DARLING INTERNATIONAL INC
Form SC 13D/A
October 23, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 13D
Under the Securities Exchange Act of 1934
(Amendment No. 1)*

DARLING INTERNATIONAL, INC.

(Name of Issuer)

Common Stock, par value $0.01 per share

(Title of Class of Securities)

237266101

(CUSIP Number)

	with a copy to:
Stephen Feinberg	Robert G. Minion, Esq.
299 Park Avenue	Lowenstein Sandler PC
22nd Floor	65 Livingston Avenue
New York, New York 10171	Roseland, New Jersey 07068
(212) 421-2600	(973) 597-2424

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

October 21, 2003

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Sections 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. [ ]

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Section 240.13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Cusip No. 237266101

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1) Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only):

Stephen Feinberg

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2) Check the Appropriate Box if a Member of a Group (See Instructions):
(a) Not
(b) Applicable

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3) SEC Use Only

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4) Source of Funds (See Instructions): WC

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5) Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e): Not Applicable

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6) Citizenship or Place of Organization: United States

Number of Shares Beneficially Owned by Each Reporting Person With		
	7) Sole Voting Power:	*
	8) Shared Voting Power:	*
	9) Sole Dispositive Power:	*
	10) Shared Dispositive Power:	*

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11) Aggregate Amount Beneficially Owned by Each Reporting Person: 805,849*

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12) Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions): Not Applicable

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13) Percent of Class Represented by Amount in Row (11): 1.3%*

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14) Type of Reporting Person (See Instructions): IA, IN

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* Cerberus Partners, L.P., a Delaware limited partnership ("Cerberus"), is the holder of 805,849 shares of the Common Stock, par value $0.01 per share (the "Shares"), of Darling International, Inc., a Delaware corporation (the "Company"). Stephen Feinberg possesses sole power to vote and direct the disposition of all Shares held by Cerberus. Thus, as of October 21, 2003, for the purposes of Reg. Section 240.13d-3, Stephen Feinberg is deemed to beneficially own 805,849 Shares, or 1.3% of the Shares deemed issued and outstanding as of that date.

Item 2. Identity and Background.

The person filing this statement is Stephen Feinberg, whose business address is 299 Park Avenue, 22nd Floor, New York, New York 10171. Mr. Feinberg serves as the managing member of Cerberus Associates, L.L.C., the general partner of Cerberus Partners, L.P., a Delaware limited partnership ("Cerberus"). Cerberus is engaged in the investment in personal property of all kinds, including but not limited to capital stock, depository receipts, investment companies, mutual funds, subscriptions, warrants, bonds, notes, debentures, options and other securities of whatever kind and nature. Mr. Feinberg also provides investment management and other services for various other third parties.

Mr. Feinberg has never been convicted in any criminal proceeding (excluding traffic violations or similar misdemeanors), nor has he been a party to any civil proceeding commenced before a judicial or administrative body of competent jurisdiction as a result of which he was or is now subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws. Mr. Feinberg is a citizen of the United States.

Item 5. Interest in Securities of the Issuer.

Based upon the information set forth in the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 28, 2003, as of August 7, 2003, there were 62,325,368 Shares issued and outstanding. As of October 21, 2003, Cerberus was the holder of 805,849 Shares. Stephen Feinberg possesses sole power to vote and direct the disposition of all Shares held by Cerberus. Thus, as of October 21, 2003, for the purposes of Reg. Section 240.13d-3, Mr. Feinberg is deemed to beneficially own 805,849 Shares, or 1.3% of the Shares deemed issued and outstanding as of that date.

On October 21, 2003, Mr. Feinberg ceased to be the beneficial owner of more than 5% of the Shares deemed issued and outstanding as of that date.

During the sixty days prior to October 21, 2003, the only transaction in Shares, or securities convertible into, exercisable for or exchangeable for Shares, by Mr. Feinberg or any person or entity controlled by him or any person or entity for which he possesses voting or investment control over the securities thereof, was the October 21, 2003 sale of 7,550,000 Shares by Cerberus for $2.60 per share, which was effected in an ordinary brokerage transaction.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

October 22, 2003

/s/ Stephen Feinberg

Stephen Feinberg, in his capacity as the managing member of Cerberus Associates, L.L.C., the general partner of Cerberus Partners, L.P.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (See 18 U.S.C. 1001).

