All right, title and interest in and to all easements, royalties, mineral, oil and gas rights and profits, water, water rights and water stock relating to the Land necessary for the ownership, operation, use and maintenance of the Borrower's business operations;

(D) All leases, contract rights, general intangibles and other agreements affecting the use, operation or occupancy of all or any portion of the Land or the other real property described above now or hereafter entered into, and the right to receive and apply the rents, issues and profits of the Land described above to the payment of the Revolving Credit Loans;

(E) All proceeds of and any unearned premiums on any insurance policies covering the Land or the other real property described above, including, without limitation, the right to receive and apply the proceeds of any insurance or judgments, or settlements made in lieu thereof, for damage to any of the foregoing;

(F) The right, in the name and on behalf of the Borrower, to appear in and defend any action or proceeding brought with respect to the Property or any part thereof and to commence any action or proceeding to protect the interest of the Lender with respect thereto;

(G) All of the Borrower's respective right, title and interest in and to all permits, licenses, certificates, authorizations and approvals relating to the ownership, construction, use, operation and maintenance of the Land and or Property;

(H) All other proceeds of the conversion, whether voluntary or involuntary, of the Land or any other Property or rights encumbered or conveyed hereby into cash or liquidated claims, including, without limitation, all title insurance, hazard insurance, condemnation and other awards; and

(I) All extensions, additions, substitutions and accessions with respect to any of the foregoing.

The Borrower shall not enter into any agreement with any Person which prohibits the Borrower from granting any liens to the Lender, in the Property, other than negative pledges granted in connection with indebtedness secured by purchase money security interests and capitalized leases permitted under the Credit Agreement, provided that any such negative pledge granted in accordance with this clause be limited to the asset acquired and be an ordinary and customary requirement of such purchase money financing.

BORROWER:

ULTRALIFE CORPORATION

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

STATE OF NEW YORK)
) ss:
COUNTY OF MONROE)

On the 17th day of February in the year 2010 before me, the undersigned, a notary public in and for said state, personally appeared PHILIP A. FAIN, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual or the person upon behalf of which the individual acted, executed the instrument.

/s/ Peter F. Comerford
NOTARY PUBLIC

Exhibit 10.38

PATENTS SECURITY AGREEMENT

AGREEMENT (this “**Patents Security Agreement**”) made as of the 17th day of February, 2010, between **ULTRALIFE CORPORATION**, a Delaware corporation with its principal office at 2000 Technology Parkway, Newark, New York 14513 (the “**Debtor**”) and **RBS BUSINESS CAPITAL**, **a division of RBS Asset Finance, Inc.**, (the “**Secured Party**”), with an office at 525 William Penn Place, Pittsburgh, Pennsylvania 15219.

RECITALS:

Debtor owns the patents and patent applications listed in Schedule A annexed to this Patents Security Agreement and made a part of this Patents Security Agreement. As a condition to the extension of credit to Debtor pursuant to a Credit Agreement dated as the date of this Patents Security Agreement, as such agreement may from time to time be amended, extended or supplemented, (the “**Credit Agreement**”) among the Secured Party, the Debtor and certain affiliated borrowing entities (the “**Co-Borrowers**”), the Secured Party has required the execution and delivery of this Patents Security Agreement by Debtor.

Accordingly, Debtor and Secured Party, intending to be legally bound hereby, agree that, as security for the full and timely payment of the Loans and all other sums which may become due under or in connection with the Credit Agreement or any of the related loan documents (the “**Obligations**”) (as defined in the Credit Agreement) in accordance with the terms of the Credit Agreement and the performance of the obligations of the Debtor and the Co-Borrowers under the Credit Agreement and this Patents Security Agreement, Debtor hereby mortgages to and pledges with the Secured Party, and assigns and grants to the Secured Party a lien and security interest in, all its right, title and interest in and to (i) each of the patents and patent applications, including the inventions disclosed or claimed therein, described in Schedule A to this Patents Security Agreement and any other patents and patent applications and similar legal protection, both domestic and foreign, including all continuations, extensions, renewals, substitutes, divisions or reissues thereof, that Debtor may acquire after the date of this Patents Security Agreement, (collectively, the “**Patents**”), and (ii) any and all proceeds of the Patents, including, without limitation, any royalties, fees, claims for past, present and future infringement and proceeds of sale or other disposition (the “**Proceeds**” and, together with the Patents, the “**Patents Collateral**”).

