

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 8-K

Current Report Pursuant to
Section 13 or 15(d) of the Securities Exchange Act of 1934

October 3, 2007
(Date of Report)

ULTRALIFE BATTERIES, INC.
(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	000-20852 (Commission File Number)	16-1387013 (IRS Employer Identification No.)
2000 Technology Parkway, Newark, New York (Address of principal executive offices)		14513 (Zip Code)
	(315) 332-7100 (Registrant's telephone number, including area code)	

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement

On October 3, 2007, Ultralife Batteries, Inc. (the "Registrant") and its wholly-owned subsidiary, McDowell Research Co., Inc., a Delaware corporation formerly named MR Acquisition Corporation, entered into a settlement agreement (the "Settlement Agreement") with MRC Chargers, Ltd., a Texas limited partnership, formerly named McDowell Research, Ltd., Thomas Hauke, Earl Martin, Sr., James Evans, Frank Alexander, Gloria Martin, and Lillian Hauke (the "McDowell Parties"). The Settlement Agreement resolves various disputes, issues and claims arising out of the Asset Purchase Agreement, dated May 1, 2006, among the Registrant, its wholly-owned subsidiary, MR Acquisition Corporation, McDowell Research, Ltd., Thomas Hauke, Earl Martin, Sr., James Evans and Frank Alexander (the "Asset Purchase Agreement") pursuant to which the Registrant acquired substantially all of the assets of McDowell Research, Ltd.

The material terms of the Settlement Agreement are as follows:

- o The parties to the Settlement Agreement agreed to reduce the stated purchase price, as defined in the Asset Purchase Agreement, from \$25 million to \$19 million. This adjustment was made by reducing from \$20 million to \$14 million the aggregate principal amount of the subordinated convertible promissory notes outstanding immediately prior to the execution of the Settlement Agreement, which notes were derived from the original subordinated convertible promissory note issued by the Registrant pursuant to the Asset Purchase Agreement.
- o The parties further agreed that the \$1.5 million paid by the Registrant in

the first quarter of 2007 against a purchase price adjustment of \$3.4 million would fully satisfy Registrant's obligations with respect to the purchase price adjustment.

- o The subordinated convertible promissory notes were further amended to increase the interest rate on the unpaid principal amount from four percent (4%) to five percent (5%) per annum and to obligate the Registrant to make a prepayment of \$3.5 million on the principal amount of those notes on or before November 18, 2007.
- o The Settlement Agreement, including the purchase price reduction, related interest rate increase and claim settlement, is subject to termination retroactively if the Registrant fails to make the \$3.5 million prepayment on or before November 18, 2007.

The Settlement Agreement and the form of Amended and Restated Convertible Promissory Notes are being filed as exhibits to this current report and reference is made to those documents for a more complete description of their terms and conditions. A copy of the press release issued by the Registrant in connection with this matter is attached as Exhibit 99.1 to this current report.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

- 10.1 Settlement Agreement dated October 3, 2007, among MRC Chargers, Ltd., Frank Alexander, James Evans, Thomas Hauke, Earl Martin, Sr., Gloria Martin, Lillian Hauke, Ultralife Batteries, Inc. and McDowell Research Co., Inc.
- 10.2(a) Form of Amended and Restated Subordinated Convertible Promissory Note for Frank Alexander and James Evans
- 10.2(b) Form of Amended and Restated Subordinated Convertible Promissory Note for Thomas Hauke, Lillian Hauke, Earl Martin, Sr. and Gloria Martin
- 99.1 Press Release dated October 5, 2007, announcing the Settlement Agreement

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 hereunto duly authorized.

ULTRALIFE BATTERIES, INC.

Date: October 5, 2007

/s/ Peter F. Comerford

Peter F. Comerford
Vice President - Administration &
General Counsel

SETTLEMENT AGREEMENT

SETTLEMENT AGREEMENT is made as of October 3, 2007 (the "Effective Date"), by and among MRC Chargers, Ltd., a Texas limited partnership ("Seller"), formerly named McDowell Research Ltd., Frank Alexander ("FA"), James Evans ("JE"), Thomas Hauke ("TH"), Earl Martin, Sr. ("EM"), Gloria Martin ("GM"), Lillian Hauke ("LH"), Ultralife Batteries, Inc., a Delaware corporation ("ULB"), and McDowell Research Co., Inc., a Delaware corporation wholly owned by ULB and formerly named MR Acquisition Corporation ("MRCI" and together with ULB, "Buyer").

Recitals

R.1. Seller, TH, EM, JE, FA and Buyer are parties to an Asset Purchase Agreement, dated as of May 1, 2006 (together with the Exhibits and Schedules thereto, the "APA"), pursuant to which Buyer purchased the Transferred Assets from Seller on July 3, 2006 (the "Closing"). At the Closing, Buyer paid the \$25 million Purchase Price for the Transferred Assets pursuant to the APA as follows: (a) \$5,000,000 by wire transfer to Seller and (b) by delivery of a \$20 million subordinated convertible note to Seller in the form of APA Exhibit A (the "Original Convertible Note"). (Capitalized terms used but not defined herein shall have the meanings ascribed to them in the APA.)

R.2. On or about April 1, 2007, as requested by Seller pursuant to APA Section 5.20, ULB issued, as successor notes to the Original Convertible Note, six subordinated convertible promissory notes in the aggregate principal amount of \$20 million (the "Convertible Notes"). The holders and principal amounts of the Convertible Notes immediately prior to the effectiveness of this Agreement are, respectively, as follows: (a) FA-\$500,000; (b) JE-\$1,000,000; (c) TH-\$4,625,000; (d) EM-\$4,625,000; (e) GM-\$4,625,000; and (f) LH-\$4,625,000.

R.3. In a letter dated June 27, 2007 from Buyer's counsel Arent Fox LLP to Seller and Seller Shareholders, Buyer made claims against Seller and Seller Shareholders, including for (a) the reimbursement of an overpayment made by Buyer to Seller on or about January 16, 2007 pursuant to APA Section 2.6(c) and (b) the reduction of the aggregate principal amount of the Convertible Notes as indemnification under APA Section 8.1 for Buyer Losses that resulted from breaches of the APA by Seller and each of FA, JE, TH and EM ("Seller Shareholders"), as set forth in the letter from Buyer's counsel ("Buyer's Claim Letter").

R.4. In a letter dated July 6, 2007 from TH to ULB's representative Philip A. Fain, Seller and Seller Shareholders protested Buyer's claims set forth in Buyer's Claim Letter and claimed that Buyer owes Seller a specified additional amount pursuant to APA Section 2.6 (c) ("Seller's Response Letter").

R.5. The Parties desire to (a) settle, release and discharge in full all claims set forth in the Buyer's Claim Letter and Seller's Response Letter and (b) release and discharge in full any and all claims arising from representations and warranties in the APA and certain other claims that might otherwise arise pursuant to the APA.

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Now, therefore, in consideration of the mutual benefits to be derived from this Agreement, the representations, warranties, covenants and agreements expressly set forth in this Agreement, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties, intending to be bound legally, represent, warrant, covenant and agree as follows:

Section 1. General Settlement.

(a) Purchase Price Adjustment. The Parties agree that, in consideration of the settlement, release and discharge hereunder of all of Buyer's claims against Seller and Seller Shareholders set forth in Buyer's Claim Letter, and on the other terms and conditions hereof, including the release and discharge of certain other claims and potential claims under or otherwise arising from the APA, all as provided in Sections 2 and 3, as of the Effective Date:

(i) the Purchase Price under the APA, including as defined in APA Section 2.6(a), shall be, and hereby is, reduced from \$25 million to \$19 million for all purposes and such Purchase Price reduction shall be effected by reducing the aggregate principal amount of the Convertible Notes, on a pro rata basis, from \$20 million to \$14 million as of the Effective Date, as provided in Section 1(b);

(ii) the Convertible Notes shall be further amended as of the Effective Date by (1) increasing the interest rate on the unpaid principal amount of the Convertible Notes, as reduced pursuant to Section 1.1 (a) (i), from four percent to five percent per annum and (2) obligating ULB to make, on or before November 18, 2007, (x) a prepayment in full of \$350,000 and \$700,000, respectively, on the Convertible Notes issued to FA and JE and (y) a prepayment of \$2,450,000 on the principal amount of the Convertible Notes, on a pro rata basis, issued to TH, EM, GM and LH, all as provided in Section 1(b); and

(iii) the final amount payable to Seller under APA Section 2.6(c) is fixed at \$1,500,000 and the Parties acknowledge and agree that Buyer paid such fixed amount to Seller in January 2007, and as a result no claims shall be made by any Party in respect of APA Section 2.6(c).

