

THIS 10-Q/A REPLACES THE 10-Q FILED ON NOVEMBER 7, 2001 IN ITS ENTIRETY. CHANGES WERE MADE TO THE PREVIOUSLY FILED FORM 10-Q BASED ON THE COMMISSION'S REVIEW OF THE FORM S-3/A FILED ON DECEMBER 12, 2001 AND THE FORM 10-Q WHICH WAS INCORPORATED BY REFERENCE.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended September 30, 2001

or

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

_____ to _____

Commission file number 0-20852

ULTRALIFE BATTERIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

16-1387013

(State or other jurisdiction
of incorporation or organization)

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

2000 Technology Parkway, Newark, New York 14513

(Address of principal executive offices)

(Zip Code)

(315) 332-7100

(Registrant's telephone number, including area code)

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

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

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

Common stock, \$.10 par value - 12,318,956 shares
outstanding as of November 30, 2001.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

ULTRALIFE BATTERIES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)

ASSETS	September 30, 2001	June 30, 2001
-----	-----	-----
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 1,196	\$ 494
Available-for-sale securities	3,726	3,113
Trade accounts receivable (less allowance for doubtful accounts of \$269 at September 30, 2001 and \$262 at June 30, 2001)	5,211	3,379
Inventories	4,878	5,289
Other receivables	995	736
Prepaid expenses and other current assets	1,404	912
	-----	-----
Total current assets	17,410	13,923
	-----	-----
Property, plant and equipment	32,737	32,997
Other assets:		
Investment in affiliates	--	--
Technology license agreements (net of accumulated amortization of \$1,193 at September 30, 2001 and \$1,168 at June 30, 2001)	258	283
	-----	-----
	258	283
	-----	-----
Total Assets	\$ 50,405	\$ 47,203
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 983	\$ 1,065
Accounts payable	4,298	3,755
Accrued compensation	262	427
Other current liabilities	2,102	1,855
	-----	-----
Total current liabilities	7,645	7,102
Long-term liabilities:		
Long-term debt and capital lease obligations	2,460	2,648
Shareholders' equity :		
Preferred stock, par value \$0.10 per share, authorized 1,000,000 shares; none outstanding	--	--
Common stock, par value \$0.10 per share, authorized 40,000,000 shares; issued - 12,578,186 at September 30, 2001 and 11,488,186 at June 30, 2001)	1,258	1,149
Capital in excess of par value	105,640	99,389
Accumulated other comprehensive loss	(929)	(1,058)
Accumulated deficit	(65,366)	(61,724)
	-----	-----
	40,603	37,756
Less --Treasury stock, at cost -- 27,250 shares	303	303
	-----	-----
Total shareholders' equity	40,300	37,453
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 50,405	\$ 47,203
	=====	=====

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

ULTRALIFE BATTERIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Amounts)
(unaudited)

	Three Months Ended 2001	September 30, 2000
	-----	-----
Revenues	\$ 7,616	\$ 6,851
Cost of products sold	8,064	7,303
	-----	-----
Gross margin	(448)	(452)
Operating expenses:		
Research and development	1,182	560
Selling, general, and administrative	2,121	1,796
	-----	-----
Total operating expenses	3,303	2,356
Operating loss	(3,751)	(2,808)
Other income (expense):		
Interest income	69	215
Interest expense	(82)	(121)
Equity loss in affiliate	--	(332)
Miscellaneous income (expense)	122	(58)
	-----	-----
Loss before income taxes	(3,642)	(3,104)
	-----	-----
Income taxes	--	--
	-----	-----
Net loss	\$ (3,642)	\$ (3,104)
	=====	=====
Net loss per share, basic and diluted	\$ (0.30)	\$ (0.28)
	=====	=====
Weighted average shares outstanding, basic and diluted	12,005	11,076
	=====	=====

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

ULTRALIFE BATTERIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(unaudited)