1. Debtor represents, warrants, covenants and agrees as follows:

(a) Debtor owns the Patents identified in Schedule A Debtor is the record owner of the Patents identified in Schedule A and all are in full force and effect. Debtor owns no patents or patent applications, domestic or foreign, other than the Patents identified in Schedule A.

(b) Debtor has the right and power to make the mortgage and pledge and grant the lien and security interest granted in this Patents Security Agreement, except as described on Schedule A.

(c) Debtor has used, and will continue to use, each of the Patents in accordance with applicable law, *provided*, that Debtor may cease such continued use of and/or cancel, terminate, abandon or allow to lapse any Patent in the ordinary course of business.

(d) Except to the extent that the Secured Party shall consent, in writing, Debtor will not assign, sell, transfer or otherwise dispose of, mortgage, pledge, hypothecate, grant a security interest in or lien upon, license, or encumber against any of the Patents Collateral.

(e) Debtor will perform all acts and execute any documents, including, without limitation, assignments suitable for filing with the United States Patent and Trademark Office and Uniform Commercial Code financing statements, reasonably requested of it by the Secured Party at any time to evidence, perfect and maintain the Secured Party's rights in the Patents Collateral to the extent that Debtor continues to use the Patents that are part of the Patents Collateral in the ordinary course of business. Debtor will promptly notify Secured Party at the time Debtor acquires or creates any Patents not identified on Schedule A to this Patents Security Agreement. To the extent permitted by law, Debtor hereby authorizes the Secured Party to execute and file such assignments and financing statements (and/or similar documents) with respect to the Patents Collateral, or copies thereof or of this Patents Security Agreement, signed only by the Secured Party.

2. If an Event of Default (as defined in the Credit Agreement) has occurred, then, in addition to all other rights and remedies of the Secured Party, whether under law, the Credit Agreement or otherwise, the Secured Party may, without notice to, or consent by, Debtor, (a) grant itself a license to use the Patents of the Patents Collateral, or any of them, without payment of any kind, and until all inventories of finished goods produced for Debtor and/or ingredients and/or packaging materials unique to Debtor's products are sold or consumed; (b) assign, sell or otherwise dispose of the Patents Collateral, or any of it, either with or without special or other conditions or stipulations, with power to buy the Patents Collateral or any part of it, and with power also to execute assurances, and to do all other acts and things for completing the assignment, sale or disposition which the Secured Party shall, in its sole discretion, deem appropriate or proper; and (c) in order to implement any such assignment, sale or other disposal of any of the Patents Collateral, pursuant to the authority granted in the Power of Attorney described in paragraph 3 of this Patents Security Agreement (such authority becoming effective on the occurrence of an Event of Default), execute and deliver on behalf of Debtor, one or more instruments of assignment of any of the Patents of the Patents Collateral, in form suitable for filing or recording in the United States Patent and Trademark Office or foreign patent offices. Debtor agrees to pay all reasonable costs and expenses incurred in any such transfer of the Patents of the Patents Collateral, including any taxes, filing or recording fees, reasonable attorneys' fees and all reasonable travel and other expenses, and all such costs, to the extent paid by the Secured Party, shall be added to the obligations due under the Credit Agreement. The Secured Party will apply the proceeds actually received from any such assignment, sale or other disposition to the reasonable costs and expenses thereof and/or to the Obligations; and Debtor shall remain liable and will pay the Secured Party on demand any deficiency remaining and the balance of any expenses unpaid. Nothing contained in this Patents Security Agreement shall be construed as requiring the Secured Party to take any action at any time.

3. Concurrently with the execution and delivery of this Patents Security Agreement, Debtor is executing and delivering to the Secured Party an Assignment for Security suitable for recording in the United States Patent and Trademark Office, in the form of Exhibit 1 to this Patents Security Agreement (the "**Assignment**"), and two originals of a Special Power of Attorney, in the form of Exhibit 2 to this Patents Security Agreement (the "**Power of Attorney**"), for the Secured Party's use in the assignment, sale or other disposal of the Patents pursuant to paragraph 2 of this Patents Security Agreement.

4. Notwithstanding anything to the contrary contained in this Patents Security Agreement, upon payment and performance in full of the Obligations and termination of the Credit Agreement, this Patents Security Agreement, and the Assignment and the Power of Attorney delivered in connection herewith, shall terminate and be of no further force and effect and Secured Party shall thereupon terminate its security interest in the Patents Collateral. Until such time, however, this Patents Security Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns, provided that, without the prior written consent of Secured Party, the Debtor may not assign this Patents Security Agreement or any of its rights under this Patents Security Agreement or delegate any of its duties or obligations under this Patents Security Agreement, and any such attempted assignment or delegation shall be null and void. This Patents Security Agreement is not intended and shall not be construed to obligate the Secured Party to take any action whatsoever with respect to the Patents Collateral or to incur expenses or perform or discharge any obligation, duty or disability of the Debtor.

