

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2022
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 0-20852
ULTRALIFE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation of organization) **16-1387013** (I.R.S. Employer Identification No.)
2000 Technology Parkway Newark, New York 14513 (Address of principal executive offices) (Zip Code) **(315) 332-7100** (Registrant's telephone number, including area code:)

None
(Former name, former address and former fiscal year, if changed since last report)

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

Common Stock, \$0.10 par value per share (Title of each class)	ULBI (Trading Symbol)	NASDAQ (Name of each exchange on which registered)
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>
	Emerging Growth Company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 24, 2022, the registrant had 16,133,618 shares of common stock outstanding.

ULTRALIFE CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands except share amounts)
(Unaudited)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash	\$ 5,051	\$ 8,413
Trade accounts receivable, net of allowance for doubtful accounts of \$305 and \$346, respectively	26,876	20,232
Inventories, net	40,769	33,189
Prepaid expenses and other current assets	6,241	4,690
Total current assets	78,937	66,524
Property, plant and equipment, net	21,898	23,205
Goodwill	37,066	38,068
Other intangible assets, net	16,095	17,390
Deferred income taxes, net	11,963	11,472
Other noncurrent assets	1,981	2,879
Total assets	<u>\$ 167,940</u>	<u>\$ 159,538</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 15,827	\$ 9,823
Current portion of long-term debt	2,000	2,000
Accrued compensation and related benefits	2,000	1,842
Accrued expenses and other current liabilities	8,254	5,259
Total current liabilities	28,081	18,924
Long-term debt, net	20,874	18,857
Deferred income taxes	1,996	2,254
Other noncurrent liabilities	1,673	1,760
Total liabilities	52,624	41,795
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock – par value \$.10 per share; authorized 1,000,000 shares; none issued	-	-
Common stock – par value \$.10 per share; authorized 40,000,000 shares; issued – 20,568,210 shares at September 30, 2022 and 20,522,427 shares at December 31, 2021; outstanding – 16,133,618 shares at September 30, 2022 and 16,089,832 shares at December 31, 2021	2,057	2,052
Capital in excess of par value	187,181	186,518
Accumulated deficit	(47,727)	(47,832)
Accumulated other comprehensive loss	(4,842)	(1,653)
Treasury stock - at cost; 4,434,592 shares at September 30, 2022 and 4,432,595 shares at December 31, 2021	(21,480)	(21,469)
Total Ultralife Corporation equity	115,189	117,616
Non-controlling interest	127	127
Total stockholders' equity	115,316	117,743
Total liabilities and stockholders' equity	<u>\$ 167,940</u>	<u>\$ 159,538</u>

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

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME
(In thousands except per share amounts)
(Unaudited)

	<u>Three-month period ended</u>		<u>Nine-month period ended</u>	
	<u>September 30, 2022</u>	<u>September 30, 2021</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Revenues	\$ 33,234	\$ 21,761	\$ 95,733	\$ 74,504
Cost of products sold	26,519	16,653	74,414	55,151
Gross profit	<u>6,715</u>	<u>5,108</u>	<u>21,319</u>	<u>19,353</u>
Operating expenses:				
Research and development	1,896	1,723	5,425	5,223
Selling, general and administrative	5,405	4,164	15,982	12,866
Total operating expenses	<u>7,301</u>	<u>5,887</u>	<u>21,407</u>	<u>18,089</u>
Operating (loss) income	(586)	(779)	(88)	1,264
Other (income) expense:				
Interest and financing expense	272	53	583	164
Miscellaneous	(526)	(54)	(605)	(88)
Total other (income) expense	<u>(254)</u>	<u>(1)</u>	<u>(22)</u>	<u>76</u>
(Loss) income before income taxes	(332)	(778)	(66)	1,188
Income tax (benefit) provision	(90)	(175)	(171)	290
Net (loss) income	(242)	(603)	105	898
Net (loss) income attributable to non-controlling interest	(3)	(18)	-	1
Net (loss) income attributable to Ultralife Corporation	(239)	(585)	105	897
Other comprehensive loss:				
Foreign currency translation adjustments	(1,691)	(233)	(3,189)	(37)
Comprehensive (loss) income attributable to Ultralife Corporation	<u>\$ (1,930)</u>	<u>\$ (818)</u>	<u>\$ (3,084)</u>	<u>\$ 860</u>
Net (loss) income per share attributable to Ultralife common stockholders – basic	\$ (.01)	\$ (.04)	\$.01	\$.06
Net (loss) income per share attributable to Ultralife common stockholders – diluted	<u>\$ (.01)</u>	<u>\$ (.04)</u>	<u>\$.01</u>	<u>\$.06</u>
Weighted average shares outstanding – basic	16,133	16,065	16,122	16,020
Potential common shares	-	-	22	180
Weighted average shares outstanding - diluted	<u>16,133</u>	<u>16,065</u>	<u>16,144</u>	<u>16,200</u>

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

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

	Nine-month period ended	
	September 30, 2022	September 30, 2021
OPERATING ACTIVITIES:		
Net income	\$ 105	\$ 898
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	2,450	2,160
Amortization of intangible assets	969	458
Amortization of financing fees	25	78
Stock-based compensation	552	512
Deferred income taxes	(683)	127
Changes in operating assets and liabilities:		
Accounts receivable	(7,433)	4,814
Inventories	(8,714)	17
Prepaid expenses and other assets	(1,004)	775
Accounts payable and other liabilities	9,906	(1,377)
Net cash (used in) provided by operating activities	<u>(3,827)</u>	<u>8,462</u>
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,396)	(2,324)
Net cash used in investing activities	<u>(1,396)</u>	<u>(2,324)</u>
FINANCING ACTIVITIES:		
Borrowings on revolving credit facility	3,350	-
Payments on term loan facility	(1,333)	(1,186)
Proceeds from exercise of stock options	116	398
Payment of debt issuance costs	(25)	-
Tax withholdings on stock-based awards	(11)	(148)
Net cash provided by (used in) financing activities	<u>2,097</u>	<u>(936)</u>
Effect of exchange rate changes on cash	(236)	(2)
(DECREASE) INCREASE IN CASH	(3,362)	5,200
Cash, Beginning of period	8,413	10,653
Cash, End of period	<u>\$ 5,051</u>	<u>\$ 15,853</u>

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

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands except share amounts)
(Unaudited)

	Common Stock		Capital in Excess of Par Value	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock	Non- Controlling Interest	Total
	Number of Shares	Amount						
Balance – December 31, 2020	20,373,519	\$ 2,037	\$ 185,464	\$ (1,782)	\$ (47,598)	\$ (21,321)	\$ 123	\$ 116,923
Net income					897		1	898
Stock option exercises	127,324	13	385			(133)		265
Stock-based compensation – stock options			468					468
Stock-based compensation -restricted stock			44					44
Vesting of restricted stock	12,501	1	(1)			(15)		(15)
Foreign currency translation adjustments				(37)				(37)
Balance – September 30, 2021	<u>20,513,344</u>	<u>\$ 2,051</u>	<u>\$ 186,360</u>	<u>\$ (1,819)</u>	<u>\$ (46,701)</u>	<u>\$ (21,469)</u>	<u>\$ 124</u>	<u>\$ 118,546</u>
Balance – December 31, 2021	20,522,427	\$ 2,052	\$ 186,518	\$ (1,653)	\$ (47,832)	\$ (21,469)	\$ 127	\$ 117,743
Net income					105		-	105
Stock option exercises	39,119	4	112			(7)		109
Stock-based compensation – stock options			538					538
Stock-based compensation -restricted stock			14					14
Vesting of restricted stock	6,664	1	(1)			(4)		(4)
Foreign currency translation adjustments				(3,189)				(3,189)
Balance – September 30, 2022	<u>20,568,210</u>	<u>\$ 2,057</u>	<u>\$ 187,181</u>	<u>\$ (4,842)</u>	<u>\$ (47,727)</u>	<u>\$ (21,480)</u>	<u>\$ 127</u>	<u>\$ 115,316</u>
Balance – June 30, 2021	20,474,676	\$ 2,047	\$ 186,138	\$ (1,586)	\$ (46,116)	\$ (21,388)	\$ 142	\$ 119,237
Net loss					(585)		(18)	(603)
Stock option exercises	38,668	4	80			(81)		3
Stock-based compensation – stock options			131					131
Stock-based compensation -restricted stock			11					11
Vesting of restricted stock								
Foreign currency translation adjustments				(233)				(233)
Balance – September 30, 2021	<u>20,513,344</u>	<u>\$ 2,051</u>	<u>\$ 186,360</u>	<u>\$ (1,819)</u>	<u>\$ (46,701)</u>	<u>\$ (21,469)</u>	<u>\$ 124</u>	<u>\$ 118,546</u>
Balance – June 30, 2022	20,567,460	\$ 2,057	\$ 186,999	\$ (3,151)	\$ (47,488)	\$ (21,480)	\$ 130	\$ 117,067
Net loss					(239)		(3)	(242)
Stock option exercises	750	-	3					3
Stock-based compensation – stock options			176					176
Stock-based compensation -restricted stock			3					3
Vesting of restricted stock	-	-	-					-
Foreign currency translation adjustments				(1,691)				(1,691)
Balance – September 30, 2022	<u>20,568,210</u>	<u>\$ 2,057</u>	<u>\$ 187,181</u>	<u>\$ (4,842)</u>	<u>\$ (47,727)</u>	<u>\$ (21,480)</u>	<u>\$ 127</u>	<u>\$ 115,316</u>

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

ULTRALIFE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands except share and per share amounts)
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Ultralife Corporation and its subsidiaries (the “Company” or “Ultralife”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Rule 8-03 of Regulation S-X. Accordingly, they do not include all the information and notes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the consolidated financial statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the consolidated financial statements and related notes thereto contained in our Form 10-K for the year ended December 31, 2021.