	Three Months Ended 2001	September 30, 2000
	-----	-----
OPERATING ACTIVITIES		
Net loss	\$ (3,642)	\$ (3,104)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,162	913
Equity loss in affiliate	--	332
Changes in operating assets and liabilities:		
Accounts receivable	(1,832)	(1,039)
Inventories	411	(546)
Prepaid expenses and other current assets	(751)	(372)
Accounts payable and other current liabilities	625	499
	-----	-----
Net cash used in operating activities	(4,027)	(3,317)
	-----	-----
INVESTING ACTIVITIES		
Purchase of property and equipment	(613)	(1,520)
Purchase of securities	(7,765)	(13,972)
Sales of securities	7,153	8,583
Maturities of securities	--	5,359
	-----	-----
Net cash used in investing activities	(1,225)	(1,550)
	-----	-----
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	6,360	426
Principal payments on long-term debt and capital lease obligations	(270)	(203)
	-----	-----
Net cash provided by financing activities	6,090	223
	-----	-----
Effect of exchange rate changes on cash	(136)	45
	-----	-----
Increase (decrease) in cash and cash equivalents	702	(4,599)
Cash and cash equivalents at beginning of period	494	5,712
	-----	-----
Cash and cash equivalents at end of period	\$ 1,196	\$ 1,113
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrealized (loss) gain on securities	\$ (1)	\$ 2
	=====	=====
Interest paid	\$ 78	\$ 81
	=====	=====

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

ULTRALIFE BATTERIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar Amounts in Thousands - Except Share and Per Share Amounts)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2001.

2. NET LOSS PER SHARE

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Common stock options and warrants have not been included as their inclusion would be antidilutive; as a result, basic earnings per share is the same as diluted earnings per share.

3. COMPREHENSIVE INCOME (LOSS)

The components of the Company's total comprehensive loss were:

	Three months ended September 30,	
	2001	2000
Net loss	\$(3,642)	\$(3,104)
Unrealized (loss) gain on securities	(1)	2
Foreign currency translation adjustments	130	45
	129	47
Total comprehensive loss	\$(3,513)	\$(3,057)

4. INVENTORIES

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:

	September 30, 2001	June 30, 2001
Raw materials	\$ 2,167	\$ 2,595
Work in process	1,660	1,233
Finished goods	1,453	1,872
	5,280	5,700
Less: Reserve for obsolescence	402	411
	\$ 4,878	\$ 5,289

5. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2001	June 30, 2001
	-----	-----
Land	\$ 123	\$ 123
Buildings and Leasehold Improvements	1,608	1,608
Machinery and Equipment	38,141	37,891
Furniture and Fixtures	293	291
Computer Hardware and Software	1,392	1,375
Construction in Progress	3,592	2,984
	-----	-----
	45,149	44,272
Less: Accumulated Depreciation	12,412	11,275
	-----	-----
	\$32,737	\$32,997
	=====	=====

6. COMMITMENTS AND CONTINGENCIES

The Company is subject to legal proceedings and claims which arise in the normal course of business. The Company believes that the final disposition of such matters will not have a material adverse effect on the financial position or results of operations of the Company.

