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

FORM 8-K/A

(Amendment No. 2)

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

July 3, 2006
(Date of Report)

ULTRALIFE BATTERIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**000-20852**	**16-1387013**
(State of incorporation)	(Commission File Number)	(IRS 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)

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

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Explanatory Note: This Current Report on Form 8-K is being filed to amend Item 9.01 of the Current Report on Form 8-K filed by Ultralife Batteries, Inc. (the "Registrant") on July 10, 2006, as amended by the Current Report on Form 8-K/A filed by the Registrant on July 21, 2006. In accordance with the instructions to Item 9.01 of Form 8-K, this amendment provides (1) the audited and unaudited historical financial statements of the business acquired, as required by Item 9.01(a) of Form 8-K, as well as (2) the unaudited pro forma financial information for the combination of the Registrant and the business acquired, using the Registrant's fiscal reporting periods, as required by Item 9.01(b) of Form 8-K and Article 11 of Regulation S-X. As previously reported, the business acquired by the Registrant consisted of substantially all of the assets of McDowell Research, Ltd. McDowell Research, Ltd. is indirectly wholly-owned by McDowell Research Holdings, Inc. through the ownership by McDowell Research Holdings, Inc. of two wholly-owned subsidiary corporations. Accordingly, the provided financial statements are for McDowell Research Holdings, Inc. and have been prepared on a consolidated basis.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

As required by Item 9.01(a) of Form 8-K, the audited financial statements of McDowell Research Holdings, Inc. as of and for the fiscal year ended December 31, 2005 and the unaudited financial statements of McDowell Research Holdings, Inc. as of and for the six months ended June 30, 2006 and 2005 are attached together as Exhibit 99.1 to this Current Report.

(b) Pro Forma Financial Information.

As required by Item 9.01(b) of Form 8-K, the pro forma financial information of the Registrant, reflecting the acquisition of substantially all of the assets of McDowell Research, Ltd., for the fiscal year ended December 31, 2005 and as of and for the six months ended July 1, 2006 is attached as Exhibit 99.2 to this Current Report.

(d) Exhibits.

23.1 Consent of Pattillo, Brown & Hill, L.L.P.

99.1 Financial Statements of McDowell Research Holdings, Inc.

99.2 Unaudited Pro Forma Condensed Combined Financial Information for Ultralife Batteries, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 2 to the Current Report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: As of September 15, 2006

ULTRALIFE BATTERIES, INC.

/s/ Robert W. Fishback

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

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-3 (Nos. 333-136742, 333-110426, 333-90984 and 333-67808) and Forms S-8 (Nos. 333-136738, 333-136737, 333-117662, 333-114271, 333-60984 and 333-31930) of Ultralife Batteries, Inc. of our report dated February 20, 2006 relating to the consolidated financial statements of McDowell Research Holdings, Inc. for the year ended December 31, 2005, as well as our report dated August 31, 2006 relating to the unaudited consolidated financial statements of McDowell Research Holdings, Inc. for the six-month periods ended June 30, 2006 and 2005, which appear in Ultralife Batteries, Inc.'s Form 8-K filed with the Securities and Exchange Commission on July 10, 2006, as amended.

/s/ Pattillo, Brown & Hill, L.L.P

Pattillo, Brown & Hill, L.L.P.
Waco, Texas
September 15, 2006

EXHIBIT 99.1

McDOWELL RESEARCH HOLDINGS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2006 AND 2005
AND
FOR THE SIX-MONTH PERIODS ENDED
JUNE 30, 2006 AND 2005

McDOWELL RESEARCH HOLDINGS, INC.

FOR THE SIX-MONTH PERIODS ENDED
JUNE 30, 2006 AND 2005

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
McDowell Research Holdings, Inc.
Waco, Texas

We have reviewed the accompanying consolidated balance sheets of McDowell Research Holdings, Inc., as of June 30, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six-month periods then ended, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the Company's management.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with generally accepted accounting principles.

/s/ Pattillo, Brown & Hill, L.L.P.

August 31, 2006

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McDOWELL RESEARCH HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2006 AND 2005
(UNAUDITED)

ASSETS

	2006	2005
CURRENT ASSETS		
Cash	$ 566,591	$ 1,438,348
Receivables		
Trade net of allowance for uncollectible accounts of $38,487and $40,512, respectively	4,347,288	3,400,227
Prepayments of inventory	666,396	—
Inventories	4,312,360	1,174,912
Total Current Assets	9,892,635	6,013,487
PROPERTY, PLANT AND EQUIPMENT		
Building	727,000	727,000
Leasehold improvements	211,792	211,792
Machinery and equipment	638,547	636,192
Office equipment	375,561	389,540
Automobiles	333,605	363,170
Furniture and fixtures	21,189	21,189
Computer software	41,847	17,858
	2,349,541	2,366,741
Less accumulated depreciation	(757,247)	(497,035)
Total Property, Plant and Equipment	1,592,294	1,869,706
Total Assets	$ 11,484,929	$ 7,883,193

See accompanying notes and accountants’ review report.

LIABILITIES AND STOCKHOLDERS' EQUITY

	2006	2005
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 292,928	$ 134,805
Accounts payable, trade	1,790,567	1,191,166
Accrued liabilities		
Salaries, wages and commissions	121,288	165,970
Payroll and other taxes	39,801	27,798
Vacation	86,379	73,107
Property tax	33,038	29,704
Other	115,061	—
Deferred revenue	20,973	—
Retirement plan payable	54,108	103,240
Total Current Liabilities	2,554,143	1,725,790
NONCURRENT LIABILITIES		
Long-term debt, net of current maturities	775,110	930,487
Total Noncurrent Liabilities	775,110	930,487
Total Liabilities	3,329,253	2,656,277
STOCKHOLDERS' EQUITY		
Common stock- par value $1 - authorized 100,000 shares, issued 2,162 shares, outstanding 2,162 shares	2,162	2,162
Paid-in capital	4,819,783	4,819,783
Retained earnings	3,333,731	404,971
Total Stockholders' Equity	8,155,676	5,226,916
Total Liabilities and Stockholders' Equity	$ 11,484,929	$ 7,883,193

See accompanying notes and accountants' review report.