--------- --------- 4,441 283 --------- --------- Total Assets $ 34,321 $ 47,203 ========= ========= LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Current portion of debt and capital lease obligations $ 3,148 $ 1,065 Accounts payable 3,091 3,755 Accrued compensation 255 427 Accrued vacation 439 259 Other current liabilities 1,863 1,596 --------- --------- Total current liabilities 8,796 7,102 Long - term liabilities: Debt and capital lease obligations 103 2,648 Commitments and contingencies (Note 6) Shareholders' Equity : Preferred stock, par value $0.10 per share, authorized 1,000,000 shares; none outstanding -- -- Common stock, par value $0.10 per share, authorized 40,000,000 shares; issued - 13,379,519 and 11,488,186 at June 30, 2002 and 2001, respectively 1,338 1,149 Capital in excess of par value 113,103 99,389 Accumulated other comprehensive income (loss) (856) (1,058) Accumulated deficit (87,860) (61,724) --------- --------- 25,725 37,756 Less -- Treasury stock, at cost -- 27,250 shares 303 303 --------- --------- Total shareholders' equity 25,422 37,453 --------- --------- Total Liabilities and Shareholders' Equity $ 34,321 $ 47,203 ========= ========= The accompanying Notes to Consolidated Financial Statements are an integral part of these statements. 19 ULTRALIFE BATTERIES, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (In Thousands, Except Per Share Amounts) -- Year ended June 30, 2002 2001 2000 -------- -------- -------- (As Restated; See Note 2) Revenues $ 32,515 $ 24,163 $ 24,514 Cost of products sold 31,168 27,696 25,512 -------- -------- -------- Gross margin 1,347 (3,533) (998) Operating and other expenses (income): Research and development 4,291 3,424 5,306 Selling, general, and administrative 7,949 8,009 7,385 Impairment of Long Lived Assets 14,318 -- -- -------- -------- -------- Total operating and other expenses, net 26,558 11,433 12,691 Operating loss (25,211) (14,966) (13,689) Other income (expense): Interest income 91 702 958 Interest expense (382) (536) (49) Equity loss in UTI (954) (2,338) (818) Gain on sale of securities -- -- 3,147 Miscellaneous (expense) income 320 (124) 209 -------- -------- -------- Loss before income taxes (26,136) (17,262) (10,242) Income taxes -- -- -- -------- -------- -------- Net loss $(26,136) $(17,262) $(10,242) ======== ======== ======== Net loss per share, basic and diluted $ (2.11) $ (1.55) $ (0.94) ======== ======== ======== Weighted average number of shares outstanding, basic and diluted 12,407 11,141 10,904 ======== ======== ======== The accompanying Notes to Consolidated Financial Statements are an integral part of these statements. 20 ULTRALIFE BATTERIES, INC. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) -- (Dollars in Thousands) Accumulated Other Comprehensive Income (Loss) -------------------------- Foreign Common Stock Capital in Currency Unrealized ------------------------ excess of Translation Net Gain on Accumulated Treasury Number of Shares Amount Par Value Adjustment Securities Deficit Stock Total ---------------- ------ --------- ---------- ---------- ------- ----- ----- Balance as of June 30, 1999 10,512,386 $ 1,051 $ 93,605 $ (101) $ 368 $ (34,220) $ (303) $ 60,400 Comprehensive loss: Net loss (10,242) (10,242) Other comprehensive loss, net of tax: Foreign currency translation adjustments (590) (590) Unrealized net loss on securities (366) (366) -------- Other comprehensive loss (956) -------- Comprehensive loss (11,198) -------- Shares issued to affiliate 700,000 70 3,168 3,238 Shares issued under stock option plans and other stock options 197,900 20 2,017 2,037 --- Balance as of June 30, 2000 11,410,286 $ 1,141 $ 98,790 $ (691) $ 2 $(44,462) $ (303) $ 54,477 ---

Comprehensive loss: Net loss (17,262) (17,262) Other comprehensive loss, net of tax: Foreign currency translation adjustments (368) (368) Unrealized net loss on securities (1) (1) -------- Other comprehensive loss (369) -------- Comprehensive loss (17,631) -------- Shares issued under stock option plans and other stock options 77,900 8 599 607 --- Balance

as of June 30, 2001 11,488,186 $ 1,149 $ 99,389 $(1,059) $ 1 $(61,724) $ (303) $ 37,453

