

Ultralife Corporation

Audit and Finance Committee

Charter

I. Purpose

The primary function of the Audit and Finance Committee (the “Committee”) is to assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities by reviewing and discussing: (a) the consolidated financial information of Ultralife Corporation and its subsidiaries (the “Company”) which will be provided to stockholders and others, (b) adequacy of the systems of internal controls regarding finance, accounting, information technology security, legal compliance and ethics guidelines that management and the Board have established, (c) and the Company’s auditing, accounting and financial reporting processes. Consistent with this function, the Committee should encourage management to engage in continuous improvement of, and should foster adherence to, the Company’s policies, procedures and practices at all levels.

Generally, the Committee’s primary duties and responsibilities are to: (a) serve as an independent and objective party to monitor the Company’s financial reporting processes and internal control systems, (b) review and appraise the audit results of any public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company (the “Independent Auditor”) and its internal accounting staff, (c) retain and, if appropriate, discharge the Independent Auditor, (d) review and monitor areas of risk that could have a material impact on the Company, and (e) provide an open avenue of communication among the independent accountants, financial and senior management, and the Board.

II. Composition

The Committee shall be comprised of three or more directors as determined from time to time by the Board, each of whom shall be independent as determined by the Board in accordance with the applicable rules of NASDAQ, the Securities and Exchange Commission (“SEC”) and the Sarbanes-Oxley Act.

All members of the Committee shall be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement and cash flow statement, knowledge of primary industries in which the company operates, and the ability to understand and recognize key business and financial risks and related controls. The Committee has, and will continue to have, at least one member who has accounting or related financial management expertise, and who shall be an “audit committee financial expert” as defined by the SEC. In carrying out their Committee responsibilities, members of the Committee are not providing any expert or special assurance as to the Company’s financial statements or any professional certification as to the Independent Auditor’s work. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

The members of the Committee shall be appointed by the Board at the Company’s Annual Meeting of the Board or until their successors shall be duly elected and qualified. The members of the Committee may be removed by the Board at any time. The Committee will be chaired by an Independent Director appointed by the Board.

III. Duties and Responsibilities

Responsibility for the development of the Company's financial statements rests primarily with management, and both the internal auditor of the Company and the Independent Auditor are responsible for conducting audits of controls over financial reporting and the accuracy of the financial statements. Nonetheless, the Committee shall have the following authority and responsibilities:

Independent Auditor

Appointment and Oversight. The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the Independent Auditor with the understanding that the Independent Auditor must report directly to the Committee. The Committee shall make it clear to the Independent Auditor that the Independent Auditor is ultimately accountable to the Committee as the representative of the Company's stockholders.

Scope of Service. The Committee shall meet with the Independent Auditor and financial management of the Company to understand the scope and associated fees of the proposed audit for the current year and the audit procedures to be utilized, and at the conclusion thereof discuss any comments or recommendations of the Independent Auditors.

Evaluation. The Committee shall, no less than annually (including at the time it appoints the Independent Auditor), evaluate the Independent Auditor's qualifications, performance and independence. This evaluation shall include the review and evaluation of the lead partner of the Independent Auditor firm. In making its evaluation, the Committee shall take into account the opinions of management and the Company's internal auditor. The Committee shall report its findings to the Board.

Annual Report on Quality Control and Independence. The Committee shall receive and review, at least annually, a report from the Independent Auditor relating to the Independent Auditor's independence and quality of the Independent Auditor's internal controls that is consistent with applicable requirements of the Public Company Oversight Board regarding the Independent Auditor's communications with the Committee concerning independence. The report shall describe (a) the Independent Auditor's internal quality-control procedures, (b) any material issues raised by the most recent peer review or internal quality-control review of the Independent Auditor, (c) any material issues raised by any governmental or professional authority and any inquiry or investigation, within the preceding five years, regarding any independent audit carried out by the Independent Auditor, and (d) any steps taken to deal with any issues raised in connection with clauses (b) and (c) above. In addition, to assist the Committee in assessing the independence of the Independent Auditor, the report shall describe all relationships between the Independent Auditor and the Company (including any significant fees for any anticipated non-audit services).