McDOWELL RESEARCH HOLDINGS, INC.

CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX-MONTH PERIODS ENDED
JUNE 30, 2006 AND 2005
(UNAUDITED)

	2006	2005
SALES	$12,573,546	$10,053,960
COST OF GOODS SOLD	(5,734,952)	(5,354,535)
GROSS MARGIN	6,838,594	4,699,425
OPERATING EXPENSES		
Selling expense	(1,102,039)	(773,932)
General and administrative expense	(2,696,046)	(3,444,899)
Total Operating Expenses	(3,798,085)	(4,218,831)
INCOME FROM OPERATIONS	3,040,509	480,594
NONOPERATING INCOME (EXPENSE)		
Interest expense	(116,246)	(107,473)
Interest income	10,080	31,850
Total Nonoperating Income (Expense)	(106,166)	(75,623)
NET INCOME	$ 2,934,343	$ 404,971

See accompanying notes and accountants' review report.

McDOWELL RESEARCH HOLDINGS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX-MONTH PERIODS ENDED
JUNE 30, 2006 AND 2005
(UNAUDITED)

	Common Stock	Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Balance, December 31, 2004	$ —	$ 5,784,931	$ —	$ 5,784,931
Sale of stock	2,162	—	—	2,162
Contributions	—	121,338	—	121,338
Net income for the 6-month period	—	—	404,971	404,971
Distributions	—	(1,086,486)	—	(1,086,486)
Balance, June 30, 2005	2,162	4,819,783	404,971	5,226,916
Sale of stock	—	—	—	—
Contributions	—	—	—	—
Net income for the 6-month period	—	—	994,417	994,417
Distributions	—	—	—	—
Balance, December 31, 2005	2,162	4,819,783	1,399,388	6,221,333
Sale of stock	—	—	—	—
Contributions	—	—	—	—
Net income for the 6-month period	—	—	2,934,343	2,934,343
Distributions	—	—	(1,000,000)	(1,000,000)
Balance, June 30, 2006	$ 2,162	$ 4,819,783	$ 3,333,731	$ 8,155,676

See accompanying notes and accountants' review report.

McDOWELL RESEARCH HOLDINGS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED
JUNE 30, 2006 AND 2005
(UNAUDITED)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,934,343	$ 404,971
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	118,663	140,884
Gain on disposal of property, plant and equipment	16,426	6,800
Change in assets and liabilities:		
(Increase) decrease in receivables	250,723	(336,297)
(Increase) decrease in inventories	(2,806,322)	(326,250)
(Decrease) increase in accounts payable and accrued liabilities	(658,836)	(396,678)
(Decrease) increase in deferred revenue	(28,197)	(172,953)
(Decrease) increase in retirement plan payable	(152,479)	103,240
Total Adjustments	(3,260,022)	(981,254)
NET CASH USED BY OPERATING ACTIVITIES	(325,679)	(576,283)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(2,355)	(207,255)
NET CASH USED BY INVESTING ACTIVITIES	(2,355)	(207,255)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable from related party	37,656	200
Proceeds from long-term debt	150,000	115,564
Payment of long-term debt	(224,251)	(82,539)
Distributions paid	(1,000,000)	(1,087,628)
NET CASH USED BY FINANCING ACTIVITIES	(1,036,595)	(1,054,403)
NET DECREASE IN CASH	(1,364,629)	(1,837,941)
CASH, BEGINNING	1,931,220	3,276,289
CASH, ENDING	$ 566,591	$ 1,438,348
SUPPLEMENTAL DISCLOSURES		
Interest expense	$ 116,246	$ 107,473

See accompanying notes and accountants’ review report.

1. BASIS OF PRESENTATION

The financial statements presented herein are unaudited and do not contain all information required by accounting principles generally accepted in the United States of America to be included in a full set of financial statements.

In the opinion of the Company, the unaudited financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position of the Company as of June 30, 2006 and 2005, and its results of operations and its cash flows for the six-month periods then ended.

The results of operations for the six-month periods ended June 30, 2006 and 2005, may not be indicative of the results of operations for the full fiscal year or any future period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following is a summary of certain significant accounting policies of McDowell Research Holdings, Inc. These policies conform to generally accepted accounting principles and have been consistently applied in preparation of these financial statements.

Organization

McDowell Research, Ltd. (the Ltd.) is engaged primarily in the development, manufacture, distribution and sale of power systems, battery chargers, and accessories for demanding customer requirements.

On October 1, 2005, McDowell RF Systems, Inc., a captive engineering company engaged primarily in the design of RF amplification systems for the Company, was merged into McDowell Research, Ltd. The entire year’s income and expenses of McDowell RF Systems, Inc. were included in the consolidation as if it had been consolidated effective January 1, 2005.

Principle of Consolidation

McDowell Research Holdings, Inc. (the Company) is a Texas Sub S Corporation for financial and tax reporting purposes. McDowell Research GP, Inc. (the GP) is 100% owned by the Company. McDowell Research LP, Inc. (the LP) is 100% owned by the Company. McDowell Research, Ltd. (formerly McDowell Research Corporation) is 1% owned by the GP and 99% owned by the LP. Therefore, these financial statements are consolidated after the elimination of all material intercompany transactions and account balances.

(continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash on hand and cash in bank accounts.