Comprehensive loss: Net loss (26,136) (26,136) Other comprehensive loss, net of tax: Foreign currency translation adjustments 202 202 Unrealized net loss on securities -- -------- Other comprehensive loss 202 -------- Comprehensive loss (25,934) -------- Shares issued under private stock offerings 1,891,333 189 8,502 8,691 UTI change in ownership transactions and other 5,212 5,212
-- Balance as of June 30, 2002 13,379,519 $ 1,338 $113,103 $ (857) $ 1 $(87,860) $ (303) $ 25,422
-- * As Restated; See Note 2. The accompanying Notes to Consolidated Financial Statements are an integral part of these statements. 21 ULTRALIFE BATTERIES, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (Dollars in Thousands) -- Year Ended June 30, 2002 2001 2000 -------- -------- -------- (As Restated; See Note 2) OPERATING ACTIVITIES Net loss $(26,136) $(17,262) $(10,242) Adjustments to reconcile net loss to net cash used in operating activities: Depreciation and amortization 4,265 3,811 2,038 Gain on sale of securities -- -- (3,147) Equity loss in UTI 954 2,338 818 Impairment to Long Lived Assets 14,318 -- -- Provision for loss on accounts receivable 10 (6) 42 Provision for inventory obsolescence (4) 12 410 Changes in operating assets and liabilities: Accounts receivable (2,680) 83 56 Inventories 660 381 (1,074) Prepaid expenses and other current assets 803 (471) 936 Accounts payable and other current liabilities (389) 708 (369) -------- -------- -------- Net cash used in operating activities (8,199) (10,406) (10,532) -------- -------- -------- INVESTING ACTIVITIES Purchase of property, plant and equipment (2,330) (4,367) (2,946) Proceeds from Sale Leaseback 995 -- (3,237) Purchase of securities (8,424) (26,794) (70,934) Sales of securities 11,334 22,905 46,064 Maturities of securities -- 13,702 37,504 -------- -------- -------- Net cash provided by investing activities 1,575 5,446 6,451 -------- -------- -------- FINANCING ACTIVITIES Proceeds from issuance of common stock 8,691 607 5,275 Proceeds from issuance of debt 600 -- 4,423 Principal payments under long-term debt and capital leases (1,062) (941) (91) -------- -------- -------- Net cash (used in) provided by financing activities 8,229 (334) 9,607 -------- -------- -------- Effect of exchange rate changes on cash (83) 76 (590) -------- -------- -------- Change in cash and cash equivalents 1,522 (5,218) 4,936 -------- -------- -------- Cash and cash equivalents at beginning of period 494 5,712 776 -------- -------- -------- Cash and cash equivalents at end of period $ 2,016 $ 494 $ 5,712 ======== ======== ======== SUPPLEMENTAL CASH FLOW INFORMATION: Cash paid for interest $ 374 $ 538 $ 42 Cash paid for taxes $ -- $ -- $ -- The accompanying Notes to Consolidated Financial Statements are an integral part of these statements. 22 Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Amounts) Note 1 - Summary of Operations and Significant Accounting Policies a. Description of Business Ultralife Batteries, Inc. (the "Company") develops, manufactures and markets a wide range of standard and customized lithium primary (non-rechargeable) and rechargeable batteries for use in a wide array of applications. The Company believes that its technologies allow the Company to offer batteries that are flexibly configured, lightweight and generally achieve longer operating time than many competing batteries currently available. The Company has focused on manufacturing a family of lithium primary batteries for industrial, military and consumer applications, which it believes is one of the most comprehensive lines of lithium manganese dioxide primary batteries commercially available. The Company also supplies rechargeable and lithium ion batteries for use in portable electronic applications. For several years, the Company has incurred net operating losses primarily as a result of funding research and development activities and, to a lesser extent, incurring manufacturing and selling, general and administrative costs. During fiscal 2002, the Company realigned its resources to bring costs more in line with revenues, moving the Company closer to its targets of operating cash breakeven and profitability. In addition, the Company refined its rechargeable strategy to allow it to be more effective in the marketplace. The Company believes that its current growth strategy will be successful in the long-term. However, at the present time, the status of the Company's cash and credit situation is of serious concern, and much of the Company's ability to succeed in the near-term is dependent upon continued revenue growth and a favorable product mix that will generate cash. If the Company is unsuccessful in growing the business sufficiently in the near-term to maintain its viability, it may need to find alternative sources of funds to allow it to continue to operate in its current capacity, such as obtaining additional debt or equity or selling assets. While the Company has been successful at raising funds in the past, there is no assurance that it will be able to do so under the current circumstances. b. Principles of Consolidation The consolidated financial statements are prepared in accordance with

generally accepted accounting principles in the United States and include the accounts of the Company and its wholly owned subsidiary, Ultralife Batteries UK, Ltd. ("Ultralife UK"). Intercompany accounts and transactions have been eliminated in consolidation. Investments in entities in which the Company does not have a controlling interest are accounted for using the equity method. c. Management's Use of Judgment and 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 year end and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. d. Cash Flows For purposes of the Consolidated Statements of Cash Flows, the Company considers all demand deposits with financial institutions and financial instruments with original maturities of three months or less to be cash equivalents. e. Restricted Cash The Company is required to maintain certain levels of escrowed cash in order to comply with the terms of some of its debt and lease agreements. All cash is retained for application against required escrows for debt obligations, including certain letters of credit supporting lease obligations and any excess borrowings from the Company's revolving credit facility. A portion of the restricted cash pertaining to certain lease obligations is released periodically as payments are made to reduce outstanding debt. With respect to the Company's revolving credit 23 facility, the Company's primary lending institution will restrict cash if the borrowing base (consisting of receivables and inventory) does not sufficiently cover the outstanding borrowings on any particular day. As of June 30, 2002, the Company had $201 in restricted cash with a certain lending institution primarily for letters of credit supporting leases for a building and some computer equipment. There was no cash restricted at June 30, 2002 pertaining to the Company's revolving credit facility. f. Available-for-Sale Securities Management determines the appropriate classification of securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Marketable equity securities and debt securities are classified as available-for-sale. These securities are carried at fair value, with the unrealized gains and losses, net of tax, included as a component of accumulated other comprehensive income. The amortized cost of debt securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization is included in interest income. The cost of securities sold is based on the specific identification method. Interest on securities classified as available-for-sale is included in interest income. Realized gains and losses, and declines in value judged to be other-than-temporary on available-for-sale securities, if any, are included in the determination of net income (loss) as gains (losses) on sale of securities. g. Inventories Inventories are stated at the lower of cost or market with cost determined under the first-in, first-out (FIFO) method. h. Property, Plant and Equipment Property, plant and equipment are stated at cost. Estimated useful lives are as follows: Buildings 20 years Machinery and Equipment 5 - 10 years Furniture and Fixtures 3 - 7 years Computer Hardware and Software 3 - 5 years Leasehold Improvements Lease term Depreciation and amortization are computed using the straight-line method. Betterments, renewals and extraordinary repairs that extend the life of the assets are capitalized. Other repairs and maintenance costs are expensed when incurred. When sold, the cost and accumulated depreciation applicable to assets retired are removed from the accounts and the gain or loss on disposition is recognized in other income (expense). i. Long-Lived Assets and Intangibles In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", the Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable on an undiscounted cash flow basis. The statement also requires that when an impairment has occurred, long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value, less cost to sell. The Company recorded an asset impairment of $14,318 in connection with the fixed assets in its rechargeable business (see Note 3). The Company did not record any impairments of long-lived assets in 2001 or 2000. j. Technology License Agreements Technology license agreements consist of the rights to patented technology and related technical information. The Company acquired a technology license agreement for an initial payment of $1,000 in May 1994. Royalties are payable at a rate of 8% of the fair market value of each battery using the technology if the battery is sold or otherwise put into use by the Company. The royalties can be reduced under certain circumstances based on the terms of this agreement. The agreement is amortized using the straight-line method over 10 years. Amortization expense was $100, $100, and $100 in 2002, 2001, and 2000, respectively. 24 k. Translation of Foreign Currency The financial statements of the Company's foreign affiliates are translated into U.S. dollar equivalents in accordance with Statement of Financial