(b) Amendment of Convertible Notes. To amend and restate the Convertible Notes pursuant to Section 1(a), simultaneously with the execution and delivery of this Agreement:

(i) ULB is issuing and FA is accepting a successor Convertible Note dated the Settlement Date, in the principal amount of \$350,000, substantially in the form of Exhibit A, and in exchange therefor, FA is surrendering to ULB FA's \$500,000 Convertible Note dated April 1, 2007;

(ii) ULB is issuing and JE is accepting a successor Convertible Note dated the Settlement Date, in the principal amount of \$700,000, substantially in the form of Exhibit A, and in exchange therefor, JE is surrendering to ULB JE's \$1,000,000 Convertible Note dated April 1, 2007;

(iii) ULB is issuing and TH is accepting a successor Convertible Note dated the Settlement Date, in the principal amount of \$3,237,500, substantially in the form of Exhibit B, and in exchange therefor, TH is surrendering to ULB TH's \$4,625,000 Convertible Note dated April 1, 2007;

(iv) ULB is issuing and EM is accepting a successor Convertible Note dated the Settlement Date, in the principal amount of \$3,237,500, substantially in the form of Exhibit B, and in exchange therefor, EM is surrendering to ULB EM's \$4,625,000 Convertible Note dated April 1, 2007;

(v) ULB is issuing and GM is accepting a successor Convertible Note dated the Settlement Date, in the principal amount of \$3,237,500, substantially in the form of Exhibit B, and in exchange therefor, GM is surrendering to ULB GM's \$4,625,000 Convertible Note dated April 1, 2007;

(vi) ULB is issuing and LH is accepting a successor Convertible Note dated the Settlement Date, in the principal amount of \$3,237,500, substantially in the form of Exhibit B, and in exchange therefor, LH is surrendering to ULB LH's \$4,625,000 Convertible Note dated April 1, 2007; and

(vii) each of Seller, FA, JE, TH, EM, GM, LH and ULB is executing and delivering an Amendment to Subordination and Intercreditor Agreement with JPMorgan Chase Bank, N.A., as Senior Lender Representative, dated on or about the date hereof, substantially in the form of Exhibit C, which, in connection with the transactions contemplated hereby, amends the Subordination and Intercreditor Agreement dated as of July 3, 2006 among Seller, ULB and Senior Lender Representative.

Section 2. Release of Certain APA Claims.

(a) Release of Seller, Seller Shareholders, GM and LH. Buyer does hereby release, acquit and forever discharge Seller, each of Seller Shareholders, GM and LH from any and all Released Claims.

(b) Seller's Response Letter. Seller, each of Seller Shareholders, GM and LH does hereby release, acquit and forever discharge Buyer from any and all claims of Seller, one or more Seller Shareholders, GM or LH against Buyer set forth in Seller's Response Letter, including any and all such claims under APA Section 2.6(c).

Section 3. Certain Acknowledgments, Representations and Warranties. Each Party acknowledges, represents and warranties to the other Parties that:

(a) such Party is entering into this Agreement and consummating the transactions contemplated hereby freely and voluntarily;

(b) such Party has ascertained and weighed all the facts and circumstances likely to influence the Party's judgment herein;

(c) such Party has given due consideration to the terms and conditions herein;

(d) such Party has been advised by, and has had a full and fair opportunity to review the contents of this Agreement with, the Party's counsel, and the Party thoroughly understands and consents to all terms and conditions hereof;

(e) such Party has full legal right, power and authority to enter into and perform all of the Party's obligations under this Agreement, and this Agreement has been duly executed and delivered by the Party in accordance with its terms;

(f) this Agreement constitutes without further action by or authorization of any other Person, a legal, valid and binding obligation of such Party enforceable against the Party in accordance with its terms; and

(g) neither the execution and delivery of this Agreement nor the consummation by such Party of the transactions contemplated hereby, or compliance by the Party any of the provisions hereof will (with or without the giving of notice or the passage of time) (i) result in a breach of any agreement, (ii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Party or any of its assets, or (iii) require the consent, approval, permission or other authorization of any other Person.

Section 4. Continued Effectiveness of Certain Agreements. Notwithstanding the effectiveness of this Agreement, the Registration Rights Agreement and the Separation Agreement and Release effective as of February 26, 2007 between MRCI and each of FA and TH shall remain in full force and effect, without change, amendment, modification or waiver hereby. As of and after the Effective Date, any and all obligations and liabilities of Seller, each of Seller Shareholders, GM and LH under the APA are hereby and shall be released, acquitted and forever discharged by Buyer, except that, notwithstanding the foregoing or anything else herein to the contrary, the respective obligations and liabilities of Seller, each of Seller Shareholders, GM and LH under the Continuing APA Sections shall remain in full force and effect, without change, amendment, modification or waiver hereby. Except as otherwise set forth in or contemplated by this Agreement, or set forth in or contemplated by the successor Convertible Notes referenced in Section 1, the APA shall remain in full force and effect, without change, amendment, modification or waiver, as to the obligations and liabilities of Buyer thereunder to the other Parties.

Section 5. Settlement Closing. Subject to the terms and conditions hereof, the consummation of the transactions contemplated hereby (the "Settlement Closing") shall take place at the offices of Arent Fox LLP, 1050 Connecticut Avenue, N.W., Washington, D.C. 20036, or such other place as Buyer and Seller may agree, on the Effective Date. Notwithstanding anything herein to the contrary, the Settlement Closing shall only be deemed to have been consummated upon the Effective Date.

Section 6. Non-Disparagement and Confidentiality

(a) Except in connection with enforcing any rights or obligations under this Agreement or under any other agreement referenced herein, including the APA and the Convertible Notes, Seller, each Seller Shareholder, GM and LH shall refrain from taking any action or making any statements, written or oral, which disparage or defame the goodwill or reputation of ULB or MRCI or any of their respective officers, agents, directors, employees and subsidiaries.

(b) Seller, each Seller Shareholder, GM and LH shall refrain from taking any action or making any statements, written or oral, which contain confidential, sensitive, financial, strategic or non-public information about ULB or MRCI or any of their respective officers, agents, directors, employees and subsidiaries.

(c) Except in connection with enforcing any rights or obligations under this Agreement or under any other agreement referenced herein, including the APA and the Convertible Notes, Buyer and Buyer's directors and officers shall refrain from taking any action or making any statements, written or oral, which disparage or defame the goodwill of Seller, any Seller Shareholder, GM or LH.

Section 7. Retroactive Termination of this Agreement. Notwithstanding anything to the contrary herein, if as of 5:00 p.m. EST on November 18, 2007, any of the \$350,000, \$700,000 or \$2,450,000 prepayments contemplated by Section 1(a)(ii) have not been made, any one or more of FA, JE, TH, EM, GM and LH holding a majority in principal amount of the Convertible Notes issued pursuant to Section 1(b) shall be entitled, upon five Business Day's prior notice to Buyer, to terminate this Agreement, provided that (a) all of the unpaid prepayments contemplated by Section 1 (a)(ii) have not been subsequently paid before the effectiveness of such termination and (b) all six successor Convertible Notes issued pursuant to Section 1(b) have been surrendered to Buyer in exchange for the Convertible Notes surrendered pursuant to Section 1(b). Upon such termination, (a) this Agreement shall be null and void retroactively and of no force or effect whatsoever (except as provided in this Section 7), as if it were never entered into nor the transactions contemplated hereby ever consummated, including the issuances of the successor Convertible Notes pursuant to Section 1 and the settlement and release of claims pursuant to Sections 1 and 2, (b) the six Convertible Notes surrendered pursuant clause (i) through (vi) of Section 1(b) shall be reissued by Buyer to their respect holders as if they had never been surrendered for successor Convertible Notes hereunder, and (c) all rights, benefits, remedies, powers, covenants, obligations and liabilities of the Parties under or otherwise in respect of the APA and the Convertible Notes surrendered pursuant to clauses (i) through (vi) of Section 1(b) shall remain unchanged, as though this Agreement had never been executed and effective and the transactions contemplated hereby (other than pursuant to this Section 7) had never been consummated.

Section 8. Specific Performance. Each of the Parties recognizes and affirms that in the event of breach by any of them of any of the provisions of this Agreement, money damages would be inadequate and no adequate remedy at law would exist. Accordingly, each of the Parties agree that any Party shall have the right to enforce its rights and the obligations of any other Party under this Agreement by an action or action for specific performance, injunction or other equitable relief to enforce or prevent any breach of the provisions of this Agreement. The rights under this Section 8 will not be exclusive of other rights and remedies existing in favor of an aggrieved Party, and will not be exclusive of actions for damages, unless the court, in awarding equitable relief, awards such relief on an exclusive basis.

Section 9. Entire Agreement. This Agreement and the other agreements expressly referred to herein set forth the entire agreement and understanding of the Parties in respect of the transactions contemplated hereby and supersede all prior agreements, arrangements and understandings relating to the subject matter hereof, including all such agreements, arrangements and understandings between the Parties.

Section 10. Waivers and Modifications. This Agreement may be changed, extended, superseded or canceled, only by a written instrument executed by the Parties, and no waiver of compliance with any term or condition hereof shall be effected unless evidenced by an instrument in writing duly executed by the proper Party.

Section 11. Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (a) upon receipt, if it is sent by registered or certified mail, return receipt requested, postage prepaid, (b) two days after receipt is electronically confirmed, if sent by fax (provided that a hard copy shall be promptly sent by first class mail), or (c) two Business Days following deposit with a recognized national overnight courier service for next day delivery, charges prepaid, and, in each case, addressed to the intended recipient as set forth below:

If to Seller:
Mr. Frank Alexander
499 Harding Lane
Moody, Texas 76557

(d) EM
Mr. Earl Martin, Sr.
216 Buckingham
Hewitt, Texas 76557

If to Seller Shareholders:
(a) FA
Mr. Frank Alexander
499 Harding Lane
Moody, Texas 76557

(e) GM
Mrs. Gloria Martin
216 Buckingham
Hewitt, Texas 76557

(b) JE
Mr. James Evans
3008 Bay Shore Lane
Suffolk, VA 23435

(f) LH
Mrs. Lillian Hauke
99 River Ridge Drive
Waco, Texas 76705

(c) TH
Mr. Thomas Hauke
99 River Ridge Drive
Waco, Texas 76705

In respect of any notice to Seller,
Seller Shareholders, GM or LH,
with a copy to (which shall not
constitute notice):
Naman, Howell, Smith & Lee, LLP
900 Washington Avenue, 7th Floor
Waco Texas 76703-1470
Attention: Wesley J. Filer
Fax: (254) 754-6331

If to Buyer:

Ultralife Batteries, Inc.
2000 Technology Parkway
Newark, New York 14513
Attention: Chief Executive Officer
Fax: (315) 331-7048

With a copy to (which shall not
constitute notice):
Arent Fox LLP
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036
Attention: Carter Strong
Fax: (202) 857-6395

Any Party may give any notice, request, demand, claim, or other communication hereunder using any other means (including personal delivery, expedited courier, messenger service, telecopy, telex, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is delivered to the Person for whom it is intended. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other parties notice in the manner herein set forth.