Accounts Receivable

Accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable in the six-month period, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts. As of June 30, 2006 and 2005, the allowance for doubtful accounts amounted to $38,487 and $40,512, respectively.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Additions to and improvements of property, plant and equipment that exceed $5,000 are capitalized. Maintenance and repair costs are expensed as incurred. When assets are retired or otherwise disposed of, the cost of the assets and related accumulated depreciation are removed from the accounts. Any profit or loss on retirements is reflected in earnings for the period. Depreciation is computed using the straight-line method for all assets. Estimated useful lives are as follows:

Buildings	15 years
Leasehold improvements	15 years
Machinery, equipment and furniture	3 - 7 years
Automotive	5 years

Inventories

Inventories are valued at average cost, not in excess of current market cost, with cost computed on the first-in, first-out basis. Inventoried costs incurred under contracts are stated at the actual production cost and other related costs incurred to date, less amounts applied to units delivered.

Income Taxes

Federal income taxes have not been provided for as the Company and the Affiliates are S Corporations as defined in the Internal Revenue Code. Net income under this election is taxed at the stockholder level.

(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and Development

Research and development expenditures are expensed as incurred.

Concentration of Credit Risk

The Ltd. is a manufacturer of power systems, battery chargers, and accessories primarily for military application. During the six-month period ended June 30, 2006, the Ltd. had sales to 7 customers in excess of 55% of total sales. The sales to the largest customer were 30% of total sales. Sales to the next largest customer totaled 7% of total sales.

The Ltd. extends unsecured credit to the majority of its customers. As of June 30, 2006 and 2005, outstanding credit to customers totaled $4,384,075 and $3,440,739, respectively.

Additionally, the Ltd. maintains cash in excess of the FDIC limit in a financial institution. As of June 30, 2006 and 2005, amounts exceeding the FDIC limit were $499,268 and $1,668,931.

3. PROPERTY, PLANT AND EQUIPMENT

	Balance 12/31/05	Additions	Deletions	Balance 06/30/06
Building	$ 727,000	$ —	$ —	$ 727,000
Leasehold improvements	211,792	—	—	211,792
Machinery and equipment	636,192	2,355	—	638,547
Office equipment	375,561	—	—	375,561
Automobiles	363,170	—	(29,565)	333,605
Furniture and fixtures	21,189	—	—	21,189
Computer software	41,847	—	—	41,847
	2,376,751	2,355	(29,565)	2,349,541
Accumulated depreciation	(651,723)	(118,663)	13,139	(757,247)
Total Property, Plant and Equipment	$ 1,725,028	$ (116,308)	$ (16,426)	$ 1,592,294

Depreciation expense totaled $118,663, and $140,884, respectively, at June 30, 2006 and 2005.

4. INVENTORIES

Inventories of the Ltd. are compromised of the following at June 30, 2006 and 2005:

	2006	2005
Raw materials	$ 2,577,209	$ 848,662
Work in process	808,646	326,250
Finished goods	926,505	—
Total Inventory	$ 4,312,360	$ 1,174,912

5. LONG-TERM DEBT

Long-term debt consists of the following:

	Six Months Ended 06/30/06	Six Months Ended 06/30/05
Note payable to Central National Bank, in monthly installments of $2,854.58 through December 14, 2007, including interest at 5.85%, collateralized by equipment.	$ 51,520	$ 81,460
Note payable to Central National Bank, in monthly installments of $673 through December 15, 2008, including interest at 4.25%, collateralized by a vehicle.	19,108	26,193
Note payable to Daimler Chrysler, in monthly installments of $1,187 through April 7, 2008, with interest at 6.1%, collateralized by a vehicle.	23,637	36,023
Note payable to Central National Bank, in monthly installments of $1,517.57 through April 5, 2007, with interest at 4.0%, collateralized by a vehicle.	14,878	32,104
Note payable to Central National Bank, in monthly installments of $1,607.02 through April 5, 2007, with interest at 4.0%, collateralized by a vehicle.	15,755	33,997
Note payable to Central National Bank, in monthly installments of $2,319 through April 7, 2008, with interest at 5.5%, collateralized by a vehicle.	48,379	72,767
Note payable to Central National Bank, in monthly installments of $979.28 through May 28, 2009, with interest at 6.75%, collateralized by equipment.	31,670	40,789
Note payable to Texas First State Bank, in monthly installments of $1,025 through March 26, 2006, including interest at 3.99%, collateralized by vehicle.	—	9,072
Revolving line-of-credit to Central National Bank, due in September 2006, with interest at prime rate adjusted daily, collateralized by accounts receivable and inventory.	150,000	—
Note payable to Central National Bank, in monthly installments of $845 through April 2, 2007, including interest at 5.5%, collateralized by a vehicle.	8,168	17,576
	363,115	349,981
Capital lease (see footnote 6)	704,923	715,311
Less current maturities	(292,928)	(71,505)
	$ 775,110	$ 993,787

(continued)

5. LONG-TERM DEBT (Continued)

Future maturities of long-term debt are as follows:

	Amount
2006	$ 292,928
2007	114,603
2008	53,011
2009	24,774
2010	25,613
Thereafter	557,109
	$ 1,068,038

6. LEASE OBLIGATION — BUILDINGS

The Ltd.'s administrative offices and manufacturing space located in Waco, Texas, are leased under a month-to-month capital lease. For capitalization purposes, it is assumed that the lease is the length of the underlying loan, which expires in 2017. Base rent for the premises does not include real estate taxes and other operating expenses for which the Ltd. is separately liable. Annual base rent on the premises is $207,600, payable in monthly installments of $17,300 each. The landlord is a related entity that is owned by the shareholders of the Ltd.

The Ltd. also leases a facility in Woodinville, Washington, under a 39-month operating lease expiring in March 2007 from a non-related third party. Base rent for the premises does not include real estate taxes and other operating expenses for which the Ltd. is separately liable. Annual base rent on the premises is $73,248, payable in monthly installments of $6,104 each.