The December 31, 2021 consolidated balance sheet information referenced herein was derived from audited financial statements but does not include all disclosures required by GAAP.

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

Significant Accounting Policies

We regularly review of our accounting policies and make modifications as necessary to align with new accounting standards and changing business conditions. Accordingly, the accounting policies below have been updated during the current year. Reference should be made to Note 1 to the consolidated financial statements in our 2021 Annual Report on Form 10-K for all other of the Company’s significant accounting policies.

Revenue Recognition:

Revenues are generated from the sale of products. Performance obligations are met and revenue is recognized upon transfer of control to the customer, which is generally upon shipment. When contract terms require transfer of control upon delivery at a customer’s location, revenue is recognized on the date of delivery. For products shipped under vendor managed inventory arrangements, revenue is recognized and billed when the product is consumed by the customer, at which point control has transferred and there are no further obligations by the Company. Revenue is measured as the amount of consideration we expect to receive in exchange for shipped product. Sales, value-added and other taxes billed and collected from customers are excluded from revenue. Customers, including distributors, do not have a general right of return.

Separately priced extended warranty contracts are offered on certain products. Extended warranties are treated as separate performance obligations and recognized to revenue evenly over the term of the respective contract. Revenue not yet recognized on extended warranty contracts is recorded as deferred revenue on the consolidated balance sheet.

For customer contracts with an original expected duration of less than one year, we apply the practical expedient with respect to disclosure of the deferral and future expected timing of revenue recognition for transaction price allocated to remaining performance obligations.

Warranties:

We generally offer standard warranties against product defects. We also offer separately priced extended warranty contracts on certain products. Warranty costs expected to be incurred are estimated based on the Company’s experience and recorded as costs of products sold. Standard warranty costs are recognized upon product sale. Extended warranty costs are recognized over the term of the contract. Provision for warranty costs is recorded in accrued expenses and other current liabilities and other noncurrent liabilities on our consolidated balance sheet based on the duration of the warranty.

Recent Accounting Guidance Not Yet Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments”, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company is currently assessing the impact that adopting this new accounting standard will have on our consolidated financial statements.

2. ACQUISITION

On December 13, 2021, the Company acquired all the outstanding shares of Excell (as defined below) for an aggregate net purchase price of \$23,519 in cash.

On December 13, 2021, 1336889 B.C. Unlimited Liability Company, a British Columbia unlimited liability company and wholly-owned subsidiary of Ultralife Canada Holding Corp., a Delaware corporation (“UCHC”) and wholly-owned subsidiary of Ultralife Excell Holding Corp., a Delaware corporation (“UEHC”) and wholly-owned subsidiary of Ultralife Corporation, completed the acquisition of all issued and outstanding shares of Excell Battery Canada Inc., a British Columbia corporation (“Excell Canada”) (the “Excell Canada Acquisition”), and, concurrently, 1336902 B.C. Unlimited Liability Company, a British Columbia unlimited liability company and wholly-owned subsidiary of UCHC, completed the acquisition of all issued and outstanding shares of 656700 B.C. LTD, a British Columbia corporation and sole owner of all issued and outstanding shares of Excell Battery Corporation USA, a Texas corporation (“Excell USA”, and together with Excell Canada, “Excell Battery Group” or “Excell”) (the “Excell USA Acquisition”, and together with the Excell Canada Acquisition, the “Excell Acquisition”).

Based in Canada with U.S. operations, Excell is a leading independent designer and manufacturer of high-performance smart battery systems, battery packs and monitoring systems to customer specifications. Excell serves a variety of industrial markets including downhole drilling, OEM industrial and medical devices, automated meter reading, ruggedized computers, and mining, marine and other mission critical applications which demand uncompromised safety, service, reliability and quality.

The Excell Canada Acquisition was completed pursuant to a Share Purchase Agreement dated December 13, 2021 (the “Excell Canada Acquisition Agreement”) by and among 1336889 B.C. Unlimited Liability Company, Mark Kroeker, Randolph Peters, Brian Larsen, M. & W. Holdings Ltd., Karen Kroeker, Heather Peterson, Michael Kroeker, Nicholas Kroeker, Brentley Peters, Craig Peters, Kurtis Peters, Heather Larsen, Ian Kane, Carol Peters, and 0835205 B.C. LTD (the “Excell Canada Sellers”), Mark Kroeker in his capacity as the Excell Canada Sellers’ Representative, and Excell Canada. The Excell USA Acquisition was completed pursuant to a Share Purchase Agreement dated December 13, 2021 (the “Excell USA Acquisition Agreement”, and together with the Excell Canada Acquisition Agreement, the “Excell Acquisition Agreements”) by and among 1336902 B.C. Unlimited Liability Company, M. & W. Holdings Ltd., Ian Kane, Sanford Capital Ltd., Arcee Enterprises Inc., and 0835205 B.C. Ltd. (the “Excell USA Sellers”, and together with the Excell Canada Sellers, the “Sellers”), Mark Kroeker in his capacity as the Excell USA Sellers’ Representative, and 656700 B.C. LTD. The Excell Acquisition Agreements contain customary terms and conditions including representations, warranties and indemnification provisions. A portion of the consideration paid to the Sellers is being held in escrow for indemnification purposes for a period of twelve months from the closing date.

The Excell Acquisition was funded by the Company through a combination of cash on hand and borrowings under the Amended Credit Facilities (Note 3).

The Excell Acquisition was accounted for in accordance with the accounting treatment of a business combination pursuant to FASB ASC Topic 805, Business Combinations (“ASC 805”). Accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values on the acquisition date. The excess of the purchase price over the estimated fair value of the separately identifiable assets acquired and liabilities assumed was allocated to goodwill. Management is responsible for determining the acquisition date fair value of the assets acquired and liabilities assumed, which requires the use of various assumptions and judgments that are inherently subjective. The purchase price allocation presented below reflects all known information about the fair value of the assets acquired and liabilities assumed as of the acquisition date. The purchase price allocation is subject to change should additional information existing as of the acquisition date about the fair value of the assets acquired and liabilities assumed becomes known. The final purchase price allocation may reflect material changes in the valuation of assets acquired and liabilities assumed, including but not limited to intangible assets, fixed assets, deferred taxes, and residual goodwill.

Cash	\$	736
Accounts receivable		3,570
Inventories		3,622
Prepaid expenses and other current assets		785
Property, plant and equipment		429
Goodwill		10,989
Other intangible assets		8,870
Other noncurrent assets		991
Accounts payable		(1,450)
Accrued compensation and related benefits		(540)
Accrued expenses and other current liabilities		(720)
Deferred tax liability, net		(2,223)
Other noncurrent liabilities		(803)
Net assets acquired	\$	<u>24,256</u>

The purchase price allocation was adjusted during the nine-month period ended September 30, 2022 to reflect a change in the estimated fair value of certain other intangible assets acquired. The measurement period adjustment resulted in a \$40 increase in other intangible assets acquired, a \$10 increase in deferred tax liabilities and a \$30 decrease to goodwill. The adjusted purchase price allocation is reflected in the consolidated balance sheet as of September 30, 2022.

The goodwill included in the Company’s purchase price allocation presented above represents the value of Excell’s assembled and trained workforce, the incremental value that Excell engineering and technology is expected to bring to the Company and the revenue growth expected to occur over time attributable to increased market penetration from future new products and customers. The goodwill acquired in connection with the acquisition is not deductible for income tax purposes.

Other intangible assets were valued using the income approach which requires a forecast of all expected future cash flows and the use of certain assumptions and estimates. The following table summarizes the estimated fair value and annual amortization for each of the identifiable intangible assets acquired.