Section 12. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to its principles of conflicts of laws.

Section 13. No Assignment. This Agreement shall be binding upon the successors and permitted assigns of the Parties. No assignment of any rights or delegation of any obligations provided for herein may be made by any Party.

Section 14. Survival. All of the respective representations, warranties, acknowledgments, covenants and agreements of the Parties contained herein shall survive the Effective Date and Settlement Closing.

Section 15. Further Assurances. If at any time Buyer or Seller shall consider or be advised that any further agreements, assurances or other documents are reasonably necessary or desirable to carry out the provisions hereof and the transactions contemplated hereby, the Parties hereto shall execute and deliver any and all such agreements or other documents, and do all things necessary or appropriate to carry out fully the provisions hereof.

Section 16. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

Section 17. Facsimiles. Facsimile copies of signatures on this Agreement shall be deemed originals for all purposes hereof and a Party may produce such copies, without the need to produce original signatures, to prove the existence of the Agreement on any proceeding brought hereunder.

Section 18. Expenses. Each Party shall pay its own costs and expenses in connection with this Agreement.

Section 19. Principles of Construction and Certain Definitions.

(a) Construction of this Agreement and Certain Terms and Phrases.

(i) The section headings contained in this Agreement are inserted for purposes of convenience of reference only and shall not affect the meaning or interpretation hereof.

(ii) Unless the context of this Agreement otherwise requires, (1) words of any gender include each other gender; (2) words using the singular or plural number also include the plural or singular number, respectively; (3) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; and (4) the terms "Section" and "Exhibit" refer to the specified Section and Exhibit, respectively, of this Agreement.

(iii) The word "including" is not exclusive; if exclusion is intended, the word "comprising" is used instead.

(iv) The word "or" shall be construed to mean "and/or" unless the context clearly prohibits that construction.

(v) The Parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

(b) Certain Defined Terms. As used in this Agreement, the following defined terms have the meanings ascribed to them below.

(i) "Agreement" means this Settlement Agreement by and among the Parties, including Exhibits A, B and C.

(ii) "Business Day" means any day, other than a Saturday or Sunday, on which commercial banking institutions in New York, New York are open for the transaction of substantially all of their banking business.

(iii) "Continuing APA Sections" means (1) any one or more of APA Sections 5.4 (Business Name Change) and 5.11 (Non-Competition), and (2) APA Sections 8.1(b) (Indemnification by Seller and Seller Shareholders), 8.3 (Right of Offset), 8.4 (Indemnification Procedures), and 8.5 (Indemnification Limitations) and APA Article X (In General), in each case with regard to such APA Sections and APA Article X only in respect of APA Sections 5.4 and 5.11.

(iv) "Party" means any of Seller, FA, JE, TH, EM, GM, LH and Buyer.

(v) "Person" means an individual, a corporation, an association, a partnership, a limited liability company, a joint stock company, an estate, a trust and any other entity, including governmental entity or other organization.

(vi) "Released Claims" means (1) any and all claims of Buyer set forth in Buyer's Claim Letter, and (2) any and all other claims of Buyer including those claims that arose before or on the Effective Date and those that, but for this Agreement, would have arisen after the Effective Date, under or otherwise in respect of the APA other than under or otherwise in respect of one or more Continuing APA Sections.

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

MCR Chargers, Ltd.

By: MCR Chargers GP, Inc. as General Partner

By: /s/Thomas Hauke

Thomas Hauke, President

/s/Frank Alexander

Frank Alexander

/s/James Evans

James Evans

/s/Thomas Hauke

Thomas Hauke

/s/Earl Martin, Sr.

Earl Martin, Sr.

/s/Gloria Martin

Gloria Martin

/s/Lillian Hauke

Lillian Hauke

Ultralife Batteries, Inc.

By: /s/John D. Kavazanjian

John D. Kavazanjian
Chief Executive Officer and President

McDowell Research Co., Inc.

By: /s/Peter F. Comerford

Name: Peter F. Comerford

Title: Secretary

THE SECURITY REPRESENTED BY THIS INSTRUMENT HAS RESULTED FROM A DISTRIBUTION AND SPLITTING UP OF A SECURITY THAT WAS ORIGINALLY ISSUED ON JULY 3, 2006, AND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE TRANSFER OF SUCH SECURITY IS SUBJECT TO THE CONDITIONS SPECIFIED IN THE ASSET PURCHASE AGREEMENT, DATED AS OF MAY 1, 2006, AS AMENDED AND MODIFIED FROM TIME TO TIME, BY AND AMONG MCDOWELL RESEARCH LTD., THOMAS HAUKE, EARL MARTIN, SR., JAMES EVANS, FRANK ALEXANDER, ULTRALIFE BATTERIES, INC. (THE "COMPANY") AND MR ACQUISITION CORPORATION, AND THE COMPANY RESERVES THE RIGHT TO REFUSE THE TRANSFER OF SUCH SECURITY UNTIL SUCH CONDITIONS HAVE BEEN FULFILLED WITH RESPECT TO SUCH TRANSFER. UPON WRITTEN REQUEST, A COPY OF SUCH CONDITIONS SHALL BE FURNISHED BY THE COMPANY TO THE HOLDER HEREOF WITHOUT CHARGE.

THIS AMENDED AND RESTATED NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE OFFERED OR SOLD EXCEPT: (i) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT (ii) TO THE EXTENT APPLICABLE, PURSUANT TO RULE 144 UNDER THE ACT (OR ANY SIMILAR RULE UNDER THE ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, AND AN EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE,

 AMENDED AND RESTATED

 SUBORDINATED CONVERTIBLE

 PROMISSORY NOTE

FOR VALUE RECEIVED, ULTRALIFE BATTERIES, INC., a Delaware corporation with offices at 2000 Technology Parkway, Newark, New York 14513 (the "Company"), hereby promises to pay to the order of [NAME OF PAYEE], who has an address of [ADDRESS OF PAYEE], or registered assigns ("Holder") the principal sum of [REVISED PRINCIPAL AMOUNT] Dollars (\$[REVISED PRINCIPAL AMOUNT]), or such lesser principal amount to which this Amended and Restated Note shall have been adjusted in accordance with the provisions of the Purchase Agreement (as defined below), together with interest thereon calculated from the date hereof, in accordance with the provisions of this Amended and Restated Note.

This Amended and Restated Note originated from a distribution and splitting up of the subordinated convertible promissory note that was originally issued on July 3, 2006 pursuant to the Asset Purchase Agreement, dated as of May 1, 2006 (the "Purchase Agreement"), by and among the McDowell Research, Ltd., Thomas Hauke, Earl Martin, Sr., James Evans, Frank Alexander, the Company and MR Acquisition Corporation and the applicable provisions thereof, as may be amended by the Settlement Agreement (as defined below), are hereby incorporated herein in full by reference. The principal amount of this Amended and Restated Note reflects adjustments that have been made in accordance with that certain Settlement Agreement, dated as of the date hereof, by and among MRC Chargers, Ltd., Frank Alexander, James Evans, Thomas Hauke, Earl Martin, Sr., Gloria Martin, Lillian Hauke, the Company and McDowell Research Co., Inc. (the "Settlement Agreement"). The Purchase Agreement contains terms governing the rights of the Holder of this Amended and Restated Note and the Holder is entitled to the benefits thereof. All capitalized terms used herein and not otherwise defined shall have the meanings given thereto in the Purchase Agreement.

1. Interest. Except as otherwise expressly provided herein, interest shall accrue from July 1, 2007 through and including the date hereof on the original unpaid principal amount of [ORIGINAL PRINCIPAL AMOUNT] outstanding at the rate of four percent (4%) per annum. Commencing on the day after the date hereof, interest shall accrue on the unpaid principal amount of this Amended and Restated Note outstanding until such time as payment thereof is actually delivered to the Holder (including after acceleration, maturity or judgment) at the rate of five percent (5%) per annum. All interest shall be calculated on the basis of actual days elapsed divided by a 360 day year.

Upon the occurrence of an Event of Default, at Holder's option interest on the outstanding principal hereunder shall accrue at a rate per annum from time to time equal to the rate of interest then in effect on this Amended and

Restated Note plus two percent (2%) per annum. Any increase in the interest rate shall be in addition to the Holder's other available remedies.

2. Payments. Interest shall be due and payable quarterly in arrears of each year that this Amended and Restated Note is outstanding, commencing on October 1, 2007 and continuing on the first day of each calendar quarter thereafter until the principal hereof shall have become due and payable, and on the Maturity Date hereof.