Accounting Standards (SFAS) No. 52, "Foreign Currency Translation". Exchange gains or losses included in net loss for the years ended June 30, 2002, 2001 and 2000 were $320, $(155), and $97, respectively. l. Revenue Recognition Battery Sales - Revenues from the sale of batteries are recognized when products are shipped. A provision is made at that time for warranty costs expected to be incurred. Technology Contracts - The Company recognizes revenue using the percentage of completion method based on the relationship of costs incurred to date to the total estimated cost to complete the contract. Elements of cost include direct material, labor and overhead. If a loss on a contract is estimated, the full amount of the loss is recognized immediately. The Company allocates costs to all technology contracts based upon actual costs incurred including an allocation of certain research and development costs incurred. Under certain research and development arrangements with the U.S. Government, the Company may be required to transfer technology developed to the U.S. Government. The Company has accounted for the contracts in accordance with SFAS No. 68, "Research and Development Arrangements". The Company, where appropriate, has recognized a liability for amounts that may be repaid to third parties, or for revenue deferred until expenditures have been incurred. In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101 "Revenue Recognition in Financial Statements". This guidance summarizes the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. This staff bulletin had no significant impact on the Company's revenue recognition policy or results of operations. m. Shipping and Handling Costs Costs incurred by the Company related to shipping and handling are included in Cost of products sold. Amounts charged to customers pertaining to these costs are reflected as a contra-expense in Cost of products sold. n. Advertising Expenses Advertising costs are expensed as incurred and are included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations. Such expenses amounted to $213, $335 and $64 for the years ended June 30, 2002, 2001 and 2000, respectively. o. Research and Development Research and development expenditures are charged to operations as incurred. p. Environmental Costs Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate, in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities". Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. q. Income Taxes The liability method, prescribed by SFAS No. 109, "Accounting for Income Taxes", is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that may be in effect when the differences are expected to reverse. The Company recorded no income tax benefit relating to the net operating loss generated during the years ended June 30, 2002, 2001 and 2000, and as such, the loss was offset by a valuation allowance. A valuation allowance is required when it is more likely than not that the recorded value of a deferred tax asset will not be realized. 25 r. Concentration of Credit Risk In fiscal 2002, three customers - Kidde Safety, the U.S. Army/CECOM, and UNICOR - accounted for approximately $9.4 million of sales, which amounted to approximately 29% of total revenues of the Company. Sales of 9-volt batteries to Kidde Safety for use in long-life smoke detector applications amounted to $3,400 in 2002, $3,300 in 2001 and $2,900 in 2000. The 2002 sales to Kidde represented more than 10% of the Company's consolidated revenues. Sales of BA-5368 batteries to UNICOR for use in pilot survival radio applications amounted to $4,000 in 2002, $1,200 in 2001 and none in 2000. The 2002 sales to UNICOR also represented more than 10% of the Company's consolidated revenues. Sales of BA-5372 batteries to the U.S. Army/CECOM, which are used as backup batteries in the military's communications radios, amounted to $2,000 in 2002, $1,200 in 2001 and $500 in 2000. The Company believes that the loss of any of these customers could have a material adverse effect on the Company. The Company's relationship with these customers is good. Currently, the Company does not experience significant seasonal trends in primary battery revenues. However, a downturn in the U.S. economy, which affects retail sales and which could result in fewer sales of smoke detectors to consumers, could potentially result in lower Company sales to this market segment. The smoke detector OEM market segment comprised approximately 19% of total primary revenues in 2002. Additionally, a lower demand from the U.S. Government could result in lower sales to government users. The Company generally does not distribute its products to a concentrated geographical area nor is there a significant concentration of credit risks arising from individuals or groups of customers engaged in similar activities, or who have similar economic characteristics. The Company does not normally obtain collateral on trade accounts receivable. s. Fair Value of Financial Instruments SFAS No. 107, "Disclosure About Fair Value of Financial Instruments", requires disclosure of an estimate of the fair value of certain