Independent Auditor Plan. The Committee shall review with the Independent Auditor and management the plan and scope of the Independent Auditor's proposed annual financial audit and quarterly reviews, including the procedures to be utilized and the Independent Auditor's compensation. The Committee shall also pre-approve audit, non-audit, and any other services to be provided by the Independent Auditor in accordance with such policies as may, from time to time, be adopted by the Committee. The Committee may (a) pre-approve audit and non-audit services based on policies and procedures adopted by the Committee, provided that: (i) the policies and procedures are detailed as to the particular service, (ii) the Committee is informed of each service on a timely basis, (iii) such policies and procedures do not include delegation of the Committee's responsibilities to management, and (iv) such policies and

procedures are disclosed in the Company's Annual Report; and/or (v) delegate to one or more of its members the authority to approve in advance all audit or non-audit services to be provided by the Independent Auditor so long as decisions made by such member are presented to the full Committee at the immediately subsequent scheduled meeting. Notwithstanding the foregoing, pre-approval is not necessary for de minimis non-audit services if: (a) the aggregate amount of all such non-audit services provided to the Company constitutes not more than five percent of the total amount of revenues paid by the Company to its auditors during the fiscal year in which the non-audit services are provided; (b) such services were not recognized by the Company at the time of the engagement to be non-audit services; and (c) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board of Directors to whom authority to grant such approvals has been delegated by the Committee.

Audit Reports and Reviews. The Committee shall, in consultation with management and the Independent Auditor, review the results of the annual financial audit, annual internal controls evaluation, and limited quarterly reviews of the Company's financial statements, significant findings thereof, and any other matters required to be communicated by the Independent Auditor under general accepted auditing standards, including, if applicable, the Independent Auditor's summary of any significant accounting, auditing and internal control issues, along with questions, comments and recommendations and management's corrective action plans, if applicable (i.e., the management or internal control letter).

In conjunction with its annual financial statement audit, internal controls evaluation, and limited quarterly reviews of the Company's financial statements, the Independent Auditor will review with the Committee any problems or difficulties the Independent Auditor encountered in the course of its work, including any restrictions on the scope of the Independent Auditor's activities, its access to information, or any significant disagreements with management and management's responses to such matters. Management shall notify the Committee when it seeks a second opinion on a significant accounting issue, the Committee shall be responsible for the resolution of any disagreements between management and the Independent Auditor regarding financial reporting.

Financial Statements

The Committee shall review with management the consolidated financial statements and related disclosures contained in filings with the SEC, including Forms 10-K, and 10-Q, to determine that both the Committee and management are satisfied with the disclosure and content of the financial statements to be presented to the Company's stockholders.

Scope of Review. In reviewing the Company's Forms 10-K and 10-Q, the Committee shall review with management and the Independent Auditor:

- The certifications required to be made by management in relation to the filings, including those which relate to any significant deficiencies or weaknesses in the design or operation of the Company's internal control over financial reporting and any fraud, whether or not material, involving management or other employees who have a significant role in the Company's system of internal control;
- Major issues regarding the presentation of, and the clarity of the disclosure in, the Company's financial statements;
- Major issues regarding the Company's accounting principles, including (i) significant changes in the Company's selection or application of its accounting principles, (ii)

- material questions of choice with respect to the appropriate accounting principles and practices used and to be used in the preparation of the Company's financial statements, including judgments about the quality, not just acceptability, of accounting principles, and (iii) the reasonableness of those significant judgments;
- Significant regulatory and accounting initiatives, including material changes in, or adoptions of, accounting principles and disclosure practices and standards;
 - The effect of off-balance sheet structures on the Company's financial statements;
 - Any analyses prepared by management or the Independent Auditor regarding the foregoing matters; and
 - Other communications regarding the results of the Independent Auditor's audit or review, including any other matters required to be communicated to the Committee by the Independent Auditor under generally accepted auditing standards.

Earnings Releases and Guidance

The Committee shall discuss and review earnings press releases and financial information with management, as well as earnings guidance provided to analysts and rating agencies. In connection with this discussion and review, the Committee shall address the appropriate use of "pro forma" and "adjusted non-GAAP" information and relevant reconciliations of such non-GAAP information to GAAP financial presentation.