Minimum annual payments under the leases as of June 30, 2006, for the next five years are as follows:

	Waco	Woodinville	Total
2006	$ 207,600	$ 73,248	$ 280,848
2007	207,600	18,312	225,912
2008	207,600	—	207,600
2009	207,600	—	207,600
2010	207,600	—	207,600
Thereafter	1,245,600	—	1,245,600
	$ 2,283,600	$ 91,560	$ 2,375,160

7. RESEARCH AND DEVELOPMENT

The Ltd. is currently funding research projects for the development of new products. Research and development expense totaled $150,000 and $1,039,618, respectively, in the six-month periods ended June 30, 2006 and 2005.

8. PROFIT-SHARING PLAN

The Ltd. maintains a salary reduction/profit-sharing plan under the Safe Harbor provisions of Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees of Ltd. who have completed one year of service with the Ltd. and have reached the age of 21. The Plan is contributory by the employees. The Ltd. makes a yearly 3% mandatory safe harbor contribution and may make discretionary profit sharing contributions. The Ltd. elected to make discretionary profit sharing and safe harbor contributions for the year ended December 31, 2006. The Ltd. has accrued approximately $54,108 and $103,250 of this amount as of June 30, 2006 and 2005, respectively.

9. CONTINGENCIES

The Ltd. provides the end user with a four (4) year warranty on the majority of products sold. Based upon the Ltd.'s historical warranty claims, no reserve for the future economic impact of potential warranty claims has been included in these statements. Future claims will be recognized as warranty expense in the year incurred. It is expected that future claims will be immaterial.

10. SUBSEQUENT EVENT

The shareholders sold the assets of Ltd. on July 3, 2006.

McDOWELL RESEARCH HOLDINGS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2005**

WITH INDEPENDENT AUDITORS' REPORT

McDOWELL RESEARCH HOLDINGS, INC.

FOR THE YEAR ENDED
DECEMBER 31, 2005

CONTENTS

PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
McDowell Research Holdings, Inc.
Waco, Texas

We have audited the accompanying consolidated balance sheet of McDowell Research Holdings, Inc., as of December 31, 2005, and the related consolidated statement of income, changes in stockholders' equity, and cash flow for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McDowell Research Holdings, Inc., as of December 31, 2005, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

/s/ Pattillo, Brown & Hill, L.L.P.

February 20, 2006

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McDOWELL RESEARCH HOLDINGS, INC.

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2005

ASSETS

CURRENT ASSETS	
Cash	$ 1,931,220
Receivables	
Trade net of allowance for uncollectible accounts of $40,511	4,586,144
Employees	10,167
Inventories	2,165,944
Total Current Assets	8,693,475
PROPERTY, PLANT AND EQUIPMENT	
Building	727,000
Leasehold improvements	211,792
Machinery and equipment	636,192
Office equipment	375,561
Automobiles	363,170
Furniture and fixtures	21,189
Computer software	41,847
	2,376,751
Less accumulated depreciation	(651,723)
Total Property, Plant and Equipment	1,725,028
Total Assets	$10,418,503

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

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Current maturities of long-term debt	$ 142,928
Accounts payable, trade	2,332,405
Accrued liabilities	
Salaries, wages and commissions	476,540
Payroll and other taxes	21,745
Vacation	43,490
Property tax	64,916
Other	8,530
Deferred revenue	49,170
Retirement plan payable	206,587
Total Current Liabilities	3,346,311
NONCURRENT LIABILITES	
Long-term debt, net of current maturities	850,859
Total Noncurrent Liabilites	850,859
Total Liabilites	4,197,170
STOCKHOLDERS' EQUITY	
Common stock- par value $1 - authorized 100,000 shares, issued 2,162 shares, outstanding 2,162 share	2,162
Paid-in capital	4,819,783
Retained earnings	1,399,388
Total Stockholders' Equity	6,221,333
Total Liabilities and Stockholders' Equity	$10,418,503

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

McDOWELL RESEARCH HOLDINGS, INC.

CONSOLIDATED STATEMENT OF INCOME

**FOR THE YEAR ENDED
DECEMBER 31, 2005**

SALES	$ 21,702,378
COST OF GOODS SOLD	(10,437,855)
GROSS MARGIN	11,264,523
OPERATING EXPENSES	
Selling expense	(1,627,251)
General and administrative expense	(8,079,034)
Total Operating Expenses	(9,706,285)
INCOME FROM OPERATIONS	1,558,238
NONOPERATING INCOME (EXPENSE)	
Interest expense	(219,330)
Interest income	60,480
Total Nonoperating Income (Expense)	(158,850)
NET INCOME	$ 1,399,388

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

McDOWELL RESEARCH HOLDINGS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2005

	Common Stock	Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Balance, December 31, 2004	$ —	$ 5,784,931	$ —	$ 5,784,931
Sale of stock	2,162	—	—	2,162
Contributions	—	121,338	—	121,338
Net income for the year	—	—	1,399,388	1,399,388
Distributions	—	(1,086,486)	—	(1,086,486)
Balance, December 31, 2005	$ 2,162	$ 4,819,783	$ 1,399,388	$ 6,221,333

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

McDOWELL RESEARCH HOLDINGS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED
DECEMBER 31, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 1,399,388
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	295,572
Gain on disposal of property, plant and equipment	10,162
Change in assets and liabilities:	
(Increase) decrease in receivables	(1,538,970)
(Increase) decrease in inventories	(1,317,282)
(Decrease) increase in accounts payable and accrued liabilities	1,408,376
(Decrease) increase in deferred revenue	(123,783)
(Decrease) increase in retirement plan payable	37,116
Total Adjustments	(1,228,809)
NET CASH PROVIDED BY OPERATING ACTIVITIES	170,579
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of property, plant and equipment	(390,841)
NET CASH USED BY INVESTING ACTIVITIES	(390,841)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from note payable from related party	3,783
Proceeds from long-term debt	115,564
Payment of long-term debt	(154,044)
Distributions paid	(1,090,110)
NET CASH USED BY FINANCING ACTIVITIES	(1,124,807)
NET DECREASE IN CASH	(1,345,069)
CASH AT BEGINNING OF YEAR	3,276,289
CASH AT END OF YEAR	$ 1,931,220
SUPPLEMENTAL DISCLOSURES	
Interest expense	$ 219,330

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following is a summary of certain significant accounting policies of McDowell Research Holdings, Inc. These policies conform to generally accepted accounting principles and have been consistently applied in preparation of these financial statements.