All unpaid accrued interest and all outstanding principal shall be due and payable in full on or before November 18, 2007 (the "Maturity Date").

3. Voluntary Prepayments. This Amended and Restated Note may be prepaid by the Company in whole or in part at any time without prior notice to Holder.

4. Conversion Rights.

(a) The Holder may convert the outstanding principal amount of this Amended and Restated Note (or a portion of such outstanding principal amount as provided in Section 4(c)) into fully paid and nonassessable shares of Common Stock of the Company (the "Conversion Shares") at any time, and from time to time, prior to the time the outstanding principal amount of this Amended and Restated Note is paid in full (subject to the notice periods and conversion rights related thereto described elsewhere in this Amended and Restated Note), at the Conversion Price (defined below) then in effect (collectively, the "Conversion Rights"); provided, however, that if the closing price of the Company's Common Stock as quoted on Nasdaq on the Closing Date is greater than \$12.00 per share, then the Holder will be precluded from exercising the conversion rights under this Amended and Restated Note until the first anniversary date of this Amended and Restated Note. The initial per share conversion price (the "Conversion Price") shall be Fifteen and no/100 Dollars (\$15.00). The Conversion Price is subject to adjustment as provided in Section 5.

(b) The provisions of this Amended and Restated Note that apply to conversion of the outstanding principal amount of this Amended and Restated Note also apply to a partial conversion of this Amended and Restated Note. The Holder is not entitled to any rights of a holder of Conversion Shares until the Holder has converted this Amended and Restated Note (or a portion thereof) into Conversion Shares, and only to the extent that this Amended and Restated Note is deemed to have been converted into Conversion Shares under this Section 4.

(c) To convert all or a portion of this Amended and Restated Note, the Holder must (a) complete and sign a notice of election to convert substantially in the form of Exhibit I hereto (each, a "Conversion Notice"), (b) surrender this Amended and Restated Note to the Company, and (c) furnish appropriate endorsements or transfer documents if required by the Company. The date on which the Holder satisfies all of such requirements is the conversion date (the "Conversion Date"). As soon as practicable, and in any event within ten (10) business days after the Conversion Date, the Company will deliver, or cause to be delivered, to the Holder a certificate for the number of whole Conversion Shares issuable upon such conversion and a check for any fractional Conversion Share determined pursuant to Section 4(d). The person in whose name the certificate for Conversion Shares is to be registered shall become the stockholder of record on the Conversion Date and, as of the Conversion Date, the rights of the Holder as to this Amended and Restated Note shall cease as to the portion thereof so converted; provided, however, that no surrender of a Amended and Restated Note on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the person entitled to receive the Conversion Shares upon such conversion as the stockholder of record of such Conversion Shares on such date, but such surrender shall be effective to constitute the person entitled to receive such Conversion Shares as the stockholder of record thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; provided further that such conversion shall be at the Conversion Price in effect on the date that this Amended and Restated Note shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed.

In the case of a partial conversion of this Amended and Restated Note, upon such conversion, the Company shall execute and deliver to the Holder, at the expense of the Company, a new Amended and Restated Note in an aggregate principal amount equal to the unconverted portion of the principal amount.

(d) No fractional Conversion Shares shall be issued upon exercise of the Conversion Rights. Instead of any fractional Conversion Share which would otherwise be issuable upon conversion of this Amended and Restated Note, the Company shall calculate and pay a cash adjustment in respect of such fraction (calculated to the nearest 1/100th of a share) in an amount equal to the same fraction of the Conversion Price at the close of business on the Conversion Date.

(e) The issuance of certificates for Conversion Shares upon exercise of any of the Conversion Rights shall be made without charge to the Holder for such certificates or for any tax in respect of the issuance of such certificates, and such certificates shall be issued in the name of, or in such names as may be directed by, the Holder; provided, however, that in the event that certificates for Conversion Shares are to be issued in a name or names other than the name of the Holder, such Amended and Restated Note, when surrendered for conversion, shall be accompanied by an instrument of transfer, in form satisfactory to the Company, duly executed by the Holder or his duly authorized attorney; and provided further, moreover, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificates in a name or names other than that of the Holder, and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not applicable.

(f) The Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized and unissued Common Stock, solely for the purpose of effecting the conversion of this Amended and Restated Note, the full number of Conversion Shares then issuable upon the conversion in full of this Amended and Restated Note.

If the Company or an affiliate of the Company shall at any time after the date hereof and prior to the conversion of this Amended and Restated Note in full issue any rights to subscribe for shares of Common Stock or any other securities of the Company or of such affiliate to all the stockholders of the Company, the Holder of the unconverted portion of this Amended and Restated Note shall be entitled, in addition to the shares of Common Stock or other securities receivable upon the Conversion thereof, to receive such rights at the time such rights are distributed to the other stockholders of the Company, to be calculated on an as-converted basis.

5. Adjustments to Conversion Rights.

(a) General. In order to prevent dilution of the rights granted under this Amended and Restated Note, the Conversion Price and the number of Conversion Shares shall be subject to adjustment from time to time as provided in this Section 5(a). It is the intention of the Company that the Conversion Price shall at all times be the lower of (i) the Conversion Price on the date of this Amended and Restated Note and (ii) the Conversion Price determined by adjustment pursuant to the remainder of this Section 5(a). In the event that at any time the Common Stock of the Company shall be exchanged for, or changed into, a different kind and/or a number of shares of stock of the Company or of another corporation by reason of a merger, consolidation, sale of assets, recapitalization, reclassification, stock dividend, stock split-up or combination of shares or otherwise, then, until any further adjustment is required, there shall be issuable upon the conversion of this Amended and Restated Note, in lieu of each share of Common Stock of the Company or of any other stock theretofore issued pursuant to the provisions of this Amended and Restated Note, the kind and/or number of shares of stock for which each share of Common Stock of the Company or such other stock shall be so exchanged, or into which each share of Common Stock of the Company or such other stock shall be so changed and the Conversion Price shall be automatically adjusted to a new Conversion Price as nearly equivalent as practicable to the adjustment in shares of stock, if by reason of such merger, consolidation, recapitalization, reclassification or otherwise the number of issued and outstanding shares of Common Stock of the Company shall have been exchanged for or changed into such new shares on other than a one-to-one basis. No adjustment in the Conversion Price shall be made for cash dividends on the shares of Common Stock of the Company or any other stock issued upon any conversion of this Amended and Restated Note.

(b) Notices. Immediately upon any adjustment of the Conversion Price, the Company shall give written notice thereof to the Holder, setting forth in reasonable detail and certifying the calculation of such adjustment.

6. Company Right to Compel Conversion. Notwithstanding any other provisions of this Amended and Restated Note, the Company shall have the right, at the Company's sole discretion, to compel the Holder to convert this Amended and Restated Note at any time after the 30-day average closing price of the Company's Common Stock exceeds Seventeen and 50/100 Dollars (\$17.50) per share. In such event, the Company shall provide the Holder with written notice of conversion, setting forth the basis upon which the conditions to compel the conversion were satisfied. Thereafter, this Amended and Restated Note shall only represent the right to receive the Conversion Shares and any accrued but unpaid interest.

7. Subordination. The Holder agrees that the payment of the principal of and the interest on this Amended and Restated Note is expressly subordinated to the payment of all Senior Indebtedness, to the extent and subject to the conditions set forth in this Section 7. As used herein, the term "Senior Indebtedness" shall mean the principal of, the interest on and the premium, if any, on all indebtedness of the Company for money borrowed by it from any financial institution including banks, savings institutions or insurance companies and similar institutional lenders, and all renewals, extensions and refundings of any such indebtedness, whether such indebtedness shall have been incurred prior to, on, or subsequent to the date hereof, unless by the terms of the instruments creating or evidencing any such indebtedness it is provided that such indebtedness is not to be considered Senior Indebtedness for the purpose of this Amended and Restated Note.

(a) No interest or principal shall be paid on this Amended and Restated Note without the consent of the holders of all outstanding Senior Indebtedness if, at the date fixed herein for such interest or principal payment, the Company shall be in default of payment of principal or interest upon such Senior Indebtedness. In the event any payment of interest or principal hereunder shall be prohibited pursuant to this Section 7(a), such payment shall be deemed to be deferred until the cure of all defaults in payment of principal or interest upon the Senior Indebtedness, and the payments hereon so deferred shall immediately become due and payable upon the cure of such defaults.

(b) In the event of any dissolution, winding up, liquidation or reorganization of the Company, whether in bankruptcy, insolvency or receivership proceedings, or upon an assignment for the benefit of creditors or in any other marshalling of the assets and liabilities of the Company the holders of all Senior Indebtedness shall first be entitled to receive payment in full of such Senior Indebtedness before the Holder shall be entitled to receive any payment upon the principal of, the interest on, or the premium, if any, on the indebtedness evidenced by this Amended and Restated Note. Upon any such dissolution, winding up, liquidation or reorganization, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holder would be entitled, except for the provisions of this Section 7, shall be made by the liquidating trustee or agent or such person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the Holders of the Senior Indebtedness or their representatives or to the trustee or trustees under any indenture or indentures under which any instruments evidencing any such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held or represented by each, to the extent necessary to pay in full all such Senior Indebtedness remaining unpaid, after giving effect to all concurrent payments or distributions with respect to such Senior Indebtedness.