In August 1998, the Company, its Directors, and certain underwriters were named as defendants in a complaint filed in the United States District Court for the District of New Jersey by certain shareholders, purportedly on behalf of a class of shareholders, alleging that the defendants, during the period April 30, 1998 through June 12, 1998, violated various provisions of the federal securities laws in connection with an offering of 2,500,000 shares of the Company's Common Stock. The complaint alleged that the Company's offering documents were materially incomplete, and as a result misleading, and that the purported class members purchased the Company's Common Stock at artificially inflated prices and were damaged thereby. Upon a motion made on behalf of the Company, the Court dismissed the shareholder action, without prejudice, allowing the complaint to be refiled. The shareholder action was subsequently refiled, asserting substantially the same claims as in the prior pleading. The Company again moved to dismiss the complaint. By Opinion and Order dated September 28, 2000, the Court dismissed the action, this time with prejudice, thereby barring plaintiffs from any further amendments to their complaint and directing that the case be closed. Plaintiffs filed a Notice of Appeal to the Third Circuit Court of Appeals and the parties submitted their briefs. Subsequently, the parties notified the Court of Appeals that they had reached an agreement in principle to resolve the outstanding appeal and settle the case upon terms and conditions which require submission to the District Court for approval. Upon application of the parties and in order to facilitate the parties' pursuit of settlement, the Court of Appeals issued an Order dated May 18, 2001 adjourning oral argument on the appeal for a period of at least 120 days, and remanded the case to the District Court for further proceedings in connection with the proposed settlement. In the event settlement is not reached, the Company will continue to defend the case vigorously. The amount of alleged damages, if any, cannot be quantified, nor can the outcome of this litigation be predicted. Accordingly, management cannot determine whether the ultimate resolution of this litigation could have a material adverse effect on the Company's financial position and results of operations.

In conjunction with the Company's purchase/lease of its Newark, New York facility in 1998, the Company entered into a payment-in-lieu of tax agreement which provides the Company with real estate tax concessions upon meeting certain conditions. In connection with this agreement, the Company received an environmental assessment, which revealed contaminated soil. The assessment indicated potential actions that the Company may be required to undertake upon notification by the

environmental authorities. The assessment also proposed that a second assessment be completed and provided an estimate of total potential costs to remediate the soil of \$230. However, there can be no assurance that this will be the maximum cost. The Company entered into an agreement whereby a third party has agreed to reimburse the Company for fifty percent of the costs associated with this matter. Test sampling occurred in the fourth quarter of fiscal 2001 and the engineering report has been forwarded to the New York State Department of Environmental Conservation for review. 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.

7. BUSINESS SEGMENT INFORMATION

The Company reports its results in four operating segments: Primary Batteries, Rechargeable Batteries, Technology Contracts and Corporate. The Primary Batteries segment includes 9-volt batteries, cylindrical batteries and various specialty batteries. The Rechargeable Batteries segment consists of the Company's polymer rechargeable batteries. The Technology Contracts segment includes revenues and related costs associated with various government and military development contracts. The Corporate segment consists of all other items that do not specifically relate to the three other segments and are not considered in the performance of the other segments.

Three Months Ended September 30, 2001

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$ 7,274	\$ 135	\$207	\$ --	\$ 7,616
Segment contribution	727	(2,378)	21	(2,121)	(3,751)
Interest, net				(13)	(13)
Equity loss in affiliate					--
Miscellaneous income				122	122
Income taxes					--
Net loss					\$(3,642)
Total assets	\$ 21,049	\$ 20,604	\$312	\$ 8,440	\$50,405

Three Months Ended September 30, 2000

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$ 6,242	\$ 120	\$489	\$ --	\$ 6,851
Segment contribution	11	(1,057)	34	(1,796)	(2,808)
Interest, net				94	94
Equity loss in affiliate				(332)	(332)
Miscellaneous expense				(58)	(58)
Income taxes					--
Net loss					\$(3,104)
Total assets	\$14,916	\$ 23,044	\$494	\$23,671	\$ 62,125

8. OTHER MATTERS

On July 20, 2001, the Company completed a \$6,800 private placement of 1,090,000 shares of its common stock at \$6.25 per share. In conjunction with the offering, warrants to acquire up to 109,000 shares of common stock were granted. The exercise price of the warrants is \$6.25 per share and the warrants have a five-year term.

9. SUBSEQUENT EVENT

In October 2001, the Company was informed by its primary lending institution that its borrowing availability under the \$20 million credit facility has been effectively reduced to zero as a result of a recent appraisal of its fixed assets. Accordingly, the Company's liquidity depends on the Company's ability to successfully generate positive cash flow from operations and achieve adequate operational savings. The Company is also exploring opportunities for new or additional equity or debt financing. Notwithstanding the foregoing, there can be no assurance that the Company will have sufficient cash flows to meet its working capital and capital expenditure requirements.