	Estimated Fair Value	Amortization Period (Years)	Annual Amortization				
			Year 1	Year 2	Year 3	Year 4	Year 5
Customer relationships	\$ 4,100	15	\$ 273	\$ 273	\$ 273	\$ 273	\$ 273
Trade name	3,150	Indefinite	-	-	-	-	-
Customer contracts	1,140	15	76	76	76	76	76
Backlog	360	1	360	-	-	-	-
Technology	120	7	17	17	17	17	17
Total	\$ 8,870		\$ 726	\$ 366	\$ 366	\$ 366	\$ 366

We acquired right-of-use assets and assumed lease liabilities of \$960 for Excell's operating facilities. Right-of-use assets are classified as other noncurrent assets, and current and long-term lease liabilities are classified as accrued expenses and other current liabilities and other noncurrent liabilities, respectively, on the Company's consolidated balance sheet.

The operating results and cash flows of Excell are reflected in the Company's consolidated financial statements from the date of acquisition. Excell is included in the Battery & Energy Products segment.

For the three months ended September 30, 2022, Excell contributed revenue of \$6,871 and net income of \$398, inclusive of amortization expense of \$181 on acquired identifiable intangible assets. For the nine months ended September 30, 2022, Excell contributed revenue of \$19,898 and net income of \$1,112, inclusive of amortization expense of \$545 on acquired identifiable intangible assets and \$55 in cost of products sold attributable to the fair market value step-up of acquired inventory sold during the period.

3. DEBT

On December 13, 2021, Ultralife, Southwest Electronic Energy Corporation, a Texas corporation ("SWE"), CLB, INC., a Texas corporation and wholly owned subsidiary of SWE ("CLB"), UEHC, UHC and Excell USA, as borrowers, entered into the Second Amendment Agreement with KeyBank National Association ("KeyBank" or the "Bank"), as lender and administrative agent, to amend the Credit and Security Agreement dated May 31, 2017 as amended by the First Amendment Agreement by and among Ultralife, SWE, CLB and KeyBank dated May 1, 2019 (the "Credit Agreement", and together with the Second Amendment Agreement, the "Amended Credit Agreement").

The Amended Credit Agreement, among other things, provides for a 5-year, \$10,000 senior secured term loan (the "Term Loan Facility") and extends the term of the \$30,000 senior secured revolving credit facility (the "Revolving Credit Facility", and together with the Term Loan Facility, the "Amended Credit Facilities") through May 30, 2025. Up to six months prior to May 30, 2025, the Revolving Credit Facility may be increased to \$50,000 with the Bank's concurrence.

As of September 30, 2022, the Company had \$8,667 outstanding principal on the Term Loan Facility, \$2,000 of which is included in current portion of long-term debt on the consolidated balance sheet, and \$14,330 outstanding on the Revolving Credit Facility. As of September 30, 2022, total unamortized debt issuance costs of \$123, including placement, renewal and legal fees associated with the Amended Credit Agreement, are classified as a reduction of long-term debt on the balance sheet. Debt issuance costs are amortized to interest expense over the term of the Amended Credit Facilities.

The remaining availability under the Revolving Credit Facility is subject to certain borrowing base limits based on trade receivables and inventories.

The Company is required to repay the borrowings under the Term Loan Facility in equal consecutive monthly payments commencing on February 1, 2022, in arrears, together with applicable interest. All unpaid principal and accrued and unpaid interest with respect to the Term Loan Facility is due and payable in full on January 1, 2027. All unpaid principal and accrued and unpaid interest with respect to the Revolving Credit Facility is due and payable in full on May 30, 2025. The Company may voluntarily prepay principal amounts outstanding at any time subject to certain restrictions.

In addition to the customary affirmative and negative covenants, the Company must maintain a consolidated senior leverage ratio, as defined in the Amended Credit Agreement, of equal to or less than 3.5 to 1.0 for the fiscal quarters ending December 31, 2022 and March 31, 2023, and equal to or less than 3.0 to 1.0 for the fiscal quarters ending June 30, 2023 and thereafter.

Borrowings under the Amended Credit Facilities are secured by substantially all the assets of the Company and its subsidiaries.

Interest will accrue on outstanding indebtedness under the Amended Credit Facilities at the Base Rate or the Overnight LIBOR Rate, as selected by the Company, plus the applicable margin. The Base Rate is the highest of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 50 basis points, and (c) the Overnight LIBOR Rate plus one hundred basis points. The applicable margin ranges from zero to negative 50 basis points for the Base Rate and from 185 to 215 basis points for the Overnight LIBOR Rate and are determined based on the Company's senior leverage ratio. The Second Amendment Agreement includes standard market provisions permitting the Bank to transition from LIBOR to a SOFR based rate, in its discretion.

The Company must pay a fee of 0.15% to 0.25% based on the average daily unused availability under the Revolving Credit Facility.

Payments must be made by the Company to the extent borrowings exceed the maximum amount then permitted to be drawn on the Amended Credit Facilities and from the proceeds of certain transactions. Upon the occurrence of an event of default, the outstanding obligations may be accelerated, and the Bank will have other customary remedies including resort to the security interest the Company provided to the Bank.

4. EARNINGS PER SHARE

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) attributable to Ultralife by the weighted average shares outstanding during the period. Diluted EPS includes the dilutive effect of securities, if any, and is calculated using the treasury stock method.

For the three-month period ended September 30, 2022, there were no outstanding stock awards included in the calculation of diluted weighted average shares outstanding and no potential common shares included in the calculation of diluted EPS, as no securities were dilutive. There were 1,202,076 outstanding stock options and 5,000 restricted stock awards not included in the calculation of diluted EPS for the three-month period ended September 30, 2022, as the effect would be antidilutive.

For the comparable three-month period ended September 30, 2021, there were no outstanding stock awards included in the calculation of diluted weighted average shares outstanding and no potential common shares included in the calculation of diluted EPS, as no securities were dilutive. There were 1,064,656 outstanding stock options and 14,164 restricted stock awards not included in the calculation of diluted EPS for the three-month period ended September 30, 2021, as the effect would be antidilutive.

For the nine-month period ended September 30, 2022, there were 128,665 outstanding stock options and 5,000 outstanding restricted stock awards included in the calculation of diluted weighted average shares outstanding, as such securities were dilutive, resulting in 22,203 potential common shares included in the calculation of diluted EPS. For the comparable nine-month period ended September 30, 2021, there were 598,489 outstanding stock options and 14,164 outstanding restricted stock awards included in the calculation of diluted weighted average shares outstanding, as such securities were dilutive, resulting in 179,951 potential common shares included in the calculation of diluted EPS. There were 1,073,411 and 466,167 outstanding stock options not included in the calculation of diluted weighted average shares outstanding for the nine-month periods ended September 30, 2022 and September 30, 2021, respectively, as the effect would be antidilutive.

5. SUPPLEMENTAL BALANCE SHEET INFORMATION

Fair Value Measurements and Disclosures

The fair value of financial instruments approximated their carrying values at September 30, 2022 and December 31, 2021. The fair value of cash, accounts receivable, accounts payable, accrued liabilities, and the current portion of long-term debt approximates carrying value due to the short-term nature of these instruments.

Cash

The composition of the Company's cash was as follows:

	September 30, 2022	December 31, 2021
Cash	\$ 4,978	\$ 8,329
Restricted cash	73	84
Total	<u>\$ 5,051</u>	<u>\$ 8,413</u>

As of September 30, 2022 and December 31, 2021, restricted cash included \$73 and \$84, respectively, of euro-denominated deposits withheld by the Dutch tax authorities and third-party VAT representatives in connection with a previously utilized logistics arrangement in the Netherlands. Restricted cash is included as a component of the cash balance for purposes of the consolidated statements of cash flows.

Inventories, Net

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

	September 30, 2022	December 31, 2021
Raw materials	\$ 28,485	\$ 21,660
Work in process	3,215	4,227
Finished goods	9,069	7,302
Total	<u>\$ 40,769</u>	<u>\$ 33,189</u>

Property, Plant and Equipment, Net

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

	September 30, 2022	December 31, 2021
Land	\$ 1,273	\$ 1,273
Buildings and leasehold improvements	15,483	15,442
Machinery and equipment	63,724	63,780
Furniture and fixtures	2,787	2,588
Computer hardware and software	7,589	7,579
Construction in process	1,041	761
	<u>91,897</u>	<u>91,423</u>
Less: Accumulated depreciation	(69,999)	(68,218)
Property, plant and equipment, net	<u>\$ 21,898</u>	<u>\$ 23,205</u>

Depreciation expense for property, plant and equipment was as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Depreciation expense	\$ 815	\$ 700	\$ 2,450	\$ 2,160

Goodwill

The following table summarizes the goodwill activity by segment for the nine-month period ended September 30, 2022.

	Battery & Energy Products	Communications Systems	Total
Balance – December 31, 2021	\$ 26,575	\$ 11,493	\$ 38,068
Measurement period adjustment (1)	(30)	-	(30)
Effect of foreign currency translation	(972)	-	(972)
Balance – September 30, 2022	<u>\$ 25,573</u>	<u>\$ 11,493</u>	<u>\$ 37,066</u>

(1) Change for measurement period adjustment related to Excell Acquisition (Note 2).