Organization

McDowell Research, Ltd. (the Ltd.) is engaged primarily in the development, manufacture, distribution and sale of power systems, battery chargers, and accessories for demanding customer requirements.

On October 1, 2005, McDowell RF Systems, Inc., a captive engineering company engaged primarily in the design of RF amplification systems for the Company, was merged into McDowell Research, Ltd. The entire year’s income and expenses of McDowell RF Systems, Inc. were included in the consolidation as if it had been consolidated effective January 1, 2005.

Principle of Consolidation

McDowell Research Holdings, Inc. (the Company) is a Texas Sub S Corporation for financial and tax reporting purposes. McDowell Research GP, Inc. (the GP) is 100% owned by the Company. McDowell Research LP, Inc. (the LP) is 100% owned by the Company. McDowell Research, Ltd. (formerly McDowell Research Corporation) is 1% owned by the GP and 99% owned by the LP. Therefore, these financial statements are consolidated after the elimination of all material intercompany transactions and account balances.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash on hand and cash in bank accounts.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at year-end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts. As of December 31, 2005, the allowance for doubtful accounts amounted to $40,512.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Additions to and improvements of property, plant and equipment that exceed $5,000 are capitalized. Maintenance and repair costs are expensed as incurred. When assets are retired or otherwise disposed of, the cost of the assets and related accumulated depreciation are removed from the accounts. Any profit or loss on retirements is reflected in earnings for the period. Depreciation is computed using the straight-line method for all assets. Estimated useful lives are as follows:

Buildings	15 years
Leasehold improvements	15 years
Machinery, equipment and furniture	3 — 7 years
Automotive	5 years

Inventories

Inventories are valued at average cost, not in excess of current market cost, with cost computed on the first-in, first-out basis. Inventoried costs incurred under contracts are stated at the actual production cost and other related costs incurred to date, less amounts applied to units delivered.

Income Taxes

Federal income taxes have not been provided for as the Company and the Affiliates are S Corporations as defined in the Internal Revenue Code. Net income under this election is taxed at the stockholder level.

Research and Development

Research and development expenditures are expensed as incurred.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

The Ltd. is a manufacturer of power systems, battery chargers, and accessories primarily for military application. During the year ended December 31, 2005, the Ltd. had sales to 10 customers in excess of 46% of total sales. The sales to the largest customer were 20.80% of total sales. Sales to another customer totaled 20% of total sales. Sales to the U.S. military totaled approximately 43.52% of total sales.

The Ltd. extends unsecured credit to the majority of its customers. As of December 31, 2005, outstanding credit to customers totaled $4,626,755.

Additionally, the Ltd. maintains cash in excess of the FDIC limit in a financial institution. As of December 31, 2005, amounts exceeding the FDIC limit were $1,489,935.

2. PROPERTY, PLANT AND EQUIPMENT

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Building	$ 727,000	$ —	$ —	$ 727,000
Leasehold improvements	155,072	56,720	—	211,792
Machinery and equipment	636,192	—	—	636,192
Office equipment	361,615	34,951	(21,005)	375,561
Automobiles	311,383	104,752	(52,965)	363,170
Furniture and fixtures	21,189	—	—	21,189
Computer software	—	41,847	—	41,847
	2,212,451	238,270	(73,970)	2,376,751
Accumulated depreciation	(395,748)	(302,631)	46,656	(651,723)
Total Property, Plant and Equipment	$ 1,816,703	$ (64,361)	$ (27,314)	$ 1,725,028

Depreciation expense totaled $295,572 at December 31, 2005.

3. INVENTORIES

Inventories of the Ltd. are compromised of the following at December 31, 2005:

Raw materials	$ 1,463,780
Work in process	702,164
Total Inventory	$ 2,165,944

4. LONG-TERM DEBT

Long-term debt consists of the following:

	2005
Note payable to Central National Bank, in monthly installments of $2,854.58 through December 14, 2007, including interest at 5.85%, collateralized by equipment.	$ 66,534
Note payable to Central National Bank, in monthly installments of $673 through December 15, 2008, including interest at 4.25%, collateralized by a vehicle.	22,689
Note payable to Daimler Chrysler, in monthly installments of $1,187 through April 7, 2008, with interest at 6.1%, collateralized by a vehicle.	30,958
Note payable to Central National Bank, in monthly installments of $1,517.57 through April 5, 2007, with interest at 4.0%, collateralized by a vehicle.	23,580
Note payable to Central National Bank, in monthly installments of $1,607.02 through April 5, 2007, with interest at 4.0%, collateralized by a vehicle.	24,970
Note payable to Central National Bank, in monthly installments of $2,319 through April 7, 2008, with interest at 5.5%, collateralized by a vehicle.	60,721
Note payable to Central National Bank, in monthly installments of $979.28 through May 28, 2009, with interest at 6.75%, collateralized by equipment.	36,226
Note payable to Texas First State Bank, in monthly installments of $1,025 through March 26, 2006, including interest at 3.99%, collateralized by vehicle.	3,054
Note payable to Central National Bank, in monthly installments of $845 through April 2, 2007, including interest at 5.5%, collateralized by a vehicle.	12,937
	281,669
Capital lease (see footnote 5)	712,118
Less current maturities	(142,928)
	$ 850,859