(c) In the event that, notwithstanding the provisions of Section 7(b), upon any such dissolution, or winding up, liquidation or reorganization, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the Holder before all Senior Indebtedness is paid in full, such payment or distribution shall be paid over to the holders of such Senior Indebtedness or their representatives, ratably as aforesaid, for the application to the payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution with respect to such Senior Indebtedness.

(d) Subject to the payment in full of all Senior Indebtedness, the Holder to the extent permitted by law, shall be subrogated to the rights of each holder of Senior Indebtedness (to the extent of the payments or distributions made to such holder pursuant to the provisions of Sections 7(b) and 7(c)) to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness until the principal of, the interest on, and the premium, if any, on this Amended and Restated Note shall be paid in full, and each holder of Senior Indebtedness by accepting such payments or distributions shall be deemed to have agreed to said subrogation. No payments or distributions to the Senior Indebtedness pursuant to the provisions of Sections 7(b) and 7(c) shall, as between the Company, its creditors, other than the holders of the Senior Indebtedness, and the Holder, be deemed to be a payment by the Company to or on account of this Amended and Restated Note, the provisions of this Section 7 being, and being intended, solely for the purpose of defining the relative rights of the Holder, on the one hand, and the holders of the Senior Indebtedness, on the other hand; and nothing contained in this Section 7 or elsewhere in this Amended and Restated Note is intended to or shall impair, as between the Company, the Holder and the other creditors of the Company, other than the holders of Senior Indebtedness, the obligations of the Company, which is unconditional and absolute, to pay to the Holder as and when the same shall become due and payable in accordance with the terms herein, or to affect the relative rights of the Holder and the other creditors of the Company, other than the holders of Senior Indebtedness, or to prevent the Holder from exercising all of the remedies otherwise permitted by applicable law upon default as provided for herein, subject to the rights, if any, under this Section 7 of the holders of the Senior Indebtedness in respect of any cash, property or securities of the Company received upon the exercise of any such remedy.

(e) In the event that this Amended and Restated Note shall be declared due and payable before the Maturity Date because of the occurrence of a default hereunder, the Company will give prompt notice in writing of such happening to the holders of the Senior Indebtedness, and any and all Senior Indebtedness shall forthwith become immediately due and payable upon demand by the respective holders thereof regardless of the express maturity dates thereof

Without limiting any of the foregoing, this Amended and Restated Note is further subject to the Subordination and Intercreditor Agreement dated as of July 3, 2006 among JP Morgan Chase Bank, N.A., Manufacturers and Traders Trust Company, MC Chargers, Ltd., formerly named McDowell Research, Ltd., and the Company, as amended by an Amendment to Subordination and Intercreditor Agreement dated as of September __, 2007 among MRC Chargers, Ltd., Frank Alexander, James Evans, Thomas Hauke, Earl Martin, Sr., Gloria Martin, Lillian Hauke and the Company (as so amended, the "Subordination and Intercreditor Agreement"), pursuant to which, among other things, this Amended and Restated Note and the Company's obligations hereunder are subordinated in the manner and to the extent set forth in the Subordination and Intercreditor Agreement to the prior payment of certain obligations to the holders of Senior Obligations as defined therein.

8. Events of Default.

In the event that there shall be any Event of Default hereunder and such Event of Default shall remain uncorrected or unremedied for a period of more than thirty (30) days after the Company shall have received notice of such Event of Default from the Holder, then the full unpaid principal amount of this Amended and Restated Note, together with any accrued but unpaid interest, may, at the option of the Holder, become immediately due and payable without further notice by the Holder.

(a) "Event of Default" as used in this Section 8 shall mean and refer to any of the following:

(i) the failure of the Company to pay any installment of interest or principal on this Amended and Restated Note when and as the same shall become due and payable, whether at maturity, by mandatory prepayment, by call for redemption, by declaration or otherwise;

(ii) the failure of the Company, to pay any installment of interest or principal on Senior Indebtedness when and as the same shall become due and payable, unless such payment shall have been deferred or waived by the terms of the instruments evidencing such Senior Indebtedness or by the holder thereof;

(iii) the failure of the Company to observe and perform all of the covenants and agreements on the part of the Company contained herein or in the Asset Purchase Agreement;

(iv) failure of any representation or warranty made by the Company in the Asset Purchase Agreement to be truthful, accurate or correct;

(v) the adjudication of the Company as a bankrupt by a court of competent jurisdiction or the entry by a court of competent jurisdiction of an order approving a petition seeking reorganization of the Company under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof or any other jurisdiction;

(vi) the appointment by a court of competent jurisdiction of a trustee or receiver or receivers of the Company of all or any substantial part of its property upon the application of any creditor in any insolvency or bankruptcy proceeding or other creditor suit, unless such appointment or decree or order shall be stayed upon appeal or otherwise;

(vii) the filing by the Company of a petition of involuntary bankruptcy or the making by the Company of an assignment for the benefit of its creditors or the consenting by the Company to the appointment of a receiver or receivers for all or any substantial portion of the property of the Company;

(viii) the filing by the Company of a petition or answer seeking reorganization under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof or jurisdiction, or the filing by the Company of a petition to take advantage of any debtor's act.

(b) Upon the occurrence of an Event of Default which shall remain uncorrected or unremedied for a period of more than thirty (30) days after the Company shall have received notice of such Event of Default from the Holder, the Holder shall at all times have the right to institute any suit, action or proceeding, in equity or at law, for the enforcement of rights as provided for herein, or in aid of the exercise of any right or power granted herein.

(c) This Amended and Restated Note shall be the obligation of the Company solely and there shall be no recourse had for the payment thereof or interest thereon against any stockholder, officer or director of the Company, either directly or through the Company, by reason of any matter prior to the delivery of this Amended and Restated Note, or against any present or future officer or director of the Company, all such liability being expressly released by the Holder and by any subsequent holders hereof by the acceptance hereof and as part of the consideration for the issuance thereof.

The Holder shall also have any other rights which the Holder may have been afforded under any contract or agreement at any time and any other rights which such holder may have pursuant to applicable law. The Company hereby waives diligence, presentment and protest and expressly agrees that this Amended and Restated Note, or any payment hereunder, may be extended from time to time and that the Holder may accept security for this Amended and Restated Note or release security for this Amended and Restated Note, all without in any way affecting the liability of the Company hereunder.

9. Amendment and Waiver. Except as otherwise expressly provided herein, the provisions of this Amended and Restated Note may be amended and the Company may take any action herein prohibited; or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Holder.

10. Cancellation. After all principal and accrued interest at any time owed on this Amended and Restated Note has been paid in full, this Amended and Restated Note shall be surrendered to the Company for cancellation and shall not be reissued.

11. Payments. Unless otherwise expressly provided herein, all payments to be made to the Holders shall be made in the lawful money of the United States of America in immediately available funds which shall be delivered to the address designated by the Holder.

12. Transfer of Amended and Restated Note. This Amended and Restated Note may be transferred only in accordance with the terms of the Asset Purchase Agreement, and the Company shall treat the Person to whom this Amended and Restated Note is assigned in accordance therewith for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

13. Business Days. If any payment is due, or any time period for giving notice or taking action expires, on a day which is a Saturday, Sunday or legal holiday in the State of New York, the payment shall be due and payable on, and the time period shall automatically be extended to, the next business day immediately following such Saturday, Sunday or legal holiday, and interest shall continue to accrue at the required rate hereunder until any such payment is made.

14. Right of Offset. This Amended and Restated Note is subject to the Buyer's right of offset pursuant to the provisions of Section 8.3 of the Purchase Agreement, subject to any limitations on that right imposed by the Settlement Agreement.

15. Notices. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Amended and Restated Note shall be given in accordance with the Purchase Agreement.

16. New York Law. This Amended and Restated Note is intended to be performed in the State of New York and shall be construed and enforced in accordance with the laws of such State.

THIS AMENDED AND RESTATED SUBORDINATED CONVERTIBLE PROMISSORY NOTE IS ISSUED TO [NAME OF PAYEE] IN AN AMOUNT EQUAL TO [NAME OF PAYEE'S] PRO RATA INTEREST IN MRC CHARGERS, LTD., FORMERLY MCDOWELL RESEARCH, LTD., PURSUANT TO THE VOLUNTARY LIQUIDATION OF THE PREVIOUS AMENDED AND RESTATED NOTE HOLDER, MRC CHARGERS, LTD. AS SUCH AMOUNT HAS BEEN ADJUSTED PURSUANT TO THE TERMS OF THAT CERTAIN SETTLEMENT AGREEMENT DATED AS OF THE DATE HEREOF BY AND AMONG MRC CHARGERS, LTD., FRANK ALEXANDER, JAMES EVANS, THOMAS HAUKE, EARL MARTIN, SR., GLORIA MARTIN, LILLIAN HAUKE, THE COMPANY AND MCDOWELL RESEARCH CO., INC.

IN WITNESS WHEREOF, the Company has executed and delivered this Amended and Restated Subordinated Convertible Promissory Note on October 3, 2007.

ULTRALIFE BATTERIES, INC.

By:

John D. Kavazanjian
Chief Executive Officer

Title:

EXHIBIT I
FORM OF CONVERSION NOTICE

The undersigned hereby irrevocably elects to exercise its right, pursuant to the Amended and Restated Subordinated Convertible Promissory Note dated _____ (the "Amended and Restated Note") of Ultralife Batteries, Inc. (the "Company") in the outstanding principal amount of \$_____, which Amended and Restated Note is tendered herewith, to convert \$_____ of the amount outstanding under the Amended and Restated Note to shares of the common stock of the Company (the "Shares"), all in accordance with the terms of the Amended and Restated Note. The undersigned requests that a Certificate for such Shares be registered in the name of _____, whose address is _____, and that such Certificate be delivered to _____, whose address is _____, [and that a replacement Amended and Restated Note in the principal amount of \$_____, representing the balance of the principal amount outstanding thereunder after giving effect to this conversion, be issued in the amount of \$_____ and delivered to _____, whose address is _____].