5. The provisions of this Patents Security Agreement are intended to be severable. If any provision of this Patents Security Agreement shall for any reason be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability of such provision in any other jurisdiction or any other provision of this Patents Security Agreement in any jurisdiction.

6. No failure or delay on the part of Secured Party in exercising any right, remedy, power or privilege under this Patents Security Agreement shall operate as a waiver thereof or of any other right, remedy, power or privilege of Secured Party under this Patents Security Agreement or the Credit Agreement nor shall any single or partial exercise of any such right, remedy, power or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

7. The rights, remedies, powers and privileges of Secured Party under this Patents Security Agreement are cumulative and not exclusive of any rights or remedies which it may otherwise have. In particular, the rights and remedies granted to the Secured Party under this Patents Security Agreement shall be in addition to the rights and remedies of the Secured Party under the Credit Agreement and any security agreement or other document or instrument executed and delivered in connection with the Credit Agreement.

8. All notices, statements, requests and demands given to or made upon either party in accordance with the provisions of this Patents Security Agreement shall be deemed to have been given or made when personally delivered or when given or made in accordance with the Credit Agreement.

9. Debtor acknowledges that the lien and security interest, and the rights and remedies, granted under this Patents Security Agreement are granted to the Secured Party for the benefit of the Secured Party.

10. Debtor consents to the exclusive jurisdiction and venue of the federal and state courts located in Erie County, State of New York in any action on, relating to or mentioning this Patents Security Agreement.

11. This Patents Security Agreement shall be deemed to be a contract under the laws of the State of New York and the execution and delivery of this Patents Security Agreement and the terms and provisions of this Patents Security Agreement shall be governed by and construed in accordance with the laws of that State and, to the extent applicable or governing, the laws of the United States of America.

IN WITNESS WHEREOF, the parties have executed and delivered this Patents Security Agreement as of the day and year first above written.

ATTEST:

ULTRALIFE CORPORATION

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

(Corporate Seal]

RBS BUSINESS CAPITAL,
a division of RBS Asset Finance, Inc.

By: /s/ Ronald L. Tassone
Ronald L. Tassone
Senior Vice President

Exhibit 10.39

TRADEMARK SECURITY AGREEMENT

AGREEMENT (this "**Trademark Security Agreement**") made as of the 17th day of February, 2010, between **ULTRALIFE CORPORATION**, a Delaware corporation with its principal office at 2000 Technology Parkway, Newark, New York 14513(the "**Debtor**") and **RBS BUSINESS CAPITAL, a division of RBS Asset Finance, Inc.**, a New York corporation (the "**Secured Party**") with an office at 525 William Penn Place, Pittsburgh, Pennsylvania 15219.

RECITALS:

Debtor has adopted and is using the trademarks, service marks, trade names and designs listed in Schedule A annexed to this Trademark Security Agreement and made a part of this Trademark Security Agreement. As a condition to the extension of credit to Debtor pursuant to a Credit Agreement dated as the date of this Trademark Security Agreement, as such agreement may from time to time be amended, extended or supplemented, (the "**Credit Agreement**") among the Secured Party, Debtor and certain affiliated borrowing entities, the "**Co-Borrowers**"), the Secured Party has required the, execution and delivery of this Trademark Security Agreement by Debtor.

Accordingly, Debtor and Secured Party, intending to be legally bound hereby, agree that, as security for the full and timely payment of the Loans and all other sums which may become due under or in connection with the Credit Agreement or any of the related loan documents (the "**Obligations**") (as defined in the Credit Agreement) in accordance with the terms of the Credit Agreement and the performance of the obligations of the Debtor and the Co-Borrowers under the Credit Agreement and this Trademark Security Agreement, Debtor hereby mortgages to and pledges with the Secured Party, and assigns and grants to the Secured Party a lien and security interest in, all its right, title and interest in and to (i) each of the trademarks, service marks, trade names and designs described in Schedule A to this Trademark Security Agreement and any other trademarks, service marks, trade names and designs that Debtor may adopt and use, in the U.S. or foreign countries, in connection with its business after the date of this Trademark Security Agreement, (collectively, the "**Trademarks**"), together with the good will of the business symbolized thereby, (ii) all registrations and pending trademark applications owned presently or obtained or filed hereafter, both in the United States and in foreign countries, and (iii) any and all proceeds of the foregoing, including, without limitation, any royalties, fees, claims for past, present and future infringement and proceeds of sale or other disposition (the Trademarks and other property described in the foregoing clauses (i) through (iii) are referred to collectively as the "**Trademark Collateral**").