Item 2. 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 the Company's products and services, the successful commercialization of the Company's advanced rechargeable batteries, general economic conditions, world events, government and environmental regulation, competition and customer strategies, technological innovations in the primary and rechargeable battery industries, changes in the Company's business strategy or development plans, capital deployment, business disruptions, including those caused by fire, raw materials supplies, environmental regulations, and other risks and uncertainties, certain of which are beyond the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, estimated or expected.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying consolidated financial statements and notes thereto contained herein and the Company's consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K as of and for the year ended June 30, 2001.

General

Ultralife Batteries, Inc. develops, manufactures and markets a wide range of standard and customized primary lithium and polymer rechargeable batteries for use in a wide array of applications. The Company believes that its proprietary technologies allow the Company to offer batteries that are ultra-thin, lightweight and generally achieve longer operating time than many competing batteries currently available. To date, the Company has focused on manufacturing a family of lithium primary batteries for consumer, industrial, and military applications which it believes is one of the most comprehensive lines of lithium manganese dioxide primary batteries commercially available. The Company has introduced its advanced polymer rechargeable batteries which are based on its proprietary technology for use in portable electronic applications.

The Company has incurred net operating losses primarily as a result of funding research and development activities and, to a lesser extent, manufacturing and general and administrative costs. To date, the Company has devoted a substantial portion of its resources to the research and development of its products and technology, particularly its proprietary polymer rechargeable technology. The Company expects its operating expenses to increase as it continues to expand production activities. The Company's results of operations may vary significantly from quarter to quarter depending upon the number of orders received and the pace of the Company's research and development activities. Currently, the Company

does not experience significant seasonal trends in primary battery revenues and does not have enough sales history on the rechargeable batteries to determine if there is seasonality.

The Company reports its results in four operating segments: Primary Batteries, Rechargeable Batteries, Technology Contracts and Corporate. The Primary Batteries segment includes 9-volt batteries, cylindrical batteries and various specialty batteries. The Rechargeable Batteries segment consists of the Company's polymer rechargeable batteries. The Technology Contracts segment includes revenues and related costs associated with various government and military development contracts. The Corporate segment consists of all other items that do not specifically relate to the three other segments and are not considered in the performance of the other segments.

Results of Operations

Three months ended September 30, 2001 and 2000

Consolidated revenues reached a new quarterly record of \$7,616,000 for the first three months of fiscal 2002, an increase of \$765,000, or 11%, over the comparable quarter in fiscal 2001. Primary battery sales increased \$1,032,000, or 17%, from \$6,242,000 last year to \$7,274,000 this year. In fiscal 2001, the Company began production and shipments of the BA-5368 battery used by the military in survival radios for pilots, and this new small cylindrical battery resulted in approximately \$1,200,000 in sales in the first quarter of fiscal 2002. As a result, the increase in Primary battery sales was primarily due to sales of small cylindrical batteries and additional increases in 9 Volt and High Rate battery shipments. These increases were offset in part by a decline in technology contract revenues. Rechargeable revenues increased modestly over the prior year comparable quarter. As expected, Technology Contract revenues declined \$282,000, from \$489,000 to \$207,000 due to the scheduled reduction of certain non-renewable government contracts.