Dated: _____

Signature: _____

(Signature must conform in all respects to name of holder as specified on the face of the Amended and Restated Note.)

(Insert Taxpayer Identification, Social Security or Other Identifying Number of Holder)

THE SECURITY REPRESENTED BY THIS INSTRUMENT HAS RESULTED FROM A DISTRIBUTION AND SPLITTING UP OF A SECURITY THAT WAS ORIGINALLY ISSUED ON JULY 3, 2006, AND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE TRANSFER OF SUCH SECURITY IS SUBJECT TO THE CONDITIONS SPECIFIED IN THE ASSET PURCHASE AGREEMENT, DATED AS OF MAY 1, 2006, AS AMENDED AND MODIFIED FROM TIME TO TIME, BY AND AMONG MCDOWELL RESEARCH LTD., THOMAS HAUKE, EARL MARTIN, SR., JAMES EVANS, FRANK ALEXANDER, ULTRALIFE BATTERIES, INC. (THE "COMPANY") AND MR ACQUISITION CORPORATION, AND THE COMPANY RESERVES THE RIGHT TO REFUSE THE TRANSFER OF SUCH SECURITY UNTIL SUCH CONDITIONS HAVE BEEN FULFILLED WITH RESPECT TO SUCH TRANSFER. UPON WRITTEN REQUEST, A COPY OF SUCH CONDITIONS SHALL BE FURNISHED BY THE COMPANY TO THE HOLDER HEREOF WITHOUT CHARGE.

THIS AMENDED AND RESTATED NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE OFFERED OR SOLD EXCEPT: (i) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT (ii) TO THE EXTENT APPLICABLE, PURSUANT TO RULE 144 UNDER THE ACT (OR ANY SIMILAR RULE UNDER THE ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, AND AN EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE,

 AMENDED AND RESTATED

 SUBORDINATED CONVERTIBLE

 PROMISSORY NOTE

FOR VALUE RECEIVED, ULTRALIFE BATTERIES, INC., a Delaware corporation with offices at 2000 Technology Parkway, Newark, New York 14513 (the "Company"), hereby promises to pay to the order of [NAME OF PAYEE], who has an address of [ADDRESS OF PAYEE], or registered assigns ("Holder") the principal sum of Three Million Two Hundred Thirty-Seven Thousand Five Hundred Dollars (\$3,237,500), or such lesser principal amount to which this Amended and Restated Note shall have been adjusted in accordance with the provisions of the Purchase Agreement (as defined below), together with interest thereon calculated from the date hereof, in accordance with the provisions of this Amended and Restated Note.

This Amended and Restated Note originated from a distribution and splitting up of the subordinated convertible promissory note that was originally issued on July 3, 2006 pursuant to the Asset Purchase Agreement, dated as of May 1, 2006 (the "Purchase Agreement"), by and among the McDowell Research, Ltd., Thomas Hauke, Earl Martin, Sr., James Evans, Frank Alexander, the Company and MR Acquisition Corporation and the applicable provisions thereof, as may be amended by the Settlement Agreement (as defined below), are hereby incorporated herein in full by reference. The principal amount of this Amended and Restated Note reflects adjustments that have been made in accordance with that certain Settlement Agreement, dated as of the date hereof, by and among MRC Chargers, Ltd., Frank Alexander, James Evans, Thomas Hauke, Earl Martin, Sr., Gloria Martin, Lillian Hauke, the Company and McDowell Research Co., Inc. (the "Settlement Agreement"). The Purchase Agreement contains terms governing the rights of the Holder of this Amended and Restated Note and the Holder is entitled to the benefits thereof. All capitalized terms used herein and not otherwise defined shall have the meanings given thereto in the Purchase Agreement.

1. Interest. Except as otherwise expressly provided herein, interest shall accrue from July 1, 2007 through and including the date hereof on the original unpaid principal amount of \$4,625,000 outstanding at the rate of four percent (4%) per annum. Commencing on the day after the date hereof, interest shall accrue on the unpaid principal amount of this Amended and Restated Note outstanding until such time as payment thereof is actually delivered to the Holder (including after acceleration, maturity or judgment) at the rate of five percent (5%) per annum. All interest shall be calculated on the basis of actual days elapsed divided by a 360 day year.

Upon the occurrence of an Event of Default, at Holder's option interest on the outstanding principal hereunder shall accrue at a rate per annum from

time to time equal to the rate of interest then in effect on this Amended and Restated Note plus two percent (2%) per annum. Any increase in the interest rate shall be in addition to the Holder's other available remedies.

2. Payments. Interest shall be due and payable quarterly in arrears of each year that this Amended and Restated Note is outstanding, commencing on October 1, 2007 and continuing on the first day of each calendar quarter thereafter until the principal hereof shall have become due and payable, and on the Maturity Date hereof.

All unpaid accrued interest and all outstanding principal shall be due and payable in full on July 3, 2011 (the "Maturity Date")

3. Voluntary and Mandatory Prepayments. This Amended and Restated Note may be prepaid by the Company in whole or in part at any time after sixty (60) days prior written notice to Holder (during which period Holder may exercise its conversion rights hereunder). Notwithstanding the immediately preceding sentence, the Company shall, on or before November 18, 2007, make a prepayment of Six Hundred Twelve Thousand Five Hundred Dollars (\$612,500) on the outstanding principal amount hereof.

4. Conversion Rights.

(a) The Holder may convert the outstanding principal amount of this Amended and Restated Note (or a portion of such outstanding principal amount as provided in Section 4(c)) into fully paid and nonassessable shares of Common Stock of the Company (the "Conversion Shares") at any time, and from time to time, prior to the time the outstanding principal amount of this Amended and Restated Note is paid in full (subject to the notice periods and conversion rights related thereto described elsewhere in this Amended and Restated Note), at the Conversion Price (defined below) then in effect (collectively, the "Conversion Rights"); provided, however, that if the closing price of the Company's Common Stock as quoted on Nasdaq on the Closing Date is greater than \$12.00 per share, then the Holder will be precluded from exercising the conversion rights under this Amended and Restated Note until the first anniversary date of this Amended and Restated Note. The initial per share conversion price (the "Conversion Price") shall be Fifteen and no/100 Dollars (\$15.00). The Conversion Price is subject to adjustment as provided in Section 5.

(b) The provisions of this Amended and Restated Note that apply to conversion of the outstanding principal amount of this Amended and Restated Note also apply to a partial conversion of this Amended and Restated Note. The Holder is not entitled to any rights of a holder of Conversion Shares until the Holder has converted this Amended and Restated Note (or a portion thereof) into Conversion Shares, and only to the extent that this Amended and Restated Note is deemed to have been converted into Conversion Shares under this Section 4.

(c) To convert all or a portion of this Amended and Restated Note, the Holder must (a) complete and sign a notice of election to convert substantially in the form of Exhibit I hereto (each, a "Conversion Notice"), (b) surrender this Amended and Restated Note to the Company, and (c) furnish appropriate endorsements or transfer documents if required by the Company. The date on which the Holder satisfies all of such requirements is the conversion date (the "Conversion Date"). As soon as practicable, and in any event within ten (10) business days after the Conversion Date, the Company will deliver, or cause to be delivered, to the Holder a certificate for the number of whole Conversion Shares issuable upon such conversion and a check for any fractional Conversion Share determined pursuant to Section 4(d). The person in whose name the certificate for Conversion Shares is to be registered shall become the stockholder of record on the Conversion Date and, as of the Conversion Date, the rights of the Holder as to this Amended and Restated Note shall cease as to the portion thereof so converted; provided, however, that no surrender of a Amended and Restated Note on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the person entitled to receive the Conversion Shares upon such conversion as the stockholder of record of such Conversion Shares on such date, but such surrender shall be effective to constitute the person entitled to receive such Conversion Shares as the stockholder of record thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; provided further that such conversion shall be at the Conversion Price in effect on the date that this Amended and Restated Note shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed.

In the case of a partial conversion of this Amended and Restated Note, upon such conversion, the Company shall execute and deliver to the Holder, at the expense of the Company, a new Amended and Restated Note in an aggregate principal amount equal to the unconverted portion of the principal amount.

(d) No fractional Conversion Shares shall be issued upon exercise of the Conversion Rights. Instead of any fractional Conversion Share which would otherwise be issuable upon conversion of this Amended and Restated Note, the Company shall calculate and pay a cash adjustment in respect of such fraction (calculated to the nearest 1/100th of a share) in an amount equal to the same fraction of the Conversion Price at the close of business on the Conversion Date.

(e) The issuance of certificates for Conversion Shares upon exercise of any of the Conversion Rights shall be made without charge to the Holder for such certificates or for any tax in respect of the issuance of such certificates, and such certificates shall be issued in the name of, or in such names as may be directed by, the Holder; provided, however, that in the event that certificates for Conversion Shares are to be issued in a name or names other than the name of the Holder, such Amended and Restated Note, when surrendered for conversion, shall be accompanied by an instrument of transfer, in form satisfactory to the Company, duly executed by the Holder or his duly authorized attorney; and provided further, moreover, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificates in a name or names other than that of the Holder, and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not applicable.