Other Intangible Assets, Net

The composition of other intangible assets was:

	at September 30, 2022		
	Cost	Accumulated Amortization	Net
Customer relationships	\$ 12,781	\$ 5,757	\$ 7,024
Patents and technology	5,481	5,092	389
Trade names	4,601	475	4,126
Trademarks	3,401	-	3,401
Other	1,500	345	1,155
Total other intangible assets	<u>\$ 27,764</u>	<u>\$ 11,669</u>	<u>\$ 16,095</u>

	at December 31, 2021		
	Cost	Accumulated Amortization	Net
Customer relationships	\$ 13,214	\$ 5,484	\$ 7,730
Patents and technology	5,667	5,126	541
Trade names	4,670	436	4,234
Trademarks	3,413	-	3,413
Other	1,490	18	1,472
Total other intangible assets	<u>\$ 28,454</u>	<u>\$ 11,064</u>	<u>\$ 17,390</u>

The change in the cost of total intangible assets from December 31, 2021 to September 30, 2022 is a result of measurement period adjustments for the Excell Acquisition (Note 2) and the effect of foreign currency translations.

Amortization expense for other intangible assets was as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Amortization included in:				
Research and development	\$ 23	\$ 27	\$ 74	\$ 93
Selling, general and administrative	295	121	895	365
Total amortization expense	<u>\$ 318</u>	<u>\$ 148</u>	<u>\$ 969</u>	<u>\$ 458</u>

6. STOCK-BASED COMPENSATION

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

	Three-month period ended		Nine-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Stock options	\$ 176	\$ 131	\$ 538	\$ 468
Restricted stock grants	3	11	14	44
Total	\$ 179	\$ 142	\$ 552	\$ 512

We have stock options outstanding from various stock-based employee compensation plans for which we record compensation cost relating to share-based payment transactions in our financial statements. As of September 30, 2022, there was \$393 of total unrecognized compensation cost related to outstanding stock options, which is expected to be recognized over a weighted average period of 1.0 years.

The following table summarizes stock option activity for the nine-month period ended September 30, 2022:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2022	1,306,824	\$ 6.87		
Granted	11,500	4.49		
Exercised	(59,500)	3.82		
Forfeited or expired	(56,748)	6.63		
Outstanding at September 30, 2022	1,202,076	\$ 7.01	3.81	\$ 70
Vested and expected to vest at September 30, 2022	1,119,892	\$ 7.04	3.67	\$ 70
Exercisable at September 30, 2022	803,774	\$ 7.22	2.82	\$ 67

Cash received from stock option exercises under our stock-based compensation plans for the three-month periods ended September 30, 2022 and September 30, 2021 was \$3 and \$84, respectively. Cash received from stock option exercises under our stock-based compensation plans for the nine-month periods ended September 30, 2022 and September 30, 2021 was \$116 and \$398, respectively.

Outstanding restricted shares vest in equal annual installments over three (3) years. There were 5,000 unvested restricted shares outstanding as of September 30, 2022. Unrecognized compensation cost related to these restricted shares was \$4 at September 30, 2022, which is expected to be recognized over a weighted average period of 1.1 years.

7. *INCOME TAXES*

Our effective tax rate for the nine-month periods ended September 30, 2022 and September 30, 2021 was 259.1% and 24.4%, respectively. The period-over-period change was primarily attributable to the geographic mix of our operating results and the larger effect of permanent and discrete adjustments in the current year.

As of December 31, 2021, we have domestic net operating loss (“NOL”) carryforwards of \$44,716, which expire 2022 thru 2037, and domestic tax credits of \$2,239, which expire 2028 thru 2039, available to reduce future taxable income. As of September 30, 2022, management has concluded it is more likely than not that these domestic NOL and credit carryforwards will be fully utilized.

As of September 30, 2022, for certain past operations in the U.K., we continue to report a valuation allowance for NOL carryforwards of approximately \$10,000, nearly all of which can be carried forward indefinitely. Utilization of the net operating losses may be limited due to the change in the past U.K. operation and cannot currently be used to reduce taxable income at our other U.K. subsidiary, Accutronics Ltd. There are no other deferred tax assets related to the past U.K. operations.

As of September 30, 2022, we have not recognized a valuation allowance against our other foreign deferred tax assets, as realization is considered to be more likely than not.

As of September 30, 2022, the Company maintains its assertion that all foreign earnings will be indefinitely reinvested in those operations, other than earnings generated in the U.K.

There were no unrecognized tax benefits related to uncertain tax positions at September 30, 2022 and December 31, 2021.

As a result of our operations, we file income tax returns in various jurisdictions including U.S. federal, U.S. state and foreign jurisdictions. We are routinely subject to examination by taxing authorities in these various jurisdictions. In August 2020, the Internal Revenue Service (“IRS”) completed its examination of the Company’s federal tax returns for 2016-2018 with no material adjustments identified. Our U.S. tax matters for 2019-2021 remain subject to IRS examination. Our U.S. tax matters for 2002, 2005-2007 and 2011-2015 also remain subject to IRS examination due to the remaining availability of NOL carryforwards generated in those years. Our U.S. tax matters for 2002, 2005-2007 and 2011-2021 remain subject to examination by various state and local tax jurisdictions. Our tax matters for the years 2011 through 2021 remain subject to examination by the respective foreign tax jurisdiction authorities.

8. *OPERATING LEASES*

The Company has operating leases predominantly for operating facilities. As of September 30, 2022, the remaining lease terms on our operating leases range from approximately one (1) year to ten (10) years. Lease terms include renewal options reasonably certain of exercise. There is no transfer of title or option to purchase the leased assets upon expiration. There are no residual value guarantees or material restrictive covenants.

The components of lease expense for the current and prior-year comparative periods were as follows:

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Operating lease cost	\$ 216	\$ 188	\$ 674	\$ 564
Variable lease cost	22	25	69	57
Total lease cost	<u>\$ 238</u>	<u>\$ 213</u>	<u>\$ 743</u>	<u>\$ 621</u>

Supplemental cash flow information related to leases was as follows:

	Nine-month period ended	
	September 30, 2022	September 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used in operating leases	\$ 676	\$ 550

Supplemental consolidated balance sheet information related to leases was as follows:

	Balance sheet classification	September 30, 2022	December 31, 2021
Assets:			
Operating lease right-of-use asset	Other noncurrent assets	\$ 1,861	\$ 2,581
Liabilities:			
Current operating lease liability	Accrued expenses and other current liabilities	\$ 824	\$ 867
Operating lease liability, net of current portion	Other noncurrent liabilities	1,064	1,743
Total operating lease liability		\$ 1,888	\$ 2,610
Weighted-average remaining lease term (years)		4.2	4.5
Weighted-average discount rate		4.5%	4.5%

Future minimum lease payments as of September 30, 2022 are as follows:

Maturity of operating lease liabilities	
2022	\$ 212
2023	840
2024	430
2025	128
2026	129
2027	129
Thereafter	264
Total lease payments	2,132
Less: Imputed interest	(244)
Present value of remaining lease payments	\$ 1,888

9. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

As of September 30, 2022, we have made commitments to purchase approximately \$624 of production machinery and equipment.

Product Warranties

We generally offer standard warranties against product defects. We also offer separately priced extended warranty contracts on certain products. Warranty costs expected to be incurred are estimated based on the Company's experience and recorded as costs of products sold. Standard warranty costs are recognized upon product sale. Extended warranty costs are recognized over the term of the contract.

	Nine-month period ended September 30,	
	2022	2021
Accrued warranty obligations – beginning	\$ 133	\$ 149
Accruals for warranties issued	247	123
Settlements made	(94)	(143)
Accrued warranty obligations – ending	<u>\$ 286</u>	<u>\$ 129</u>

Contingencies and Legal Matters

We are subject to legal proceedings and claims that arise from time to time in the normal course of business. We believe that the final disposition of any such matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows. However, recognizing that legal matters are subject to inherent uncertainties, there exists the possibility that ultimate resolution of these matters could have a material adverse impact on the Company's financial position, results of operations or cash flows. We are not aware of any such situations at this time.

10. REVENUE RECOGNITION

Revenues are generated from the sale of products. Performance obligations are met and revenue is recognized upon transfer of control to the customer, which is generally upon shipment. When contract terms require transfer of control upon delivery at a customer's location, revenue is recognized on the date of delivery. For products shipped under vendor managed inventory arrangements, revenue is recognized and billed when the product is consumed by the customer, at which point control has transferred and there are no further obligations by the Company. Revenue is measured as the amount of consideration we expect to receive in exchange for shipped product. Sales, value-added and other taxes billed and collected from customers are excluded from revenue. Customers, including distributors, do not have a general right of return.