1. Debtor represents, warrants, covenants and agrees as follows:

(a) Debtor owns the Trademarks listed in Schedule A to the extent indicated in Schedule A, the Trademarks are registered in the United States Patent and Trademark Office and Debtor is the record owner of such registrations and all are in full force and effect.

(b) Debtor has the right and power to make the mortgage and pledge and grant the lien and security interest granted in this Trademark Security Agreement, except as described on Schedule A.

(c) Debtor has used, and will continue to use, each of the Trademarks in accordance with applicable law, *provided*, that Debtor may cease such continued use of and/or cancel, terminate, abandon or allow to lapse any Trademark in the ordinary course of business.

(d) Except to the extent that the Secured Party, shall consent, in writing, Debtor will not assign, sell, transfer or otherwise dispose of, mortgage, pledge, hypothecate, grant a security interest in or lien upon, license, or encumber any of the Trademark Collateral.

(e) Debtor will perform all acts and execute any documents, including, without limitation, assignments suitable for filing with the United States Patent and Trademark Office and Uniform Commercial Code financing statements, reasonably requested of it by the Secured Party at any time to evidence, perfect and maintain the Secured Party's rights in the Trademark Collateral to the extent that Debtor continues to use the Trademarks that are part of the Trademark Collateral in the ordinary course of business. Debtor will promptly notify Secured Party at the time Debtor adopts for use in its business any Trademarks not described on Schedule A to this Trademark Security Agreement and files any applications to register a Trademark. To the extent permitted by law, Debtor hereby authorizes the Secured Party to execute and file such assignments and financing statements (and/or similar documents) with respect to the Trademark Collateral, or copies thereof or of this Trademark Security Agreement, signed only by the Secured Party.

2. If an Event of Default (as defined in the Credit Agreement) has occurred then, in addition to all other rights and remedies of the Secured Party, whether under law, the Credit Agreement or otherwise, the Secured Party may, without notice to, or consent by, Debtor, (a) grant itself a license to use the Trademarks, or any of them, without payment of any kind, until all inventories of finished goods produced for Debtor and/or ingredients and/or packaging materials unique to Debtor's products are sold or consumed; (b) assign, sell or otherwise dispose of or use the Trademark Collateral, or any of it, either with or without special or other conditions or stipulations, with power to buy the Trademark Collateral or any part of it, and with power also to execute assurances, and to do all other acts and things for completing the assignment, sale or disposition which the Secured Party shall, in its sole discretion, deem appropriate or proper; and (c) in order to implement any such assignment, sale or other disposal of any of the Trademark Collateral, pursuant to the authority granted in the Power of Attorney described in paragraph 3 of this Trademark Security Agreement (such authority becoming effective on the occurrence of an Event of Default), execute and deliver on behalf of Debtor, one or more instruments of assignment of the Trademarks (or any application or registration thereof), in form suitable for filing, recording or registration in the United States Patent and Trademark Office. Debtor agrees to pay all reasonable costs and expenses incurred in any such transfer, including any taxes, filing or recording fees, reasonable attorneys' fees and all reasonable travel and other expenses, and all such costs, to the extent paid by the Secured Party, shall be added to the obligations due under the Credit Agreement. The Secured Party will apply the proceeds actually received from any such assignment, sale or other disposition to the reasonable costs and expenses thereof and/or to the Obligations; and Debtor shall remain liable and will pay the Secured Party on demand any deficiency remaining and the balance of any expenses unpaid. Nothing contained in this Trademark Security Agreement shall be construed as requiring the Secured Party to take any action at any time.

3. Concurrently with the execution and delivery of this Trademark Security Agreement, Debtor is executing and delivering to the Secured Party an Assignment for Security suitable for recording in the United States Patent and Trademark Office, in the form of Exhibit 1 to this Trademark Security Agreement (the "**Assignment**"), and originals of a Special Power of Attorney, in the form of Exhibit 2 to this Trademark Security Agreement (the "**Power of Attorney**"), for the Secured Party's use in the assignment, sale or other disposal of the Trademarks (or any applications or registrations thereof) pursuant to paragraph 2 of this Trademark Security Agreement.