Cost of products sold amounted to \$8,064,000 for the three-month period ended September 30, 2001, an increase of \$761,000, or 10% over the same three month period a year ago. The gross margin on total revenues for the quarter was a loss of 6%, compared to a loss of 7% in the prior year. The improvement in gross margins was affected by two offsetting factors. First, Primary gross margins increased \$933,000 over the prior year from a 0% gross margin in fiscal 2001 to a 14% gross margin in fiscal 2002. This improvement in margins is principally the result of enhancements in the manufacturing process due to the implementation of lean manufacturing practices and increased sales. To date, lean manufacturing practices in the Primary battery segment have resulted in quicker manufacturing throughput times, greater operating efficiencies and a reduction of inventory. The improvements in gross margins in the Primary segment were offset by declines in the Rechargeable segment. Cost of products sold in the Rechargeable segment increased \$931,000 over the prior year period due to the lack of production volume in the current year and the production of cell phone batteries, which were included in inventory, in the prior year but not in fiscal 2002. In the second quarter of fiscal 2001, the Company shifted its focus to design and manufacture lightweight custom sized batteries for OEMs rather than focus on the broad retail cell phone market due to the heavy competition. The manufacture of cell phone batteries was an important milestone for the Company as it demonstrated the Company's ability to mass produce polymer rechargeable batteries. The Company continues to actively design and develop rechargeable batteries and is vigorously supplying samples to OEMs in order to achieve the desired sales growth in this segment.

Operating and other expenses were \$3,303,000 for the three months ended September 30, 2001 from \$2,356,000 in the prior year, an increase of \$947,000, or 40%. Of the Company's operating and other expenses, research and development expenses increased \$622,000, or 111%, to \$1,182,000 for the first quarter of fiscal 2002. The increase in research and development expenses was primarily due to continued development of samples and new product designs of polymer rechargeable batteries. In the prior year's comparable quarter, the Company was focused on bringing the recently launched polymer rechargeable cell phone battery to market. As previously mentioned, the Company has shifted its focus to

custom sized rechargeable batteries for OEMs. This shift in focus has resulted in additional spending on the development of different size batteries and capacities. Selling, general and administrative costs increased \$325,000 or 18% over the prior year period. This increase was mainly due to higher selling, marketing, and advertising costs, both in the U.S. and abroad as the Company enhanced its market coverage at the end of fiscal 2001.

Interest income decreased \$146,000, or 68%, from \$215,000 in the first quarter of fiscal 2001 to \$69,000 in the first quarter of fiscal 2002. The reduction in interest income is principally the result of lower average cash balances and the reduction of rates of return on investments. Interest expense declined \$39,000 due to lower average balances outstanding on the credit facility and lower borrowing rates. Equity loss in affiliate was \$332,000 for its unconsolidated subsidiary, Ultralife Taiwan, Inc. (UTI) for the first quarter of fiscal 2001. No losses have been recorded in fiscal 2002 as the investment on the balance sheet has been written down to zero under the equity method of accounting. Additionally, in August 2001, the Company's ownership in UTI was reduced to 33% as a result of additional capital raised by UTI for its ongoing expansion. Miscellaneous income (expense) relates primarily to foreign currency transaction gains and losses for the period reported.

Net losses were \$3,642,000, or \$0.30 per share, for the first three months of fiscal 2002 compared to \$3,104,000, or \$0.28 per share, for the same quarter last year primarily as a result of the reasons described above.

Liquidity and Capital Resources

At September 30, 2001, cash and cash equivalents and available for sale securities totaled \$4,922,000. The Company used \$4,027,000 of cash in operating activities during the first three months of fiscal 2002. This usage of cash related primarily to the net loss reported for the period and an increase in accounts receivable and other current assets, offset in part by depreciation, decreases in inventories, and an increase in current liabilities. More specifically, receivables increased \$1,832,000 from June 30, 2001 to September 30, 2001. This increase resulted from a significant increase in revenues in the first quarter of fiscal 2002 as compared with the fourth quarter of fiscal 2001. A significant portion of the sales in the first fiscal quarter were generated in the last month of the quarter. This resulted in a large increase in receivables for the first quarter of fiscal 2002. We do not anticipate any recoverability issues with these outstanding receivables. Additionally, the Company spent \$613,000 for capital expenditures for production equipment and facilities improvements during the first quarter 2002.

At September 30, 2001, the Company had long-term debt outstanding including capital lease obligations of \$2,460,000 primarily relating to the financing arrangement entered into by the Company at the end of fiscal 2000, described below.