Internal Controls

The Committee shall discuss with the Company's financial and accounting personnel the adequacy and effectiveness of the accounting and financial controls of the Company and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper. The Committee shall also discuss with the Independent Auditors any significant matters regarding internal controls over financial reporting that have come to their attention during the conduct of their audit. The Committee must establish procedures for the (i) receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. Further, the Committee periodically should review Company policy statements to determine their adherence to the Company's Code of Ethics and Corporate Governance Principles.

Internal Audit

The Committee shall review and approve, at least annually, an Internal Audit Plan. The Committee shall review and approve changes in the compensation of the head of the Company's internal audit function as recommended by the Company's management. The Committee shall also receive regular reports at least quarterly from the internal auditor regarding the results of the internal audits. The Committee shall also discuss with the internal

auditor, at least annually, the responsibilities, budget, and staffing of the Company's internal audit function.

Related Party Transactions

The Committee is to appropriately review and provide oversight of all related party transactions for potential conflict of interest situations on an ongoing basis. A related party transaction is any transaction, or proposed transaction, in excess of \$120,000 between the Company and an executive officer, director or director nominee of the Company.

Financial Oversight

The Committee, in order to fulfill its Financial Oversight mandate, shall review quarterly operating forecasts and performance to forecast and Operating Plan of the Corporation. The Committee shall also review cash management policies and the quarterly cash and borrowing positions. Finally, the Committee will review any proposed new credit facilities or borrowing agreements, including debt and issuance of shares, prior to recommendation to the Board of Directors.

IV. Committee Operations

Meeting Schedule. The Committee shall approve its schedule of meetings and shall meet at least four times per year. The Committee may also hold additional meetings at the direction of the Committee Chair or at the request of any other Committee members. The Committee may meet in person or by telephone conference call, and may act by unanimous written consent.

Agenda and Materials. The Committee Chair shall approve the agenda for the Committee's meeting, and any member may suggest items for the Committee's consideration. Briefing materials shall be provided to the Committee as far in advance of a meeting as practicable.

Attendance at Meetings. The Committee, at the discretion of the Committee Chair, may invite members of management to attend the Committee's meetings. All outside directors who are not Committee members may be invited to attend Committee meetings, provided that: (i) the Committee may, at its discretion, meet without such other Directors during executive session, (ii) the Committee Chair may ask non-Committee members to leave the meeting at any time, and (iii) such non-Committee members may not vote on any actions considered by the Committee.

Executive Sessions. The Committee may meet periodically in executive session. The Committee may exclude non-Committee members from being present at such executive sessions. As part of these executive sessions, the Committee may, at its discretion, meet separately and privately with each of the following: (i) management, (ii) the internal auditor, and (iii) representatives of the Independent Auditor.

Voting. A majority of the Committee members shall constitute a quorum. Each Committee member shall have one vote and actions at meetings may be approved by a majority of the members present.

Reporting to the Board. At the Board of Directors meeting following each Committee meeting, the Committee Chair (or the Chair's designee) shall report to the full Board on the

Committee's actions and recommendations. Among other things, these reports shall address any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Independent Auditor, and the performance of the internal audit function.

V. Committee Resources

To assist the Committee in fulfilling its responsibilities (i) each Committee member shall have full access to any member of management, the internal auditor, and the Independent Auditor, and (ii) the Committee may retain independent consultants, counsel, and other advisors as it determines necessary to carry out its duties. The Committee will have sole authority and responsibility for hiring, approving the fees and retention terms for, and terminating the services of, such advisors.

The Company will provide appropriate funding, as determined by the Committee, for payment of the fees of the Independent Auditor, the administrative expenses of the Committee, and any advisors that the Committee may employ in carrying out its duties.

VI. Performance Evaluation

The Committee shall conduct an evaluation of the Committee's performance at least annually. The evaluation shall address subjects including the Committee's composition, responsibilities, structure and processes, and effectiveness. As part of this evaluation, the Committee shall also review the Committee's charter. The Committee shall, as appropriate, make recommendations to management, the Governance Committee, or the full Board as a result of its performance evaluation and review of its charter.