4. Notwithstanding anything to the contrary contained in this Trademark Security Agreement, upon payment and performance in full of the Obligations and termination of the Credit Agreement, this Trademark Security Agreement, and the Assignment and the Power of Attorney delivered in connection herewith, shall terminate and be of no further force and effect and Secured Party shall thereupon terminate its security interest in the Trademark Collateral. Until such time, however, this Trademark Security Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns, provided, that, without the prior written consent of Secured Party, the Debtor may not assign this Trademark Security Agreement or any of its rights under this Trademark Security Agreement or delegate any of its duties or obligations under this Trademark Security Agreement, and any such attempted assignment or delegation shall be null and void. This Trademark Security Agreement is not intended and shall not be construed to obligate the Secured Party to take any action whatsoever with respect to the Trademark Collateral or to incur expenses or perform or discharge any obligation, duty or disability of the Debtor.

5. The provisions of this Trademark Security Agreement are intended to be severable. If any provision of this Trademark Security Agreement shall for any reason be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability of such provision in any other jurisdiction or any other provision of this Trademark Security Agreement in any jurisdiction.

6. No failure or delay on the part of Secured Party in exercising any right, remedy, power or privilege under this Trademark Security Agreement shall operate as a waiver thereof or of any other right, remedy, power or privilege of Secured Party under this Trademark Security Agreement or the Credit Agreement nor shall any single or partial exercise of any such right, remedy, power or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

7. The rights, remedies, powers and privileges of Secured Party under this Trademark Security Agreement are cumulative and not exclusive of any rights or remedies which it may otherwise have. All rights and remedies granted to the Secured Party under this Trademark Security Agreement shall be in addition to any rights and remedies granted to the Secured Party under the Credit Agreement and under any security agreement or other document or instrument executed and delivered in connection with the Credit Agreement.

8. All notices, statements, requests and demands given to or made upon either party in accordance with the provisions of this Trademark Security Agreement shall be deemed to have been given or made when personally delivered or when given or made in accordance with the terms of the Credit Agreement.

9. Debtor acknowledges that the lien and security interest, and the rights and remedies, granted under this Trademark Security Agreement are granted to the Secured Party for the benefit of the Secured Party.

10. Debtor consents to the exclusive jurisdiction and venue of the federal and state courts located in Erie, New York in any action on, relating to or mentioning this Trademark Security Agreement.

11. This Trademark Security Agreement shall be deemed to be a contract under the laws of the State of New York and the execution and delivery of this Trademark Security Agreement and the terms and provisions of this Trademark Security Agreement shall be governed by and construed in accordance with the laws of that State and, to the extent applicable or governing, the laws of the United States of America.

IN WITNESS WHEREOF, the parties have executed and delivered this Trademark Security Agreement as of the day and year first above written.

ATTEST:

ULTRALIFE CORPORATION

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

[Corporate Seal]

RBS BUSINESS CAPITAL

By: /s/ Ronald L. Tassone
Ronald L. Tassone
Senior Vice President

Exhibit 21

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% interest ownership in ABLE New Energy Co., Ltd, incorporated in the People's Republic of China.

We have a 100% ownership interest in McDowell Research Co., Inc., incorporated in Delaware.

We have a 100% ownership interest in RedBlack Communications, Inc. (formerly Innovative Solutions Consulting, Inc.), incorporated in Maryland.

We have a 100% ownership interest in Stationary Power Services, Inc., incorporated in Florida, which also does business as U.S. Energy.

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

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-3 (Nos. 333-67808, 333-90984, 333-110426 and 333-136742) and Forms S-8 (Nos. 333-31930, 333-60984, 333-114271, 333-117662, 333-136737, 333-136738, 333-155347 and 333-155349) of Ultralife Corporation of our reports dated March 16, 2010 relating to the consolidated financial statements and schedule, and the effectiveness of internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO Seidman, LLP

Troy, Michigan
March 16, 2010

Exhibit 31.1

I, John D. Kavazanjian, 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: March 16, 2010

/s/ John D. Kavazanjian
John D. Kavazanjian,
President and Chief Executive Officer

Exhibit 31.2

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: March 16, 2010

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

Exhibit 32.1

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”), John D. Kavazanjian 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, 2009 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: March 16, 2010

/s/ John D. Kavazanjian
John D. Kavazanjian,
President and Chief Executive Officer

Date: March 16, 2010

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