financial instruments. The fair value of financial instruments pursuant to SFAS No. 107 approximated their carrying values at June 30, 2002, 2001 and 2000. Fair values have been determined through information obtained from market sources. t. Earnings Per Share The Company accounts for net loss per common share in accordance with the provisions of SFAS No. 128, "Earnings Per Share". SFAS No. 128 requires the reporting of basic and diluted earnings per share (EPS). Basic EPS is computed by dividing reported earnings available to common shareholders by weighted average shares outstanding for the period. Diluted EPS includes the dilutive effect of securities calculated using the treasury stock method, if any. No dilution for common share equivalents is included in fiscal 2002, 2001 and 2000 as the effects would be anti-dilutive. For all years reported, diluted earnings per share were the equivalent of basic earnings per share due to the net loss. There were 2,562,640, 2,278,800, and 2,202,380 outstanding stock options and warrants as of June 30, 2002, 2001 and 2000, respectively, that were not included in EPS for those periods as the effect would be anti-dilutive. (See Note 8.) u. Stock-Based Compensation The Company applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," which requires compensation costs to be recognized based on the difference, if any, between the quoted market price of the stock on the grant date and the exercise price. In March 2000, the FASB issued Interpretation (FIN) No. 44 "Accounting for Certain Transactions Involving Stock Compensation", which clarifies the application of APB Opinion No. 25 for certain issues. The interpretation was effective July 1, 2000, except for the provisions that relate to modifications that directly or indirectly reduce the exercise price of an award and the definition of an employee, which were effective after December 15, 1998. The adoption of FIN No. 44 had no significant impact on the Company's financial statements. v. Segment Reporting The Company reports segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". The Company has four operating segments. The basis for determining the Company's operating segments is the manner in which financial information is used by the Company in its operations. 26 Management operates and organizes itself according to business units that comprise unique products and services across geographic locations. w. Recent Accounting Pronouncements In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company will adopt SFAS No. 143 in the fiscal year beginning July 1, 2002 and is currently evaluating the effect, if any, on the Company's financial statements. In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principle Board Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Company will adopt SFAS No. 144 in the fiscal year beginning July 1, 2002. The Company does not believe adoption of this pronouncement will have a material adverse effect on its financial statements. In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. The Company will adopt SFAS No. 146 in the fiscal year beginning July 1, 2002. The Company does not believe the adoption of this pronouncement will have a material adverse effect on its financial statements. x. Reclassifications The Company has reclassified restricted cash and accrued vacation in the 2001 Consolidated Balance Sheet to conform to the current year presentation. Note 2 - Restatement of Prior Period Financial Results In assessing the partial unwind of the Company's investment in UTI on October 23, 2002, the Company determined that it had incorrectly accounted for certain activities with regard to its equity investment in UTI. Specifically, the Company should have adjusted its proportionate share of the UTI net losses to reflect the Company's carrying value of its UTI investment, and the Company should have recorded certain

increases to its investment in UTI arising from change in interest transactions at the UTI level occurring in November 2000, August 2001, and July 2002. The impact of not accounting for the negative basis difference was that the Company's reported equity losses were overstated for the Company's fiscal years ended June 30, 2002, 2001 and 2000. The primary impact of the Company not recognizing the UTI change in interest transactions was that the Company's UTI investment and additional paid-in capital captions were understated, primarily in fiscal year 2002. Further, the Company's equity losses for fiscal year 2002, even with the beneficial amortization effect noted above, were understated, as the additional basis created by the change in interest accounting that should have taken place would have created additional basis sufficient to absorb additional equity losses which had not been recognized previously (as the Company's equity investment had been reduced to zero). 27 The Company has determined that the impacts relating to fiscal years 2001 and 2000 were not material and therefore these previously issued financial statements have not been restated. The financial statements for the fiscal year ended June 30, 2002, have been restated as follows: June 30, 2002 Financial Statement Caption As Previously Reported As Restated -------------------------- --------------------- ----------- Equity Loss in UTI $ -- $ (954) Net Loss $(25,182) $(26,136) Investment in Affiliates $ -- $ 4,258 Total Assets $ 30,063 $ 34,321 Stockholders' Equity $ 21,164 $ 25,422 Net Loss per Share $ (2.03) $ (2.11) Note 3 - Investments The following is a summary of available-for-sale securities: Unrealized Estimated June 30, 2002 Cost Gain Fair Value ------------ ---- --------- --------- Commercial Paper and other .... $ 2 $ -- $ 2 ====== ====== ====== Unrealized Estimated June 30, 2001 Cost Gain Fair Value ------------ ---- --------- --------- Commercial Paper and other .... $ 613 $ -- $ 613 U.S. corporate bonds .... 2,499 1 2,500 ------ ------ ------ $3,112 $ 1 $3,113 ====== ====== ====== The Company has instructed its investment fund managers to invest in conservative, investment grade securities with average maturities of less than three years. In fiscal 2000, the Company realized a gain on sales of securities of $3,147 relating to the sale of portions of the Company's investment in Intermagnetics General Corporation. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties or the Company may sell the securities to meet their ongoing and potential future cash needs. The following is a summary of the cost, which approximates fair value, of the Company's available-for-sale securities by contractual maturity: June 30, -------- At Cost: 2002 2001 ------ ------ Less than one year $ 2 $1,112 More than one year -- 2,000 ------ ------ Total $ 2 $3,112 ====== ====== Note 4 - Impairment of Long-Lived Assets In June 2002, the Company reported a $14,318 impairment charge. This impairment charge related to a writedown of long-lived assets in the Company's rechargeable production operations, reflecting a change in the Company's strategy. Changes in external economic conditions culminated in June 2002, reflecting a slowdown in the mobile electronics marketplace and a realization that near-term business opportunities utilizing the high volume rechargeable production equipment had dissipated. These changes caused the Company to shift away from high volume polymer battery production to higher value, lower volume opportunities. The Company's redefined strategy eliminates the need for its high volume production line that had been built mainly to manufacture Nokia cell phone replacement 28 batteries. The new strategy is a three-pronged approach. First, the Company will manufacture in-house for the higher value, lower volume polymer rechargeable opportunities. Second, the Company will utilize its affiliate in Taiwan, Ultralife Taiwan, Inc., as a source for both polymer and liquid lithium cells. And third, the Company will look to other rechargeable cell manufacturers as sources for cells that the Company can then assemble into completed battery packs. The impairment charge was accounted for under Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", which requires evaluating the assets' carrying value based on future cash flows. As a result of the impairment of the Company's fixed assets, depreciation charges will be reduced by approximately $1,800 per year. Note 5 - Supplemental Balance Sheet Information The composition of inventories was: June 30, -------- 2002 2001 ---- ---- Raw materials .... $ 2,680 $ 2,595 Work in process .... 1,338 1,233 Finished products .... 1,022 1,872 ------- ------- 5,040 5,700 Less: Reserve for obsolescence .... 407 411 ------- ------- $ 4,633 $ 5,289 ======= ======= The composition of property, plant and equipment was: Land .... $ 123 $ 123 Buildings and Leasehold Improvements .... 1,619 1,608 Machinery and Equipment .... 26,308 37,891 Furniture and Fixtures .... 312 291 Computer Hardware and Software .... 915 1,375 Construction in Progress .... 2,531 2,984 ------- ------- 31,808 44,272 Less: Accumulated Depreciation .... 15,674 11,275 ------- ------- $16,134 $32,997 ======= ======= Note 6 - Operating Leases The Company leases various buildings, machinery, land, automobiles and office equipment. Rental expenses for all operating leases were approximately $801, $500 and $333