(continued)

4. LONG-TERM DEBT (Continued)

Future maturities of long-term debt are as follows:

December 31	Amount
2006	$ 142,928
2007	114,603
2008	53,011
2009	24,774
2010	25,613
Thereafter	632,858
	$ 993,787

5. LEASE OBLIGATION — BUILDINGS

The Ltd.'s administrative offices and manufacturing space located in Waco, Texas, are leased under a month-to-month capital lease. For capitalization purposes, it is assumed that the lease is the length of the underlying loan, which expires in 2017. Base rent for the premises does not include real estate taxes and other operating expenses for which the Ltd. is separately liable. Annual base rent on the premises is $207,600, payable in monthly installments of $17,300 each. The landlord is a related entity that is owned by the shareholders of the Ltd..

The Ltd. also leases a facility in Woodinville, Washington, under a 39-month operating lease expiring in March 2007 from a non-related third party. Base rent for the premises does not include real estate taxes and other operating expenses for which the Ltd. is separately liable. Annual base rent on the premises is $73,248, payable in monthly installments of $6,104 each.

Minimum annual payments under the leases as of December 31, 2005, for the next five years are as follows:

	Waco	Woodinville	Total
2005	$ 207,600	$ 73,248	$ 280,848
2006	207,600	73,248	280,848
2007	207,600	18,312	225,912
2008	207,600	—	207,600
2009	207,600	—	207,600
Thereafter	1,453,200	—	1,453,200
	$ 2,491,200	$ 164,808	$ 2,656,008

6. RESEARCH AND DEVELOPMENT

The Ltd. is currently funding research projects for the development of new products. Research and development expense totaled $1,212,173 in 2005.

7. PROFIT-SHARING PLAN

The Ltd. maintains a salary reduction/profit-sharing plan under the Safe Harbor provisions of Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees of Ltd. who have completed one year of service with the Ltd. and have reached the age of 21. The Plan is contributory by the employees. The Ltd. makes a yearly 3% mandatory safe harbor contribution and may make discretionary profit sharing contributions. The Ltd. elected to make discretionary profit sharing and safe harbor contributions of $224,816 for the year ended December 31, 2005.

8. CONTINGENCIES

The Ltd. provides the end user with a four (4) year warranty on the majority of products sold. Based upon the Ltd.’s historical warranty claims, no reserve for the future economic impact of potential warranty claims has been included in these statements. Future claims will be recognized as warranty expense in the year incurred.

EXHIBIT 99.2

ULTRALIFE BATTERIES, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma financial statements combine the historical consolidated balance sheets and statements of operations of Ultralife Batteries, Inc. (“Ultralife”) and McDowell Research, Ltd. (“McDowell”), giving effect to the acquisition of substantially all of the assets of McDowell by Ultralife on July 3, 2006 using the purchase method of accounting.

The unaudited pro forma condensed combined statements of operations for the six months ended July 1, 2006 (June 30, 2006 for McDowell) and for the year ended December 31, 2005 are presented to give effect to the acquisition of substantially all of the assets of McDowell as if it had occurred on January 1, 2005. The unaudited pro forma condensed combined balance sheets as of July 1, 2006 (June 30, 2006 for McDowell) are presented to give effect to the acquisition of substantially all of the assets of McDowell on July 1, 2006.

The unaudited pro forma financial statements are presented for illustrative purposes only and are not intended to represent or be indicative of the consolidated results of operations or the consolidated financial position of Ultralife that would have been reported had the acquisition been consummated as of the dates presented, and should not be viewed to be representative of future operating results or the financial position of Ultralife. The unaudited pro forma financial statements do not reflect any adjustments to conform accounting policies, other than those mentioned in the notes thereto, or to reflect any cost synergies anticipated as a result of the acquisition, or any future acquisition related expenses.

Certain adjustments made to the unaudited pro forma financial statements have been prepared based on preliminary estimates of the fair values of the net assets from McDowell. The impact of ongoing integration activities and adjustments to the fair value of acquired net tangible and intangible assets of McDowell could cause material differences in the information presented.

The unaudited pro forma financial statements should be read in conjunction with the historical consolidated financial statements of McDowell included in this Current Report on Form 8-K/A and the consolidated financial statements of Ultralife included in its Quarterly Report on Form 10-Q for the period ended July 1, 2006 and its Annual Report on Form 10-K for the year ended December 31, 2005.

ULTRALIFE BATTERIES, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
SIX MONTHS ENDED JULY 1, 2006
(Amounts In Thousands, Except Per Share Amounts)

	Historical		Pro Forma		Pro Forma
	Ultralife	McDowell	Adjustments		Combined
Revenues	$ 39,712	$ 12,573	$ (428)	**(D)**	$ 51,857
Cost of products sold	31,365	5,735	(428)	**(D)**	
			1,786	**(G)**	38,458
Gross margin	8,347	6,838	(1,786)		13,399
Operating expenses:					
Research and development	1,844	—	150	**(G)**	1,994
Selling, general, and administrative	5,814	3,798	(1,936)	**(G)**	7,676
Amortization of Intangibles	—	—	836	**(B)**	836
Total operating expenses	7,658	3,798	(950)		10,506
Operating income/(loss)	689	3,040	(836)		2,893
Other income (expense):					
Interest income	85	10	(58)	**(C)**	37
Interest expense	(412)	(116)	(400)	**(A)**	
			(91)	**(C)**	(1,019)
Gain on insurance settlment	191	—	—		191
Miscellaneous	147	—	—		147
Income/(loss) before income taxes	700	2,934	(1,385)		2,249
Income tax provision/(benefit) — current	24	—	998	**(E)**	
			(575)	**(F)**	447
Income tax provision/(benefit) — deferred	427	—	—		427
Total income taxes	451	—	423		874
Net Income/(Loss)	$ 249	$ 2,934	$ (1,808)		$ 1,375
Earnings/(Loss) per share — basic	$ 0.02				$ 0.09
Earnings/(Loss) per share — diluted	$ 0.02				$ 0.09
Weighted average shares outstanding — basic	14,807				14,807
Weighted average shares outstanding — diluted	15,150				15,150

See accompanying notes to unaudited pro forma condensed combined financial statements.