Separately priced extended warranty contracts are offered on certain Communications Systems products for a duration of up to eight (8) years. Extended warranties are treated as separate performance obligations and recognized to revenue evenly over the term of the respective contract. Revenue not yet recognized on extended warranty contracts is recorded as deferred revenue on the consolidated balance sheet.

As of September 30, 2022, there was deferred revenue on extended warranty contracts of \$592 in other noncurrent liabilities and \$119 in accrued expenses and other current liabilities on our consolidated balance sheet. As of December 31, 2021, the Company had no extended warranty obligations.

11. BUSINESS SEGMENT INFORMATION

We report our results in two (2) operating segments: Battery & Energy Products and Communications Systems. The Battery & Energy Products segment includes: Lithium 9-volt, cylindrical and various other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories. The Communications Systems segment includes: RF amplifiers, power supplies, cable and connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems, integrated communication systems for fixed or vehicle applications and communications and electronics systems design. We believe that reporting performance at the gross profit level is the best indicator of segment performance. We report operating expenses as Corporate charges.

Three-month period ended September 30, 2022:

	Battery & Energy Products	Communications Systems	Corporate	Total
Revenues	\$ 28,583	\$ 4,651	\$ -	\$ 33,234
Segment contribution	5,345	1,370	(7,301)	(586)
Other income			254	254
Income tax benefit			90	90
Non-controlling interest			3	3
Net loss attributable to Ultralife			\$	(239)

Three-month period ended September 30, 2021:

	Battery & Energy Products	Communications Systems	Corporate	Total
Revenues	\$ 20,008	\$ 1,753	\$ -	\$ 21,761
Segment contribution	4,792	316	(5,887)	(779)
Other income			1	1
Income tax benefit			175	175
Non-controlling interest			18	18
Net loss attributable to Ultralife				\$ (585)

Nine-month period ended September 30, 2022:

	Battery & Energy Products	Communications Systems	Corporate	Total
Revenues	\$ 87,873	\$ 7,860	\$ -	\$ 95,733
Segment contribution	19,217	2,102	(21,407)	(88)
Other income			22	22
Income tax benefit			171	171
Non-controlling interest			-	-
Net income attributable to Ultralife				\$ 105

Nine-month period ended September 30, 2021:

	Battery & Energy Products	Communications Systems	Corporate	Total
Revenues	\$ 64,994	\$ 9,510	\$ -	\$ 74,504
Segment contribution	16,244	3,109	(18,089)	1,264
Other expense			(76)	(76)
Income tax provision			(290)	(290)
Non-controlling interest			(1)	(1)
Net income attributable to Ultralife				\$ 897

The following tables disaggregate our business segment revenues by major source and geography.

Commercial and Government/Defense Revenue Information:

Three-month period ended September 30, 2022:

	Total Revenue	Commercial	Government/ Defense
Battery & Energy Products	\$ 28,583	\$ 22,878	\$ 5,705
Communications Systems	4,651	-	4,651
Total	<u>\$ 33,234</u>	<u>\$ 22,878</u>	<u>\$ 10,356</u>
		69%	31%

Three-month period ended September 30, 2021:

	Total Revenue	Commercial	Government/ Defense
Battery & Energy Products	\$ 20,008	\$ 16,579	\$ 3,429
Communications Systems	1,753	-	1,753
Total	<u>\$ 21,761</u>	<u>\$ 16,579</u>	<u>\$ 5,182</u>
		76%	24%

Nine-month period ended September 30, 2022:

	Total Revenue	Commercial	Government/ Defense
Battery & Energy Products	\$ 87,873	\$ 70,154	\$ 17,719
Communications Systems	7,860	-	7,860
Total	<u>\$ 95,733</u>	<u>\$ 70,154</u>	<u>\$ 25,579</u>
		73%	27%

Nine-month period ended September 30, 2021:

	Total Revenue	Commercial	Government/ Defense
Battery & Energy Products	\$ 64,994	\$ 46,935	\$ 18,059
Communications Systems	9,510	-	9,510
Total	<u>\$ 74,504</u>	<u>\$ 46,935</u>	<u>\$ 27,569</u>
		63%	37%

U.S. and Non-U.S. Revenue Information¹:

Three-month period ended September 30, 2022:

	Total Revenue	United States	Non-United States
Battery & Energy Products	\$ 28,583	\$ 13,433	\$ 15,150
Communications Systems	4,651	3,547	1,104
Total	<u>\$ 33,234</u>	<u>\$ 16,980</u>	<u>\$ 16,254</u>
		51%	49%

Three-month period ended September 30, 2021:

	Total Revenue	United States	Non-United States
Battery & Energy Products	\$ 20,008	\$ 7,941	\$ 12,067
Communications Systems	1,753	1,249	504
Total	<u>\$ 21,761</u>	<u>\$ 9,190</u>	<u>\$ 12,571</u>
		42%	58%

Nine-month period ended September 30, 2022:

	Total Revenue	United States	Non-United States
Battery & Energy Products	\$ 87,873	\$ 41,303	\$ 46,570
Communications Systems	7,860	6,609	1,251
Total	<u>\$ 95,733</u>	<u>\$ 47,912</u>	<u>\$ 47,821</u>
		50%	50%

Nine-month period ended September 30, 2021:

	Total Revenue	United States	Non-United States
Battery & Energy Products	\$ 64,994	\$ 32,344	\$ 32,650
Communications Systems	9,510	4,670	4,840
Total	<u>\$ 74,504</u>	<u>\$ 37,014</u>	<u>\$ 37,490</u>
		50%	50%

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

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

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. This report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, the continued impact of COVID-19 and the related supply chain disruptions on our business, operating results and financial condition; our reliance on certain key customers; reduced U.S. and foreign military spending including the uncertainty associated with government budget approvals; our efforts to develop new commercial applications for our products; fluctuations in the price of oil and the resulting impact on the demand for downhole drilling; the unique risks associated with our China operations; potential disruptions in our supply of raw materials and components; our ability to retain top management and key personnel; possible breaches in information systems security and other disruptions in our information technology systems; our resources being overwhelmed by our growth; possible future declines in demand for the products that use our batteries or communications systems; potential costs attributable to the warranties we supply with our products and services; safety risks related to the nature of our products, including the risk of fire; variability in our quarterly and annual results and the price of our common stock; our entrance into new end-markets which could lead to additional financial exposure; our inability to comply with changes to the regulations for the shipment of our products; our customers’ demand falling short of volume expectations in our supply agreements; our exposure to foreign currency fluctuations; negative publicity concerning Lithium-ion batteries; possible impairments of our goodwill and other intangible assets; our ability to utilize our net operating loss carryforwards; the risk that we are unable to protect our proprietary and intellectual property; rules and procedures regarding contracting with the U.S. and foreign governments; exposure to possible violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act or other anti-corruption laws; known and unknown environmental matters; possible audits of our contracts by the U.S. and foreign governments and their respective defense agencies; our ability to comply with government regulations regarding the use of “conflict minerals”; technological innovations by our competitors in the non-rechargeable and rechargeable battery industries; and other risks and uncertainties, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those forward-looking statements described herein. When used in this report, the words “anticipate,” “believe,” “estimate,” “expect,” “seek,” “project,” “intend,” “plan,” “may,” “will,” “should,” or words of similar import are intended to identify forward-looking statements. For further discussion of certain of the matters described above and other risks and uncertainties, see Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained herein. In addition, even if our results of operations, financial condition and liquidity and the development of the industries in which we operate are consistent with the forward-looking statements contained in this quarterly report, those results or developments may not be indicative of results or developments in subsequent periods. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

Undue reliance should not be placed on our forward-looking statements. Except as required by law, we disclaim any obligation to update any risk factors or to publicly announce the results of any revisions to any of the forward-looking statements contained in this Form 10-Q or our Annual Report on Form 10-K for the year ended December 31, 2021 to reflect new information or risks, future events or other developments.

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read in conjunction with the consolidated financial statements and notes thereto in Part I, Item 1 of this Form 10-Q, and the consolidated financial statements and notes thereto and risk factors in our Annual Report on Form 10-K for the year ended December 31, 2021.

The financial information in this MD&A is presented in thousands of dollars, except for share and per share amounts, unless otherwise specified.

General

We offer products and services ranging from power solutions to communications and electronics systems to customers across the globe in the government, defense and commercial sectors. With an emphasis on strong engineering and a collaborative approach to problem solving, we design and manufacture power and communications systems including: rechargeable and non-rechargeable batteries, charging systems, communications and electronics systems and accessories, and custom engineered systems related to those product lines. We continually evaluate ways to grow, including the design, development and sale of new products, penetration of new markets and territories by our sales force, as well as seeking opportunities to expand through acquisitions.