(f) The Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized and unissued Common Stock, solely for the purpose of effecting the conversion of this Amended and Restated Note, the full number of Conversion Shares then issuable upon the conversion in full of this Amended and Restated Note.

If the Company or an affiliate of the Company shall at any time after the date hereof and prior to the conversion of this Amended and Restated Note in full issue any rights to subscribe for shares of Common Stock or any other securities of the Company or of such affiliate to all the stockholders of the Company, the Holder of the unconverted portion of this Amended and Restated Note shall be entitled, in addition to the shares of Common Stock or other securities receivable upon the Conversion thereof, to receive such rights at the time such rights are distributed to the other stockholders of the Company, to be calculated on an as-converted basis.

5. Adjustments to Conversion Rights.

(a) General. In order to prevent dilution of the rights granted under this Amended and Restated Note, the Conversion Price and the number of Conversion Shares shall be subject to adjustment from time to time as provided in this Section 5(a). It is the intention of the Company that the Conversion Price shall at all times be the lower of (i) the Conversion Price on the date of this Amended and Restated Note and (ii) the Conversion Price determined by adjustment pursuant to the remainder of this Section 5(a). In the event that at any time the Common Stock of the Company shall be exchanged for, or changed into, a different kind and/or a number of shares of stock of the Company or of another corporation by reason of a merger, consolidation, sale of assets, recapitalization, reclassification, stock dividend, stock split-up or combination of shares or otherwise, then, until any further adjustment is required, there shall be issuable upon the conversion of this Amended and Restated Note, in lieu of each share of Common Stock of the Company or of any other stock theretofore issued pursuant to the provisions of this Amended and Restated Note, the kind and/or number of shares of stock for which each share of Common Stock of the Company or such other stock shall be so exchanged, or into which each share of Common Stock of the Company or such other stock shall be so changed and the Conversion Price shall be automatically adjusted to a new Conversion Price as nearly equivalent as practicable to the adjustment in shares of stock, if by reason of such merger, consolidation, recapitalization, reclassification or otherwise the number of issued and outstanding shares of Common Stock of the Company shall have been exchanged for or changed into such new shares on other than a one-to-one basis. No adjustment in the Conversion Price shall be made for cash dividends on the shares of Common Stock of the Company or any other stock issued upon any conversion of this Amended and Restated Note.

(b) Notices. Immediately upon any adjustment of the Conversion Price, the Company shall give written notice thereof to the Holder, setting forth in reasonable detail and certifying the calculation of such adjustment.

6. Company Right to Compel Conversion. Notwithstanding any other provisions of this Amended and Restated Note, the Company shall have the right, at the Company's sole discretion, to compel the Holder to convert this Amended and Restated Note at any time after the 30-day average closing price of the Company's Common Stock exceeds Seventeen and 50/100 Dollars (\$17.50) per share. In such event, the Company shall provide the Holder with written notice of conversion, setting forth the basis upon which the conditions to compel the conversion were satisfied. Thereafter, this Amended and Restated Note shall only represent the right to receive the Conversion Shares and any accrued but unpaid interest.

7. Subordination. The Holder agrees that the payment of the principal of and the interest on this Amended and Restated Note is expressly subordinated to the payment of all Senior Indebtedness, to the extent and subject to the conditions set forth in this Section 7. As used herein, the term "Senior Indebtedness" shall mean the principal of, the interest on and the premium, if any, on all indebtedness of the Company for money borrowed by it from any financial institution including banks, savings institutions or insurance companies and similar institutional lenders, and all renewals, extensions and refundings of any such indebtedness, whether such indebtedness shall have been incurred prior to, on, or subsequent to the date hereof, unless by the terms of the instruments creating or evidencing any such indebtedness it is provided that such indebtedness is not to be considered Senior Indebtedness for the purpose of this Amended and Restated Note.

(a) No interest or principal shall be paid on this Amended and Restated Note without the consent of the holders of all outstanding Senior Indebtedness if, at the date fixed herein for such interest or principal payment, the Company shall be in default of payment of principal or interest upon such Senior Indebtedness. In the event any payment of interest or principal hereunder shall be prohibited pursuant to this Section 7(a), such payment shall be deemed to be deferred until the cure of all defaults in payment of principal or interest upon the Senior Indebtedness, and the payments hereon so deferred shall immediately become due and payable upon the cure of such defaults.

(b) In the event of any dissolution, winding up, liquidation or reorganization of the Company, whether in bankruptcy, insolvency or receivership proceedings, or upon an assignment for the benefit of creditors or in any other marshalling of the assets and liabilities of the Company the holders of all Senior Indebtedness shall first be entitled to receive payment in full of such Senior Indebtedness before the Holder shall be entitled to receive any payment upon the principal of, the interest on, or the premium, if any, on the indebtedness evidenced by this Amended and Restated Note. Upon any such dissolution, winding up, liquidation or reorganization, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holder would be entitled, except for the provisions of this Section 7, shall be made by the liquidating trustee or agent or such person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the Holders of the Senior Indebtedness or their representatives or to the trustee or trustees under any indenture or indentures under which any instruments evidencing any such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held or represented by each, to the extent necessary to pay in full all such Senior Indebtedness remaining unpaid, after giving effect to all concurrent payments or distributions with respect to such Senior Indebtedness.

(c) In the event that, notwithstanding the provisions of Section 7(b), upon any such dissolution, or winding up, liquidation or reorganization, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the Holder before all Senior Indebtedness is paid in full, such payment or distribution shall be paid over to the holders of such Senior Indebtedness or their representatives, ratably as aforesaid, for the application to the payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution with respect to such Senior Indebtedness.

(d) Subject to the payment in full of all Senior Indebtedness, the Holder to the extent permitted by law, shall be subrogated to the rights of each holder of Senior Indebtedness (to the extent of the payments or distributions made to such holder pursuant to the provisions of Sections 7(b) and 7(c)) to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness until the principal of, the interest on, and the premium, if any, on this Amended and Restated Note shall be paid in full, and each holder of Senior Indebtedness by accepting such payments or distributions shall be deemed to have agreed to said subrogation. No payments or distributions to the Senior Indebtedness pursuant to the provisions of Sections 7(b) and 7(c) shall, as between the Company, its creditors, other than the holders of the Senior Indebtedness, and the Holder, be deemed to be a payment by the Company to or on account of this Amended and Restated Note, the provisions of this Section 7 being, and being intended, solely for the purpose of defining the relative rights of the Holder, on the one hand, and the holders of the Senior Indebtedness, on the other hand; and nothing contained in this Section 7 or elsewhere in this Amended and Restated Note is intended to or shall impair, as between the Company, the Holder and the other creditors of the Company, other than the holders of Senior Indebtedness, the obligations of the Company, which is unconditional and absolute, to pay to the Holder as and when the same shall become due and payable in accordance with the terms herein, or to affect the relative rights of the Holder and the other creditors of the Company, other than the holders of Senior Indebtedness, or to prevent the Holder from exercising all of the remedies otherwise permitted by applicable law upon default as provided for herein, subject to the rights, if any, under this Section 7 of the holders of the Senior Indebtedness in respect of any cash, property or securities of the Company received upon the exercise of any such remedy.

(e) In the event that this Amended and Restated Note shall be declared due and payable before the Maturity Date because of the occurrence of a default hereunder, the Company will give prompt notice in writing of such happening to the holders of the Senior Indebtedness, and any and all Senior Indebtedness shall forthwith become immediately due and payable upon demand by the respective holders thereof regardless of the express maturity dates thereof

Without limiting any of the foregoing, this Amended and Restated Note is further subject to the Subordination and Intercreditor Agreement dated as of July 3, 2006 among JP Morgan Chase Bank, N.A., Manufacturers and Traders Trust Company, MC Chargers, Ltd., formerly named McDowell Research, Ltd., and the Company, as amended by an Amendment to Subordination and Intercreditor Agreement dated as of September __, 2007 among MRC Chargers, Ltd., Frank Alexander, James Evans, Thomas Hauke, Earl Martin, Sr., Gloria Martin, Lillian Hauke and the Company (as so amended, the "Subordination and Intercreditor Agreement"), pursuant to which, among other things, this Amended and Restated Note and the Company's obligations hereunder are subordinated in the manner and to the extent set forth in the Subordination and Intercreditor Agreement to the prior payment of certain obligations to the holders of Senior Obligations as defined therein.

8. Events of Default.

In the event that there shall be any Event of Default hereunder and such Event of Default shall remain uncorrected or unremedied for a period of more than thirty (30) days after the Company shall have received notice of such Event of Default from the Holder, then the full unpaid principal amount of this Amended and Restated Note, together with any accrued but unpaid interest, may, at the option of the Holder, become immediately due and payable without further notice by the Holder.