ULTRALIFE BATTERIES, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2005
(Amounts In Thousands, Except Per Share Amounts)

	Historical				
	Ultralife	McDowell	Pro Forma Adjustments		Pro Forma Combined
Revenues	$ 70,501	$ 21,702	$ (1,463)	**(K)**	$ 90,740
Cost of products sold	58,243	10,438	(1,463)	**(K)**	
			4,125	**(N)**	71,343
Gross margin	12,258	11,264	(4,125)		19,397
Operating expenses:					
Research and development	3,751	—	1,367	**(N)**	5,118
Selling, general, and administrative	11,409	9,706	(5,492)	**(N)**	15,623
Amortization of Intangibles	—	—	1,673	**(I)**	1,673
Total operating expenses	15,160	9,706	(2,452)		22,414
Operating income/(loss)	(2,902)	1,558	(1,673)		(3,017)
Other income (expense):					
Interest income	185	60	(106)	**(J)**	139
Interest expense	(821)	(219)	(800)	**(H)**	
			(82)	**(J)**	(1,922)
Gain on insurance settlment	—	—	—		—
Miscellaneous	(318)	—	—		(318)
Income/(loss) before income taxes	(3,856)	1,399	(2,661)		(5,118)
Income tax provision/(benefit) — current	3	—	476	**(L)**	
			(1,104)	**(M)**	(625)
Income tax provision/(benefit) — deferred	486	—	—		486
Total income taxes	489	—	(628)		(139)
Net Income/(Loss)	$ (4,345)	$ 1,399	$ (2,033)		$ (4,979)
Earnings/(Loss) per share — basic	$ (0.30)				$ (0.34)
Earnings/(Loss) per share — diluted	$ (0.30)				$ (0.34)
Weighted average shares outstanding — basic	14,551				14,551
Weighted average shares outstanding — diluted	14,551				14,551

See accompanying notes to unaudited pro forma condensed combined financial statements.

ULTRALIFE BATTERIES, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF JULY 1, 2006
(Amounts In Thousands, Except Per Share Amounts)

	Historical		Pro Forma		Pro Forma
	Ultralife	McDowell	Adjustments		Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ 4,237	$ 567	$ (567)	**(O)**	
			(3,000)	**(P)**	$ 1,237
Trade accounts receivable, net	12,748	4,347	(498)	**(O)**	
			(250)	**(T)**	16,347
Inventories	17,010	4,312	—		21,322
Deferred tax asset — current	2,406	—	—		2,406
Prepaid expenses and other current assets	1,752	667	(9)	**(O)**	2,410
Total current assets	38,153	9,893	(4,324)		43,722
Property, plant and equipment, net	19,892	1,592	(947)	**(O)**	20,537
Goodwill and Intangible Assets	2,806	—	17,567	**(Q)**	
			3,000	**(S)**	23,373
Other assets					
Security deposits and other	12	—	—		12
Deferred tax asset — non-current	20,880	—	—		20,880
Total Assets	$ 81,743	$ 11,485	$ 15,296		$ 108,524
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt and current portion of long-term debt	$ 6,190	$ 293	$ (247)	**(O)**	
			2,000	**(P)**	$ 8,236
Accounts payable	5,681	1,790	(7)	**(O)**	
			58	**(P)**	
			(250)	**(T)**	7,272
Income taxes payable	23	—	—		23
Other current liabilities	4,168	471	(364)	**(O)**	
			3,000	**(S)**	7,275
Total current liabilities	16,062	2,554	4,190		22,806
Long-term liabilities:					
Debt and capital lease obligations	25	775	(738)	**(O)**	
			20,000	**(P)**	20,062
Other long-term liabilities	251	—	—		251
Total long-term liabilities	276	775	19,262		20,313
Shareholders' equity:					
Common stock, par value $0.10 per share	1,565	2	(2)	**(R)**	1,565
Capital in excess of par value	133,159	4,820	(4,820)	**(R)**	133,159
Accumulated other comprehensive income	(652)	—	—		(652)
Retained earnings (Accumulated deficit)	(66,289)	3,334	(3,334)	**(R)**	(66,289)
	67,783	8,156	(8,156)		67,783
Less — Treasury stock, at cost	2,378	—			2,378
Total shareholders' equity	65,405	8,156	(8,156)		65,405
Total Liabilities and Shareholders' Equity	$ 81,743	$ 11,485	$ 15,296		$ 108,524

See accompanying notes to unaudited pro forma condensed combined financial statements.

ULTRALIFE BATTERIES, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
(Amounts in Thousands, except Share Amounts)

Note 1: Basis of Presentation and Purchase Price Allocation

On July 3, 2006, the Company finalized the acquisition of substantially all of the assets of McDowell Research, Ltd. (“McDowell”), a manufacturer of military communications accessories located in Waco, Texas.