We sell our products worldwide through a variety of trade channels, including original equipment manufacturers (“OEMs”), industrial and defense supply distributors, and directly to U.S. and foreign defense departments. We enjoy strong name recognition in our markets under our Ultralife® Batteries, Lithium Power®, McDowell Research®, AMTI™, ABLE™, ACCUTRONICS™, ACCUPRO™, ENTELLION™, SWE Southwest Electronic Energy Group™, SWE DRILL-DATA™, SWE SEASAFE™, Excell Battery Group and Criterion Gauge brands. We have sales, operations and product development facilities in North America, Europe and Asia.

We report our results in two operating segments: Battery & Energy Products and Communications Systems. The Battery & Energy Products segment includes: Lithium 9-volt, cylindrical, thin cell and other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories. The Communications Systems segment includes: RF amplifiers, power supplies, cable and connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems, integrated communication systems for fixed or vehicle applications and communications and electronics systems design. We believe that reporting performance at the gross profit level is the best indicator of segment performance. As such, we report segment performance at the gross profit level and operating expenses as Corporate charges. See Note 11 to the consolidated financial statements of this Form 10-Q for further information.

Our website address is www.ultralifecorporation.com. We make available free of charge via a hyperlink on our website (see Investor Relations link on the website) our annual reports on Form 10-K, proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports and statements as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (“SEC”). We will provide copies of these reports upon written request to the attention of Philip A. Fain, CFO, Treasurer and Secretary, Ultralife Corporation, 2000 Technology Parkway, Newark, New York, 14513. Our filings with the SEC are also available through the SEC website at www.sec.gov or at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calling 1-800-SEC-0330.

COVID-19

The COVID-19 pandemic has created significant economic disruption and uncertainty around the world. The Company continues to closely monitor the developments surrounding COVID-19 and take actions to mitigate the business risks involved. During this challenging time, we remain focused on ensuring the health and safety of our employees by following the protocols established by public health officials and on meeting the demand of our customers. We have maintained normal business operations at all our facilities with the exception of the well-publicized shutdowns in China which impacted our Shenzhen facility in the first quarter of 2022. The COVID-19 related supply chain disruptions including increased lead times on key components experienced within our business and by our customers, impacted our work schedules and timing of shipments. The continuing impact of these conditions on our business is uncertain and will depend on many evolving factors which we continue to monitor but cannot predict, including the duration, severity and scope of the pandemic and its variants, the resulting actions taken by governments, businesses and individuals, and the flow-through impact on operations and supply chains. Potential ramifications from COVID-19 that may continue to adversely impact our future business include limited availability and/or increased cost of raw materials and components used in our products, reduced demand and/or pricing for our products, inability of our customers to pay for our products or remain solvent, and reduced availability of our workforce. Prolonged adverse effects of COVID-19 on our business could result in the impairment of long-lived assets including goodwill and other intangible assets. Further, we cannot predict all possible adverse effects the COVID-19 pandemic may cause. Consequently, there may be adverse effects in addition to those described above. We will continue to closely monitor the developments surrounding COVID-19 and take actions when possible to mitigate the business risks involved and the potential effects of COVID-19 on our business.

Overview

Consolidated revenues of \$33,234 for the three-month period ended September 30, 2022, increased by \$11,473 or 52.7%, over \$21,761 for the three-month period ended September 30, 2021, reflecting the revenues of Excell Battery Group (“Excell”) acquired on December 13, 2021, and increased sales in our government/defense, oil & gas and industrial battery markets, partially offset by lower revenues for medical which was due to delayed sales caused by component shortages. Government/defense revenues of \$10,356 increased \$5,174 or 99.8% over the 2021 period, and excluding Excell, commercial revenues of \$16,007 for the quarter ended September 30, 2022 decreased \$572 or 3.5% from the year-earlier period. Including the operations of Excell, commercial revenues were \$22,878.

Gross profit was \$6,715, or 20.2% of revenue, for the three-month period ended September 30, 2022, compared to \$5,108, or 23.5% of revenue, for the same quarter a year ago. The 330-basis point decline primarily reflects incremental costs in 2022 associated with supply chain disruptions including component cost inflation, manufacturing inefficiencies resulting from prolonged lead times and logistics delays, and the transitioning of new products to high volume production.

Operating expenses increased to \$7,301 for the three-month period ended September 30, 2022, compared to \$5,887 for the three-month period ended September 30, 2021. The increase of \$1,414 or 24.0% was primarily attributable to our acquisition of Excell which contributed operating expenses of \$1,115. Excluding Excell, operating expenses increased by \$299 or 5.1% reflecting increased new product development costs, travel expenses and sales commissions, as well as inflationary cost increases. Operating expenses as a percentage of sales decreased 500 basis points from 27.0% for the third quarter of 2021 to 22.0% for the current quarter highlighting our continued control over discretionary spending and positive sales leverage.

Operating loss for the three-month period ended September 30, 2022 was \$586, compared to a loss of \$779, for the year-earlier period. The decrease in the operating loss resulted from higher sales from both of our business segments, offset in large part by a reduction in gross margin due to increased costs resulting from supply chain disruptions, including inflationary cost pressures and prolonged component lead times and logistical delays causing manufacturing inefficiencies.

Net loss attributable to Ultralife was \$239, or (\$0.01) per share – basic and diluted, for the three-month period ended September 30, 2022, compared to net loss attributable to Ultralife of \$585, or (\$0.04) per share – basic and diluted, for the three-month period ended September 30, 2021. The reduction of net loss resulted from higher revenues in the 2022 quarter.

Adjusted EBITDA, defined as net income (loss) attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, and stock-based compensation expense, plus/minus expenses/income that we do not consider reflective of our ongoing operations, amounted to \$1,255, or 3.8% of revenues for the third quarter of 2022, compared to \$283, or 1.3% of revenues, for the third quarter of 2021. See the section “Adjusted EBITDA” beginning on Page 26 for a reconciliation of adjusted EBITDA to net income attributable to Ultralife.

With a backlog now over \$100,000, we are positioned well for near-term revenue increases and remain committed to advancing several transformational projects and new product opportunities to drive long-term revenue growth.

Results of Operations

Three-Month Periods Ended September 30, 2022 and September 30, 2021

Revenues. Consolidated revenues for the three-month period ended September 30, 2022 were \$33,234, an increase of \$11,473, or 52.7%, over \$21,761 for the three-month period ended September 30, 2021. Overall, government/defense sales increased 99.8%, or \$5,174, and commercial sales increased 38.0%, or \$6,299, from the 2021 period. Revenues for the 2022 period include the results of Excell which was acquired by the Company on December 13, 2021. Our revenue backlog, consisting of committed firm orders, was \$106,200 at September 30, 2022, an increase of 34.1% over the backlog at June 30, 2022 and 154% over the backlog at September 30, 2021.

Battery & Energy Products revenues increased \$8,575, or 42.9%, from \$20,008 for the three-month period ended September 30, 2021 to \$28,583 for the three-month period ended September 30, 2022. The increase was attributable to the \$6,870 revenue contribution from the acquisition of Excell, coupled with a 66.4%, or \$2,276, increase in government/defense sales, a 7.4%, or \$318, increase in oil & gas market sales and a 2.4%, or \$116, increase in industrial market sales, partially offset by a 12.1%, or \$904, decrease in medical sales. Net sales for this segment, excluding the results of Excell, increased 8.5%, or \$1,706. The increase in government/defense sales primarily resulted from strong order flow from a large global defense prime contractor. The increase in oil & gas market sales was driven by higher demand for our battery packs for downhole drilling in both U.S. and international markets. The decline in medical sales resulted from component shortages in the current quarter to fulfill the increased demand for our products. The revenue backlog for this segment is now at its highest level in our Company’s history.

Communications Systems revenues increased \$2,898, or 165.3%, from \$1,753 for the three-month period ended September 30, 2021 to \$4,651 for the three-month period ended September 30, 2022. This increase is primarily attributable to our receipt of components to commence the fulfillment of modest shipments under various large program awards.

Cost of Products Sold / Gross Profit. Consolidated cost of products sold totaled \$26,519 for the quarter ended September 30, 2022, an increase of \$9,866, or 59.2%, from the \$16,653 reported for the same three-month period a year ago. Consolidated cost of products sold as a percentage of total revenue increased from 76.5% for the three-month period ended September 30, 2021 to 79.8% for the three-month period ended September 30, 2022. Correspondingly, consolidated gross margin decreased from 23.5% for the three-month period ended September 30, 2021, to 20.2% for the three-month period ended September 30, 2022, primarily reflecting increased costs attributable to ongoing component cost inflation, manufacturing inefficiencies related to prolonged lead times and logistics delays, and the incremental costs of transitioning new products to higher volume production.