for the years ended June 30, 2002, 2001 and 2000, respectively. Future minimum lease payments under non-cancelable operating leases as of June 30, 2002 are as follows: 2003 - $1,172, 2004 - $1,168, 2005 - $1,156, 2006 - $1,149, and thereafter - $1,984. In March 2001, the Company entered into a $2,000 lease for certain new manufacturing equipment with a third party leasing agency. Under this arrangement, the Company had various options to acquire manufacturing equipment, including sales / leaseback transactions and operating leases. In October 2001, the Company expanded its leasing arrangement with this third party leasing agency, increasing the amount of the lease line from $2,000 to $4,000. The increase in the line was used to fund capital expansion plans for manufacturing equipment that increased capacity within the Company's Primary business unit. At June 30, 2002, the lease line had been fully utilized. The Company's lease payment is $226 per quarter. In conjunction with this lease, the Company has a letter of credit of $3,800 outstanding. 29 Note 7 - Debt and Capital Leases New York Power Authority In May 1999, the Company borrowed approximately $150 from New York Power Authority (NYPA) that was used toward the construction of a solvent recovery system. The annual interest rate on the loan is 6%. The loan was being repaid in 24 equal monthly payments and expired in July 2001. Convertible Note to Director In conjunction with the Company's private placement offering in April 2002, a note was issued to one of the Company's directors. The note will convert automatically into 200,000 shares of the Company's common stock if the Company's shareholders vote to approve the conversion of the note at the Company's Annual Meeting in December 2002. If shareholder approval is not obtained, the Company is obligated to repay the note on December 31, 2002, with accrued interest at 10% per year. All shares will be issued at $3.00 per share. Credit Facility In June 2000, the Company entered into a 3-year, $20,000 secured credit facility with a lending institution. The financing agreement consisted of an initial $12,000 term loan component and a revolving credit facility component for an initial $8,000, based on eligible net accounts receivable (as defined) and eligible net inventory (as defined). The amount available under the term loan component amortizes over time. Principal and interest are paid monthly on outstanding amounts borrowed. Debt issue costs amounting to $198 were incurred in connection with the initiation of the term of the agreement and are being amortized over the life of the agreement. In October 2001, this lending institution informed the Company that its borrowing availability under its $20,000 credit facility had been effectively reduced to zero as a result of a recent appraisal of its fixed assets. In February 2002, the Company and its primary lending institution amended the credit facility. The amended facility was reduced to $15,000 mainly due to the reduction in the valuation of fixed assets that limited the borrowing capacity under the term loan component, as well as to minimize the cost of unused line fees. The term loan component was revised to an initial $2,733 based on the valuation of the Company's fixed assets (of which $2,468 was outstanding on the term loan at June 30, 2002). The principal associated with the term loan is being repaid over a 5-year amortization period. However, since the initial term of the three-year credit facility agreement expires in June 2003, and it is subject to extension by the concurrence of both the Company and the lending institution, the remaining principal under the term loan is reflected as a short-term liability as of June 30, 2002. It is the Company's intention at this time to extend this agreement. The revolving credit facility component comprises the remainder of the total potential borrowing capacity under the overall credit facility. There was no balance outstanding on the revolving credit facility as of June 30, 2002. Certain definitions were revised with the February 2002 amendment, resulting in an increase in the Company's available borrowing base. In addition, the minimum net worth covenant was effectively reduced to approximately $19,200, after adjustments for fixed asset impairment charges. At June 30, 2002, the Company is in compliance with this covenant. The loans bear interest at prime-based or LIBOR-based rates, at the discretion of the Company. At June 30, 2002, the rate was 5.75%. The Company also pays a facility fee on the unused portion of the commitment. The loan is secured by substantially all of the Company's assets and the Company is precluded from paying dividends under the terms of the agreement. The total amount available under the revolver component is reduced by outstanding letters of credit. The Company had $3,800 outstanding on a letter of credit as of June 30, 2002, supporting the Company's $4,000 equipment lease. The Company's additional borrowing capacity as of June 30, 2002 was approximately $1,000. Capital Leases The Company has two capital leases. The first is a capital lease commitment for the Newark, New York facility which provides for payments (including principal and interest) of $50 per year through December 2001 and $28 per year from December 2002 through 2007. Remaining interest on the lease is approximately $51. At the end of this lease term, the Company is required to purchase the facility for one dollar. The second capital lease is for computer equipment. The lease expires in 2003 and requires monthly payments of approximately $13. 30 Payment Schedule Principal payments under the current amount outstanding of the long-term debt and capital leases is as follows: Credit Note to Facility Director Capital Leases Total -------- --------