(a) "Event of Default" as used in this Section 8 shall mean and refer to any of the following:

(i) the failure of the Company to pay any installment of interest or principal on this Amended and Restated Note when and as the same shall become due and payable, whether at maturity, by mandatory prepayment, by call for redemption, by declaration or otherwise;

(ii) the failure of the Company, to pay any installment of interest or principal on Senior Indebtedness when and as the same shall become due and payable, unless such payment shall have been deferred or waived by the terms of the instruments evidencing such Senior Indebtedness or by the holder thereof;

(iii) the failure of the Company to observe and perform all of the covenants and agreements on the part of the Company contained herein or in the Asset Purchase Agreement;

(iv) failure of any representation or warranty made by the Company in the Asset Purchase Agreement to be truthful, accurate or correct;

(v) the adjudication of the Company as a bankrupt by a court of competent jurisdiction or the entry by a court of competent jurisdiction of an order approving a petition seeking reorganization of the Company under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof or any other jurisdiction;

(vi) the appointment by a court of competent jurisdiction of a trustee or receiver or receivers of the Company of all or any substantial part of its property upon the application of any creditor in any insolvency or bankruptcy proceeding or other creditor suit, unless such appointment or decree or order shall be stayed upon appeal or otherwise;

(vii) the filing by the Company of a petition of involuntary bankruptcy or the making by the Company of an assignment for the benefit of its creditors or the consenting by the Company to the appointment of a receiver or receivers for all or any substantial portion of the property of the Company;

(viii) the filing by the Company of a petition or answer seeking reorganization under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof or jurisdiction, or the filing by the Company of a petition to take advantage of any debtor's act.

(b) Upon the occurrence of an Event of Default which shall remain uncorrected or unremedied for a period of more than thirty (30) days after the Company shall have received notice of such Event of Default from the Holder, the Holder shall at all times have the right to institute any suit, action or proceeding, in equity or at law, for the enforcement of rights as provided for herein, or in aid of the exercise of any right or power granted herein.

(c) This Amended and Restated Note shall be the obligation of the Company solely and there shall be no recourse had for the payment thereof or interest thereon against any stockholder, officer or director of the Company, either directly or through the Company, by reason of any matter prior to the delivery of this Amended and Restated Note, or against any present or future officer or director of the Company, all such liability being expressly released by the Holder and by any subsequent holders hereof by the acceptance hereof and as part of the consideration for the issuance thereof.

The Holder shall also have any other rights which the Holder may have been afforded under any contract or agreement at any time and any other rights which such holder may have pursuant to applicable law. The Company hereby waives diligence, presentment and protest and expressly agrees that this Amended and Restated Note, or any payment hereunder, may be extended from time to time and that the Holder may accept security for this Amended and Restated Note or release security for this Amended and Restated Note, all without in any way affecting the liability of the Company hereunder.

9. Amendment and Waiver. Except as otherwise expressly provided herein, the provisions of this Amended and Restated Note may be amended and the Company may take any action herein prohibited; or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Holder.

10. Cancellation. After all principal and accrued interest at any time owed on this Amended and Restated Note has been paid in full, this Amended and Restated Note shall be surrendered to the Company for cancellation and shall not be reissued.

11. Payments. Unless otherwise expressly provided herein, all payments to be made to the Holders shall be made in the lawful money of the United States of America in immediately available funds which shall be delivered to the address designated by the Holder.

12. Transfer of Amended and Restated Note. This Amended and Restated Note may be transferred only in accordance with the terms of the Asset Purchase Agreement, and the Company shall treat the Person to whom this Amended and Restated Note is assigned in accordance therewith for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

13. Business Days. If any payment is due, or any time period for giving notice or taking action expires, on a day which is a Saturday, Sunday or legal holiday in the State of New York, the payment shall be due and payable on, and the time period shall automatically be extended to, the next business day immediately following such Saturday, Sunday or legal holiday, and interest shall continue to accrue at the required rate hereunder until any such payment is made.

14. Right of Offset. This Amended and Restated Note is subject to the Buyer's right of offset pursuant to the provisions of Section 8.3 of the Purchase Agreement, subject to any limitations on that right imposed by the Settlement Agreement.

15. Notices. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Amended and Restated Note shall be given in accordance with the Purchase Agreement.

16. New York Law. This Amended and Restated Note is intended to be performed in the State of New York and shall be construed and enforced in accordance with the laws of such State.

THIS AMENDED AND RESTATED SUBORDINATED CONVERTIBLE PROMISSORY NOTE IS ISSUED TO [NAME OF PAYEE] IN AN AMOUNT EQUAL TO [NAME OF PAYEE'S] PRO RATA INTEREST IN MRC CHARGERS, LTD., FORMERLY MCDOWELL RESEARCH, LTD., PURSUANT TO THE VOLUNTARY LIQUIDATION OF THE PREVIOUS AMENDED AND RESTATED NOTE HOLDER, MRC CHARGERS, LTD. AS SUCH AMOUNT HAS BEEN ADJUSTED PURSUANT TO THE TERMS OF THAT CERTAIN SETTLEMENT AGREEMENT DATED AS OF THE DATE HEREOF BY AND AMONG MRC CHARGERS, LTD., FRANK ALEXANDER, JAMES EVANS, THOMAS HAUKE, EARL MARTIN, SR., GLORIA MARTIN, LILLIAN HAUKE, THE COMPANY AND MCDOWELL RESEARCH CO., INC.

IN WITNESS WHEREOF, the Company has executed and delivered this Amended and Restated Subordinated Convertible Promissory Note on October 3, 2007.

ULTRALIFE BATTERIES, INC.

By:

John D. Kavazanjian

Title: Chief Executive Officer

EXHIBIT I
FORM OF CONVERSION NOTICE

The undersigned hereby irrevocably elects to exercise its right, pursuant to the Amended and Restated Subordinated Convertible Promissory Note dated _____ (the "Amended and Restated Note") of Ultralife Batteries, Inc. (the "Company") in the outstanding principal amount of \$_____, which Amended and Restated Note is tendered herewith, to convert \$_____ of the amount outstanding under the Amended and Restated Note to shares of the common stock of the Company (the "Shares"), all in accordance with the terms of the Amended and Restated Note. The undersigned requests that a Certificate for such Shares be registered in the name of _____, whose address is _____, and that such Certificate be delivered to _____, whose address is _____, [and that a replacement Amended and Restated Note in the principal amount of \$_____, representing the balance of the principal amount outstanding thereunder after giving effect to this conversion, be issued in the amount of \$_____ and delivered to _____, whose address is _____].

Dated: _____

Signature: _____

(Signature must conform in all respects to name of holder as specified on the face of the Amended and Restated Note.)

(Insert Taxpayer Identification, Social Security or Other Identifying Number of Holder)

Ultralife Batteries Announces \$7.9 Million Reduction in Purchase Price
for McDowell Research Acquisition

NEWARK, N.Y.--(BUSINESS WIRE)--Oct. 5, 2007--Ultralife Batteries, Inc. (NASDAQ: ULBI) has agreed with the sellers of McDowell Research to reduce the purchase price relating to Ultralife's acquisition of McDowell Research in July 2006. The negotiated reduction of \$7.9 million reduces the total purchase price from approximately \$28.4 million to \$20.5 million.

Under the May 1, 2006 acquisition agreement, Ultralife acquired McDowell Research for a purchase price of approximately \$25 million consisting of \$5 million in cash and a \$20 million convertible note held by the sellers, plus an additional \$3.4 million for a purchase price adjustment based on the value of certain assets acquired as of the closing. In the first quarter of 2007, Ultralife paid \$1.5 million of the outstanding purchase price adjustment with \$1.9 million remaining as an accrued liability.

Pursuant to a settlement agreement dated as of October 3, 2007 between Ultralife and the sellers of McDowell Research, the \$20 million convertible note will be reduced to \$14 million, the interest rate on the note will be increased from 4% to 5% per annum, certain claims will be settled and Ultralife will prepay \$3.5 million on the convertible note on or before November 18, 2007. Additionally, Ultralife's remaining \$1.9 million accrued liability associated with the purchase price adjustment will be extinguished. The settlement agreement, including the \$6 million purchase price reduction, related interest rate increase and claim settlement, is subject to termination retroactively by sellers if the \$3.5 million convertible note prepayment is not made on or before November 18, 2007. Management expects to fund the \$3.5 million prepayment with cash from operations and its existing credit facility.

About Ultralife Batteries, Inc.

Ultralife is a global provider of high-energy power solutions, communications accessories, and engineering and technical services for diverse applications. The company develops, manufactures and markets a wide range of non-rechargeable and rechargeable batteries, charging systems and accessories for markets including defense, commercial and consumer portable electronics.

Through its portfolio of standard products and engineered solutions, Ultralife is at the forefront of providing the next generation of power systems, communications accessories and technical services. Defense, commercial and retail customers include: General Dynamics, Raytheon, Philips Medical Systems, General Motors, Energizer, Kidde Safety, Lowe's, Radio Shack and the national defense agencies of the United States, United Kingdom, Germany, Australia and New Zealand.

Ultralife's headquarters, principal manufacturing and research facilities, and its McDowell Research operating unit are in Newark, New York, near Rochester. Ultralife's other operating units are: Ultralife Batteries (UK) Ltd., in Abingdon, England; Innovative Solutions Consulting in Hollywood, Maryland; and ABLE New Energy in Shenzhen, China. Detailed information on Ultralife is available at: www.ultralifebatteries.com.

This press release may contain forward-looking statements based on current expectations that involve a number of risks and uncertainties. The potential risks and uncertainties that could cause actual results to differ materially include: worsening global economic conditions, increased competitive environment and pricing pressures, disruptions related to restructuring actions and delays. Further information on these factors and other factors that could affect Ultralife's financial results is included in Ultralife's Securities and Exchange Commission (SEC) filings, including the latest Annual Report on Form 10-K.

Ultralife(R) and McDowell Research(R) are registered trademarks of Ultralife Batteries, Inc.

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