For our Battery & Energy Products segment, gross profit for the third quarter of 2022 was \$5,345, an increase of \$553 or 11.5% over gross profit of \$4,792 for the third quarter of 2021. Battery & Energy Products' gross margin of 18.7% decreased by 530 basis points from the 24.0% gross margin for the year-earlier period, reflecting rapid cost inflation on components not fully aligned with customer price increases, manufacturing inefficiencies associated with component availability, prolonged lead times and related logistics delays impacting timely deliveries, and incremental costs associated with the transition of new products to higher volume production.

For our Communications Systems segment, gross profit for the third quarter of 2022 was \$1,370 or 29.5% of revenues, compared to gross profit of \$316 or 18.0% of revenues, for the third quarter of 2021. The increase was primarily due to higher factory volume and favorable sales mix.

Operating Expenses. Consolidated operating expenses for the three-month period ended September 30, 2022 were \$7,301, an increase of \$1,414 or 24.0% from the \$5,887 for the three-month period ended September 30, 2021. The increase is primarily attributable to the acquisition of Excell, which contributed operating expenses of \$1,115 in the third quarter, including \$181 of intangible asset amortization. Excluding Excell, operating expenses increased \$299 or 5.1% due to increased new product development, travel, and sales commissions, as well as inflationary cost increases. Both periods reflected continued tight control over discretionary spending.

Overall, operating expenses as a percentage of revenues were 22.0% for the quarter ended September 30, 2022 compared to 27.1% for the quarter ended September 30, 2021 resulting from sales leverage and control over discretionary spending. Amortization expense associated with intangible assets related to our acquisitions was \$318 for the third quarter of 2022 (\$295 in selling, general and administrative expenses and \$23 in research and development costs), compared with \$148 for the third quarter of 2021 (\$121 in selling, general, and administrative expenses and \$27 in research and development costs). Research and development costs were \$1,896 for the three-month period ended September 30, 2022, an increase of \$173 or 10.0%, from \$1,723 for the three-months ended September 30, 2021. The increase is largely attributable to the operations of Excell, acquired in December 2021, and increased investments in our Communications Systems business to develop new products expanding the business into select commercial markets. Selling, general, and administrative expenses increased \$1,241 or 29.8%, to \$5,405 for the third quarter of 2022 from \$4,164 for the third quarter of 2021. The increase is mostly attributable to the operations of Excell which contributed \$1,026 of selling, general and administrative expenses, including intangible asset amortization of \$181, for the third quarter of 2022, with the remainder reflecting inflationary cost increases.

Income Taxes. For the three-month period ended September 30, 2022, Ultralife recognized an income tax benefit of \$90, comprised of a \$218 current provision for taxes expected to be paid on income primarily from our non-U.S. operations, and a \$308 deferred benefit, compared to an income tax benefit of \$175 for the three-month period ended September 30, 2021, comprised of a \$43 current provision and a \$218 deferred benefit. Our effective tax rate was 27.1% for the third quarter of 2022 as compared to 22.5% for the third quarter of 2021, primarily attributable to the geographic mix of our operating results, including income generated in Canada by Excell for the current year. See Note 7 to the consolidated financial statements in Item 1 of Part I of this Form 10-Q for further information.

Net Loss Attributable to Ultralife. Net loss attributable to Ultralife was \$239, or (\$0.01) per share – basic and diluted, for the three-month period ended September 30, 2022, compared to net loss attributable to Ultralife of \$585, or (\$0.04) per share – basic and diluted, for the three-month period ended September 30, 2021. The reduction in net loss is primarily attributable to higher sales for the 2022 quarter. Weighted average shares outstanding used to compute diluted earnings per share increased from 16,065,412 for the third quarter of 2021 to 16,133,069 for the third quarter of 2022 as a result of stock option exercises since the third quarter of 2021.

Nine-Month Periods Ended September 30, 2022 and September 30, 2021

Revenues. Consolidated revenues for the nine-month period ended September 30, 2022 were \$95,733, an increase of \$21,229, or 28.5%, over \$74,504 for the nine-month period ended September 30, 2021. Overall, commercial sales increased 49.5% while government/defense sales decreased 7.2% from the 2021 period. Revenues for the 2022 period include the operations of Excell which was acquired by the Company on December 13, 2021.

Battery & Energy Products revenues increased \$22,879, or 35.2%, from \$64,994 for the nine-month period ended September 30, 2021 to \$87,873 for the nine-month period ended September 30, 2022. The increase was attributable to the \$19,898 revenue contribution from the operations of Excell, and a 7.1% increase in commercial sales excluding Excell, partially offset by a 1.9% reduction in government/defense sales. The increase in commercial sales, excluding Excell, was driven by a 11.0% increase in oil & gas market sales reflecting the rebound in the energy sector, a 9.6% increase in industrial market sales including our new Thionyl Chloride and thin cell battery cells, and a 3.9% increase in medical battery sales due to the high demand for our batteries used in ventilators, respirators, infusion pumps and other medical devices. The decline in government/defense sales was primarily due to supply chain disruptions experienced internally and by our customers which pushed out sales to future periods.

Communications Systems revenues decreased \$1,650, or 17.4%, from \$9,510 for the nine-month period ended September 30, 2021 to \$7,860 for the nine-month period ended September 30, 2022. This decrease is primarily attributable to supply chain disruptions including extended lead times for components causing delays in our shipments to customers, and the push out of certain orders by our customers to future periods.

Cost of Products Sold / Gross Profit. Consolidated cost of products sold totaled \$74,414 for the nine-month period ended September 30, 2022, an increase of \$19,263, or 34.9%, from the \$55,151 reported for the same nine-month period a year ago. Consolidated cost of products sold as a percentage of total revenue increased from 74.0% for the nine-month period ended September 30, 2021 to 77.7% for the nine-month period ended September 30, 2022. Correspondingly, consolidated gross margin decreased from 26.0% for the nine-month period ended September 30, 2021, to 22.3% for the nine-month period ended September 30, 2022, primarily reflecting lower factory volume for our Communications Systems segment, incremental costs in 2022 associated with supply chain disruptions, including rapid and continuous increases in the cost of some key components, manufacturing inefficiencies caused by component availability, extended lead times and logistical delays impacting timely deliveries, and the transition of new products to higher volume production.

For our Battery & Energy Products segment, gross profit for the first nine months of 2022 was \$19,217, an increase of \$2,973 or 18.3% over gross profit of \$16,244 for the comparable 2021 period. Battery & Energy Products' gross margin of 21.9% decreased by 310 basis points from the 25.0% gross margin for the year-earlier period, reflecting rapid cost inflation on components not fully aligned with customer price increases, manufacturing inefficiencies associated with component availability, lead times and related logistics impacting timely deliveries, and incremental costs associated with the transition of new products to higher volume production.

For our Communications Systems segment, gross profit for the first nine months of 2022 was \$2,102 or 26.7% of revenues, compared to gross profit of \$3,109 or 32.7% of revenues, for the comparable 2021 period. The decline was primarily due to lower factory volume resulting in the under-absorption of factory costs and unfavorable sales mix experienced during the first nine months of 2022.

Operating Expenses. Consolidated operating expenses for the nine-month period ended September 30, 2022 were \$21,407, an increase of \$3,318 or 18.3% from the \$18,089 for the nine-month period ended September 30, 2021. The increase is primarily attributable to the acquisition of Excell, which contributed operating expenses of \$3,258 for the first nine months of 2022, including \$545 of intangible asset amortization and one-time acquisition costs of \$70. Excluding Excell, operating expenses increased \$60 or 0.3%. Both periods reflected continued tight control over discretionary spending.

Overall, operating expenses as a percentage of revenues were 22.4% for the nine-month period ended September 30, 2022 compared to 24.3% for the nine-month period ended September 30, 2021. Amortization expense associated with intangible assets related to our acquisitions was \$969 for the first nine months of 2022 (\$895 in selling, general and administrative expenses and \$74 in research and development costs), compared with \$458 for the first nine months of 2021 (\$365 in selling, general, and administrative expenses and \$93 in research and development costs). Research and development costs were \$5,425 for the nine-month period ended September 30, 2022, an increase of \$202 or 3.9%, from \$5,223 for the nine-months ended September 30, 2021. The increase is attributable to our acquisition of Excell. Selling, general, and administrative expenses increased \$3,116 or 24.2%, to \$15,982 for the first nine months of 2022 from \$12,866 for the comparable 2021 period. The increase is attributable to the December 2021 acquisition of Excell which contributed \$3,011 of selling, general and administrative expenses, including intangible asset amortization of \$545, for the 2022 period.

Other (Income) Expense. Other income totaled \$22 for the nine-month period ended September 30, 2022 compared to other expense of \$76 for the nine-month period ended September 30, 2021. Interest and financing expense increased \$419, or 255.5%, from \$164 for the first nine months of 2021 to \$583 for the first nine months of 2022. The increase is primarily due to the financing of the Excell Acquisition. Miscellaneous income amounted to \$605 for the first nine months of 2022 compared with \$88 for the 2021 period, primarily representing foreign currency exchange gains on U.S.-denominated transactions and balances of our non-U.S. businesses.