------------------ ----- Building Equipment -------- --------- Fiscal 2003 $2,468 $ 600 $ 15 $ 65 $3,148 2004 -- -- 16 -- 16 2005 -- -- 18 -- 18 2006 -- -- 20 -- 20 2007 and thereafter -- -- 49 -- 49 ------ ------ ------ ------ ------ 2,468 600 118 65 3,251 Less: Current portion 2,468 600 15 65 3,148 ------ ------ ------ ------ ------ Long-term $ -- $ -- $ 103 $ -- $ 103 ====== ====== ====== ====== ====== Letters of Credit In conjunction with the purchase/lease agreement to acquire the Company's Newark, New York facilities, the Company has a letter of credit in the amount of $151, which expires in 2007. Additionally, the Company maintains a $50 letter of credit for computer equipment, which expires in 2002. Lastly, in connection with the $4,000 operating lease line that the Company initiated in March 2001, the Company maintains a $3,800 letter of credit, which expires in July 2007. Each of these letters of credit decline gradually at certain points over time as the obligations they are associated with diminish. Note 8 - Commitments and Contingencies a. China Program In July 1992, the Company entered into several agreements related to the establishment of a manufacturing facility in China for the production and distribution of batteries. The Company made an investment of $284 of a total anticipated investment of $405 which would represent a 15% interest in the China Program and accounted for this investment using the cost method. Changzhou Ultra Power Battery Co., Ltd., a company organized in China ("China Battery"), purchased from the Company certain technology, equipment, training and consulting services relating to the design and operation of a lithium battery manufacturing plant. China Battery was required to pay approximately $6,000 to the Company over the first two years of the agreement, of which approximately $5,600 has been paid. The Company has been attempting to collect the balance due under this contract. China Battery has indicated that these payments will not be made until certain contractual issues have been resolved. Due to the Chinese partner's questionable willingness to pay, the Company wrote off in fiscal 1997 the entire balance owed to the Company as well as the Company's investment. In December 1997, China Battery sent to the Company a letter demanding reimbursement of losses they have incurred plus a refund for certain equipment that the Company sold to China Battery. Although China Battery has not taken any additional steps, there can be no assurance that China Battery will not further pursue such a claim, which, if successful, would have a material adverse effect on the Company's business, financial condition and results of operations. The Company believes that such a claim is without merit. b. Indemnity Agreement The Company has an Indemnity Agreement with each member of its Board of Directors and corporate officers. The agreement provides that the Company will reimburse directors or officers for all expenses, to the fullest extent permitted by law and the Company by-laws, arising out of their performance as agents or trustees of the Company. c. Purchase Commitments As of June 30, 2002, the Company has made commitments to purchase approximately $171 of production machinery and equipment. 31 d. Royalty Agreement Technology underlying certain products of the Company are based in part as non-exclusive transfer agreements. The Company made an original payment for such technology and is required to make royalty and other payments in the future which incorporate the licensed technology. e. Government Grants/Loans The Company has been able to obtain certain grants/loans from governments agencies to assist with various funding needs. In March 1998, the Company received a $500 grant from the Empire State Development Corporation to fund certain equipment purchases. The grant was contingent upon the Company achieving and maintaining minimum employment levels for a period of five years. If annual levels of employment are not maintained, a portion of the grant might become repayable. Through the first four years of the grant period, the Company has met the requirements. The Company has recognized revenue over the grant period ratably, dependent upon its status the employment criteria. The remaining unamortized balance of $50 relating to the grant is included in other current liabilities in the accompanying Consolidated Balance Sheet as of June 30, 2002. It is possible that the Company may not meet the employment criteria at the end of the fifth year, and thus the Company may be required to repay one-fifth of the overall grant. In November 2001, the Company received approval for a $750 grant/loan from a federally sponsored small cities program. The grant/loan will assist in funding current capital expansion plans that the Company expects will lead to job creation. The Company will be reimbursed for approved capital as it incurs the cost. In August 2002, the $750 small cities grant/loan documentation was finalized and the Company was reimbursed approximately $400 for costs it had incurred to date for equipment purchases applicable under this grant/loan. The remaining $350 under this grant/loan will be reimbursed as the Company incurs additional expenses and submits requests for reimbursement. Certain employment levels are required to be met and maintained for a period of three years. If the Company does not meet its employment quota, it may adversely affect reimbursement requests, or the grant may be converted to a loan that will be repaid over a five-year period. The Company will initially record the proceeds from this grant/loan as a long-term liability, and will only amortize these proceeds into income as the certainty of meeting the employment criteria become definitive. Also in November 2001,