Under the terms of the agreement, the purchase price of approximately $25,000 consisted of $5,000 in cash and a $20,000 non-transferable convertible note to be held by the sellers. The purchase price is subject to a post-closing adjustment based on a final valuation of trade accounts receivable, inventory and trade accounts payable that were acquired or assumed on the date of the closing, using a base value of $3,000. Ultralife Batteries, Inc. (“Ultralife”) presently estimates the net value of these assets to be approximately $6,000, resulting in a revised purchase price of approximately $28,000. The final purchase is subject to the finalization of negotiations pertaining to the valuation of trade accounts receivable, inventory and trade accounts payable. Substantial negotiations involving this valuation remain ongoing. The initial $5,000 cash portion was financed through a combination of cash on hand and borrowing through the revolver component of Ultralife’s credit facility with its primary lending banks, which was recently amended to contemplate the acquisition of McDowell. The $20,000 convertible note carries a five-year term and is convertible at $15 per share into 1.33 million shares of Ultralife’s common stock, with a forced conversion feature at $17.50 per share. The Company has incurred $58 in acquisition related costs, which are included in the approximate total cost of the investment of $28,058.

The estimated excess of the purchase price over the net tangible and intangible assets acquired of $20,567 was recorded as goodwill in the amount of $10,027. Ultralife is in the process of completing third party valuations of certain tangible and intangible assets acquired with the new business. The final allocation of the excess of the purchase price over the net assets acquired is subject to revision based upon the third party’s valuation. The acquired goodwill will be assigned to the communications accessories segment and is expected to be fully deductible for income tax purposes.

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

ASSETS	
Current assets:	
Trade accounts receivables, net	$ 3,849
Inventories	4,312
Prepaid inventory and other current expenses	658
Total current assets	8,819
Property, plant and equipment, net	645
Goodwill	10,027
Intangible Assets:	
Patents and technology	5,270
Customer relationships	4,392
Non-compete agreements	878
Total assets acquired	30,031

LIABILITIES	
Current liabilities:	
Current portion of long-term debt	46
Accounts payable	1,783
Other current liabilities	107
Total current liabilities	1,936
Long-term liabilities:	
Debt	37
Total liabilities assumed	1,973
Total Purchase Price	$ 28,058

The patents and technology and customer relationships intangible assets will be amortized on a pattern in which the economic benefits of the intangible assets are being utilized over their estimated useful life of seven years. The non-compete agreements intangible asset will be amortized on a straight-line basis over its estimated useful life of three years.

Note 2: Pro Forma Adjustments

The unaudited pro forma condensed combined statements of operations include the adjustments necessary to give effect to the acquisition as if it had occurred on January 1, 2005. The unaudited pro forma condensed combined statements of operations reflect the allocation of the acquisition cost to the fair value of tangible and intangible assets acquired and liabilities assumed as described in Note 1. The unaudited pro forma condensed combined balance sheets include the adjustment necessary to give effect to the acquisition as if it occurred on July 1, 2006. No pro forma adjustments were required to conform McDowell's accounting policies to Ultralife's accounting policies.

(A) Adjustment to record six months of interest expense relating to the $20,000 convertible note payable issued in connection with McDowell's acquisition purchase price, which bears interest at 4%.

(B) Adjustment to record six months of amortization expense relating to the identified intangible assets with finite lives in connection with the acquisition of McDowell.

(C) Adjustment to record six months impact on interest income that would not have been earned (at a weighted average interest rate of 4.60%) due to a lower average outstanding cash balance and the corresponding impact on interest expense that would have been incurred (at a weighted average interest rate of 7.66%) due to a higher average outstanding balance on the revolver portion of the credit facility, to fund the cash portion of McDowell's acquisition purchase price.

(D) Adjustment to eliminate intercompany sales and purchases between Ultralife and McDowell for the six months ended.

(E) Adjustment to record income tax impact of results of operations for McDowell for the six months ended based on the applicable statutory federal income tax rate of 34%.

(F) Adjustment to record income tax impact of pro forma adjustments for the six months ended based on the applicable statutory federal and state income tax rates of 34% and 7.5%, respectively.

(G) Adjustment to reclass certain amounts in the historical McDowell financial statements to conform with Ultralife's current presentation.

(H) Adjustment to record twelve months of interest expense relating to the $20,000 convertible note payable issued in connection with McDowell's acquisition purchase price, which bears interest at 4%.

(I) Adjustment to record twelve months of amortization expense relating to the identified intangible assets with finite lives in connection with the acquisition of McDowell.

(J) Adjustment to record twelve months impact on interest income that would not have been earned (at a weighted average interest rate of 2.93%) due to a lower average outstanding cash balance and the corresponding impact on interest expense that would have been incurred (at a weighted average interest rate of 6.79%) due to a higher average outstanding balance on the revolver portion of the credit facility, to fund the cash portion of McDowell's acquisition purchase price.

(K) Adjustment to eliminate intercompany sales and purchases between Ultralife and McDowell for the twelve months ended.

(L) Adjustment to record income tax impact of results of operations for McDowell for the twelve months ended based on the applicable statutory federal income tax rate of 34%.

(M) Adjustment to record income tax impact of pro forma adjustments for the twelve months ended based on the applicable statutory federal and state income tax rates of 34% and 7.5%, respectively.

(N) Adjustment to reclass certain amounts in the historical McDowell financial statements to conform with Ultralife's current presentation.

(O) Adjustment to eliminate McDowell assets not acquired and liabilities not assumed in connection with Ultralife's purchase of substantially all of the assets of McDowell.

(P) Adjustment to record the $5,000 cash payment, net of $2,000 in short-term borrowings, and the issuance of the $20,000 convertible note payable in connection with McDowell's acquisition purchase price, along with the accrual of $58 in capitalized acquisition costs.

(Q) Adjustment to record the intangible assets and goodwill associated with the allocation of the McDowell acquisition purchase price.

(R) Adjustment to eliminate McDowell's equity associated with the allocation of the McDowell acquisition purchase price.

(S) Adjustment to record the estimated post-closing adjustment to the final purchase price, based on the valuation of the net assets acquired.

(T) Adjustment to eliminate intercompany receivables and payables between Ultralife and McDowell as of July 1, 2006.