In June 2000, the Company entered into a \$20,000,000 secured credit facility with a lending institution. The financing agreement consists of an initial \$12,000,000 term loan component based on the valuation of the Company's fixed assets (of which \$3,300,000 was outstanding on the term loan at September 30, 2001) and a revolving credit facility component for an initial \$8,000,000, based on eligible net accounts receivable (as defined) and eligible net inventory (as defined). There was no balance outstanding on the revolving credit facility component as of September 30, 2001. While the amount available under the term loan component amortizes over time, the amount of the revolving credit facility component increases by an equal and offsetting amount. Principal and interest are paid monthly on outstanding amounts borrowed. The loans bear interest at the prime rate or other LIBOR-based rate options at the discretion of the Company. The Company also pays a facility fee on the unused portion of the commitment. The loan is secured by substantially all of the Company's assets and the Company is precluded from paying dividends under the terms of the agreement. The total amount available under the term loan component is reduced by outstanding letters of credit. The Company had \$1,900,000 outstanding on a letter of credit as of September 30, 2001.

On July 20, 2001, the Company completed a \$6,800,000 private placement of 1,090,000 shares of its common stock at \$6.25 per share. In conjunction with the offering, warrants to acquire up to 109,000 shares of common stock were granted. The exercise price of the warrants is \$6.25 per share and the warrants have a five-year term.

In October 2001, the Company entered into a \$2,000,000 lease line of credit with a financing institution that will be used to acquire equipment in the Primary business. In conjunction with this lease, the Company has obtained and is required to maintain an additional letter of credit for \$1,900,000.

Also in October 2001, the Company was informed by its primary lending institution that its borrowing availability under the \$20,000,000 credit facility has been effectively reduced to zero as the result of a recent appraisal of its fixed assets. The appraisal resulted in a significant decrease in the valuation of the Company's machinery and equipment which was based on an "orderly liquidation valuation" methodology used by the appraiser.

The Company's capital resource commitments as of September 30, 2001 consisted principally of capital equipment commitments of approximately \$692,000. As previously noted, the Company's primary lending institution significantly reduced the total amount of the credit facility available. Accordingly, the Company's liquidity depends on the Company's ability to successfully generate positive cash flow from operations and achieve adequate operational savings. The Company is also exploring opportunities for new or additional equity or debt financing. Notwithstanding the foregoing, there can be no assurance that the Company will have sufficient cash flows to meet its working capital and capital expenditure requirements.

Outlook

The Company expects to achieve a modest increase in consolidated revenues in the second quarter of fiscal 2002 as compared to the first quarter of fiscal 2002. During the second fiscal quarter, the Company is projecting the growth to come largely from standard cylindrical and high rate batteries for growth in military markets. Sales of 9-Volt batteries are expected to decline from the first quarter due to current softness in orders from smoke detector and medical customers. The Company expects to take advantage of its flexibility to tailor and develop its existing and new products that will continue to enhance revenue growth throughout the year. Additionally, the Company has seen a noticeably higher level of interest from the military since the tragic events of September 11, 2001. The Company believes that it is well positioned with its current portfolio of products, and its new products in development, to meet the current demands communicated to the Company by the military, both in the US and UK. Management continues to believe revenues will increase year over year by at least 40%.

Management of the Company previously set two key financial goals - to reach operating cash breakeven by December 2001 and to attain positive net income by June 2002. Due to the recent slowdown in the economy which has largely impacted the Rechargeable segment, the Company has extended its goal for cash breakeven to occur in the March 2002 quarter, but remains steadfast on its goal to achieve profitability by June 2002.