Income Taxes. For the nine-month period ended September 30, 2022, Ultralife recognized an income tax benefit of \$171, comprised of a \$512 current provision for income taxes expected to be paid on income primarily from our non-U.S. operations, and a \$683 deferred benefit, compared to an income tax provision of \$290 for the prior year same period, comprised of a \$163 current provision and a \$127 deferred provision. Our effective tax rate was 259.1% for the first nine months of 2022 as compared to 24.4% for the first nine months of 2021 primarily attributable to the geographic mix of our operating results, including income generated in Canada by Excell and the larger effect of permanent and discrete adjustments for the current year. See Note 7 to the consolidated financial statements in Item 1 of Part I of this Form 10-Q for further information.

Net Income Attributable to Ultralife. Net income attributable to Ultralife was \$105, or \$0.01 per share – basic and diluted, for the nine-month period ended September 30, 2022, compared to \$897, or \$0.06 per share – basic and diluted, for the nine-month period ended September 30, 2021. Weighted average shares outstanding used to compute diluted earnings per share decreased from 16,199,693 for the 2021 period to 16,144,165 for the 2022 period. The decrease is attributable to stock option exercises since the third quarter of 2021 offset by the anti-dilutive effect of the decrease in the average stock price used to compute diluted shares from \$7.94 for the first nine months of 2021 to \$5.00 for the first nine months of 2022. Accordingly, potential common shares used to compute diluted earnings per share decreased from 179,951 for the 2021 period to 22,203 for the 2022 period.

Adjusted EBITDA

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

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

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

- Adjusted EBITDA does not reflect (1) our cash expenditures or future requirements for capital expenditures or contractual commitments; (2) changes in, or cash requirements for, our working capital needs; (3) the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; (4) income taxes or the cash requirements for any tax payments; and (5) all of the costs associated with operating our business;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and Adjusted EBITDA from continuing operations does not reflect any cash requirements for such replacements;
- While stock-based compensation is a component of cost of products sold and operating expenses, the impact on our consolidated financial statements compared to other companies can vary significantly due to such factors as assumed life of the stock-based awards and assumed volatility of our common stock; and
- Other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only on a supplemental basis. Neither current nor potential investors in our securities should rely on Adjusted EBITDA as a substitute for any GAAP measures and we encourage investors to review the following reconciliation of Adjusted EBITDA to net income (loss) attributable to Ultralife.

Adjusted EBITDA is calculated as follows for the periods presented:

	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net (loss) income attributable to Ultralife Corporation	\$ (239)	\$ (585)	\$ 105	\$ 897
Add:				
Interest and financing expense	272	53	583	164
Income tax (benefit) provision	(90)	(175)	(171)	290
Depreciation expense	815	700	2,450	2,160
Amortization expense	318	148	969	458
Stock-based compensation expense	179	142	552	512
Non-cash purchase accounting adjustments	-	-	55	-
Adjusted EBITDA	\$ 1,255	\$ 283	\$ 4,543	\$ 4,481

Liquidity and Capital Resources

As of September 30, 2022, cash on hand totaled \$5,051 (including restricted cash of \$73), a decrease of \$3,362 as compared to \$8,413 as of December 31, 2021, primarily attributable to the procurement of inventory to enhance our ability to service orders requested by customers to ship in 2022 amidst challenging supply chain conditions.

During the nine-month period ended September 30, 2022, cash used in operations was \$3,827, as compared to \$8,462 generated from operations for the nine-month period ended September 30, 2021. For the 2022 period, we used cash of \$8,714 to procure inventory to proactively manage our supply chain, reduce lead times and the impact of potential cost increases on components and raw materials, and enhance our position to service customer orders. The increase in inventory and the timing of sales, collections and disbursements resulted in net cash of \$7,245 used for working capital, which was partially offset by net income of \$105 and non-cash net expenses totaling \$3,313 for depreciation, amortization, stock-based compensation, and deferred taxes.

Cash used in investing activities for the nine months ended September 30, 2022 was \$1,396 for capital expenditures, reflecting investments in equipment for new products transitioning to high-volume manufacturing.

Cash provided by financing activities for the nine months ended September 30, 2022 was \$2,097, primarily consisting of draws from our credit facility for the purchase of certain critical raw materials requiring cash-in-advance payment terms by the vendors, plus \$105 in net proceeds on stock-based awards, partially offset by \$1,333 of principle payments on our term loan.

We continue to have significant U.S. net operating loss carryforwards available to utilize as an offset to future taxable income. See Note 7 to the consolidated financial statements of this Form 10-Q for additional information.

Going forward, we expect positive operating cash flow and the availability under our Revolving Credit Facility will be sufficient to meet our general funding requirements for the foreseeable future.

To provide flexibility in accessing the capital market, the Company filed a shelf registration statement on Form S-3 on March 30, 2021, which was declared effective by the SEC on April 2, 2021. Under this registration statement, upon the filing of an appropriate supplemental prospectus, we may offer and sell certain of our securities from time to time in one (1) or more offerings, at our discretion, of up to an aggregate offering price of \$100 million. We intend to use the net proceeds resulting from any sales of our securities for general corporate purposes which may include, but are not limited to, potential acquisitions of complementary businesses or technologies, strategic capital expenditures to expand and protect our competitive position, and investments in the development of transformational, competitively-differentiated products for attractive growth markets.

Commitments

As of September 30, 2022, the Company had \$14,330 outstanding borrowings on the Revolving Credit Facility and \$8,667 on the Term Loan Facility. The Company was in full compliance with all covenants under the Credit Facilities as of September 30, 2022.

As of September 30, 2022, we had made commitments to purchase approximately \$624 of production machinery and equipment.

Critical Accounting Policies

Management exercises judgment in making important decisions pertaining to choosing and applying accounting policies and methodologies in many areas. Not only are these decisions necessary to comply with GAAP, but they also reflect management's view of the most appropriate manner in which to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 to the consolidated financial statements in our 2021 Annual Report on Form 10-K and Note 1 to the consolidated financial statements in Part I of this Form 10-Q should be reviewed for a greater understanding of how our financial performance is recorded and reported.

During the first nine months of 2022, there were no significant changes in the manner in which our significant accounting policies were applied or in which related assumptions and estimates were developed.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our President and Chief Executive Officer (Principal Executive Officer) and our Chief Financial Officer and Treasurer (Principal Financial Officer) have evaluated our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e)) as of the end of the period covered by this quarterly report. Based on this evaluation, our President and Chief Executive Officer and Chief Financial Officer and Treasurer concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) that occurred during the fiscal quarter covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide the information required by this Item.

In addition to the Risk Factors set forth in Item 1A of our Form 10-K for the year ended December 31, 2021, as filed on March 8, 2022, you should carefully consider the following Risk Factors that we believe are material to our business:

- Changes in economic conditions, including inflation, rising interest rates, volatile equity capital markets and ongoing supply chain disruptions, have affected and may continue to affect our business, revenues and earnings adversely.
- Inflation rates have increased and may continue to rise. Our suppliers have raised their prices and may continue to raise prices that we may not be able to pass on to our customers on a timely manner consistent with the price increases. This affected and may continue to affect our business and profit margins adversely.
- Rising interest rates will increase the cost of our variable borrowing rates, may affect our earnings adversely.

Item 6. Exhibits

<u>Exhibit Index</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference from</u>
31.1	Rule 13a-14(a) / 15d-14(a) CEO Certifications	Filed herewith
31.2	Rule 13a-14(a) / 15d-14(a) CFO Certifications	Filed herewith
32	Section 1350 Certifications	Furnished herewith
101.INS	Inline XBRL Instance Document	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	Filed herewith

Attached as Exhibit 101 to this report are the following formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2022 and December 31, 2021, (ii) Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2022 and 2021, (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021, (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2022 and 2021, and (v) Notes to Consolidated Financial Statements.

SIGNATURES

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

ULTRALIFE CORPORATION

(Registrant)

Date: October 27, 2022

By: /s/ Michael D. Popielec
Michael D. Popielec
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 27, 2022

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

I, Michael D. Popielec, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ultralife Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2022

By: /s/ Michael D. Popielec

Michael D. Popielec
President and Chief Executive Officer

I, Philip A. Fain, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ultralife Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2022

By: /s/ Philip A. Fain

Philip A. Fain
Chief Financial Officer and Treasurer

Section 1350 Certification

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), Michael D. Popielec and Philip A. Fain, the President and Chief Executive Officer and Chief Financial Officer and Treasurer, respectively, of Ultralife Corporation, certify that (i) the Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Ultralife Corporation.

A signed original of this written statement required by Section 906 has been provided to Ultralife Corporation and will be retained by Ultralife Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Date: October 27, 2022

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

Date: October 27, 2022

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