In October and November 2001, the Company realigned its resources to address the changing market conditions and to better meet customer demand in areas of the business that are growing. The realignment did not significantly change any of the Company's existing operations nor were any product lines discontinued. A majority of employees affected by this realignment were re-deployed from the Rechargeable segment and support functions into open direct labor positions in the Primary segment, due to the significantly growing demand for primary batteries from the military. Less than 7% of the Company's total employees were terminated. The realignment did not result in any significant severance

costs. The Company expects to realize cost savings from the measures being taken of approximately \$1.5 million per quarter. These quarterly savings are comprised of approximately \$1.1 million of reduced labor costs, approximately \$0.2 million of reduced material usage, and approximately \$0.2 million of lower administrative expenses. Approximately one-third of these savings, due to the timing of implementation of the actions taken, will be realized in the second fiscal quarter, with the full amount to be realized in the third fiscal quarter.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company is exposed to various market risks in the normal course of business, primarily interest rate risk and changes in market value of its investments and believes its exposure to these risks is minimal. The Company's investments are made in accordance with the Company's investment policy and primarily consist of commercial paper and U.S. corporate bonds. The Company does not currently participate in the investment of derivative financial instruments.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to legal proceedings and claims which arise in the normal course of business. The Company believes that the final disposition of such matters will not have a material adverse effect on the financial position or results of operations of the Company.

In August 1998, the Company, its Directors, and certain underwriters were named as defendants in a complaint filed in the United States District Court for the District of New Jersey by certain shareholders, purportedly on behalf of a class of shareholders, alleging that the defendants, during the period April 30, 1998 through June 12, 1998, violated various provisions of the federal securities laws in connection with an offering of 2,500,000 shares of the Company's Common Stock. The complaint alleged that the Company's offering documents were materially incomplete, and as a result misleading, and that the purported class members purchased the Company's Common Stock at artificially inflated prices and were damaged thereby. Upon a motion made on behalf of the Company, the Court dismissed the shareholder action, without prejudice, allowing the complaint to be refiled. The shareholder action was subsequently refiled, asserting substantially the same claims as in the prior pleading. The Company again moved to dismiss the complaint. By Opinion and Order dated September 28, 2000, the Court dismissed the action, this time with prejudice, thereby barring plaintiffs from any further amendments to their complaint and directing that the case be closed. Plaintiffs filed a Notice of Appeal to the Third Circuit Court of Appeals and the parties submitted their briefs. Subsequently, the parties notified the Court of Appeals that they had reached an agreement in principle to resolve the outstanding appeal and settle the case upon terms and conditions which require submission to the District Court for approval. Upon application of the parties and in order to facilitate the parties' pursuit of settlement, the Court of Appeals issued an Order dated May 18, 2001 adjourning oral argument on the appeal for a period of at least 120 days, and remanded the case to the District Court for further proceedings in connection with the proposed settlement. In the event settlement is not reached, the Company will continue to defend the case vigorously. The amount of alleged damages, if any, cannot be quantified, nor can the outcome of this litigation be predicted. Accordingly, management cannot determine whether the ultimate resolution of this litigation could have a material adverse effect on the Company's financial position and results of operations.

In conjunction with the Company's purchase/lease of its Newark, New York facility in 1998, the Company entered into a payment-in-lieu of tax agreement which provides the Company with real estate tax concessions upon meeting certain conditions. In connection with this agreement, the Company received an environmental assessment, which revealed contaminated soil. The assessment indicated potential actions that the Company may be required to undertake upon notification by the environmental authorities. The assessment also proposed that a second assessment be completed and provided an estimate of total potential costs to remediate the soil of \$230. However, there can be no assurance that this will be the maximum cost. The Company entered into an agreement whereby a third party has agreed to reimburse the Company for fifty percent of the costs associated with this matter. Test sampling occurred in the fourth quarter of fiscal 2001 and the engineering report has been forwarded to the New

York State Department of Environmental Conservation for review. 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.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

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

ULTRALIFE BATTERIES, INC.
(Registrant)

Date: December 28, 2001

By: /s/ John D. Kavazanjian

John D. Kavazanjian
President and Chief Executive Officer

Date: December 28, 2001

By: /s/ Robert W. Fishback

Robert W. Fishback
Vice President of Finance and Chief
Financial Officer