the Company received approval for a $300 grant/loan from New York State. The grant/loan will fund capital expansion plans that the Company expects will lead to job creation. In this case, the Company will be reimbursed after the full completion of the particular project. This grant/loan also required the Company to meet and maintain certain levels of employment. However, since the Company does not meet the beginning employment threshold, it is unlikely at this time that the Company will be able to gain access to these funds. f. Employment Contracts The Company has employment contracts with certain of its key employees with automatic one-year renewals unless terminated by either party. These agreements provide for minimum salaries, as adjusted for annual increases, and may include incentive bonuses based upon attainment of specified management goals. In addition, these agreements provide for severance payments in the event of specified termination of employment. g. Legal Matters The Company is subject to legal proceedings and claims which arise in the normal course of business. The Company believes that the final disposition of such matters will not have a material adverse effect on the financial position or results of operations of the Company. In August 1998, the Company, its Directors, and certain underwriters were named as defendants in a complaint filed in the United States District Court for the District of New Jersey by certain shareholders, purportedly on behalf of a class of shareholders, alleging that the defendants, during the period April 30, 1998 through June 12, 1998, violated various provisions of the federal securities laws in connection with an offering of 2,500,000 shares of the Company's Common Stock. The complaint alleged that the Company's offering documents were materially incomplete, and as a result misleading, and that the purported class members purchased the Company's Common Stock at artificially inflated prices and were damaged thereby. Upon a motion made on behalf of the Company, the Court dismissed the shareholder action, without prejudice, allowing the complaint to be refiled. The shareholder action was subsequently refiled, 32 asserting substantially the same claims as in the prior pleading. The Company again moved to dismiss the complaint. By Opinion and Order dated September 28, 2000, the Court dismissed the action, this time with prejudice, thereby barring plaintiffs from any further amendments to their complaint and directing that the case be closed. Plaintiffs filed a Notice of Appeal to the Third Circuit Court of Appeals and the parties submitted their briefs. Subsequently, the parties notified the Court of Appeals that they had reached an agreement in principle to resolve the outstanding appeal and settle the case upon terms and conditions which require submission to the District Court for approval. Upon application of the parties and in order to facilitate the parties' pursuit of settlement, the Court of Appeals issued an Order dated May 18, 2001 adjourning oral argument on the appeal and remanding the case to the District Court for further proceedings in connection with the proposed settlement. Subsequent to the parties entering into the settlement agreement, the Company's insurance carrier commenced liquidation proceedings. The insurance carrier informed the Company that in light of the liquidation proceedings, it would no longer fund the settlement. In addition, the value of the insurance policy is in serious doubt. In April 2002, the Company and the insurance carrier for the underwriters offered to proceed with the settlement. Plaintiff's counsel has accepted the terms of the proposed settlement, amounting to $175 for the Company, and the matter must now be approved by the Court and by the shareholders comprising the class. Based on the terms of the proposed settlement, the Company has established reserves for its share of the settlement costs and associated expenses. In the event settlement is not reached, the Company will continue to defend the case vigorously. The amount of alleged damages, if any, cannot be quantified, nor can the outcome of this litigation be predicted. Accordingly, management cannot determine whether the ultimate resolution of this litigation could have a material adverse effect on the Company's financial position and results of operations. In conjunction with the Company's purchase/lease of its Newark, New York facility in 1998, the Company entered into a payment-in-lieu of tax agreement which provides the Company with real estate tax concessions upon meeting certain conditions. In connection with this agreement, the Company received an environmental assessment, which revealed contaminated soil. The assessment indicated potential actions that the Company may be required to undertake upon notification by the environmental authorities. The assessment also proposed that a second assessment be completed and provided an estimate of total potential costs to remediate the soil of $230. However, there can be no assurance that this will be the maximum cost. The Company entered into an agreement whereby a third party has agreed to reimburse the Company for fifty percent of the costs associated with this matter. The Company has fully reserved for its portion of the estimated liability. Test sampling was completed in the spring of 2001. The next step is for the Company to submit a remediation plan to the New York State Department of Environmental Conservation for approval. Upon approval, the Company would have the authority to remediate the property. Because this is a voluntary remediation, there is no requirement for the Company to complete the project within any specific time frame. The ultimate resolution of this

matter may have a significant adverse impact on the results of operations in the period in which it is resolved. A retail end-user of a product manufactured by one of Ultralife's customers (the "Customer"), has made a claim against the Customer wherein it is asserted that the Customer's product, which is powered by an Ultralife battery, does not operate according to the Customer's product specification. No claim has been filed against Ultralife. However, in the interest of fostering good customer relations, in September 2002, Ultralife has agreed to lend technical support to the Customer in defense of its claim. Additionally, Ultralife will honor its warranty by replacing any batteries that may be determined to be defective. In the event a claim is filed against Ultralife and it is ultimately determined that Ultralife's product was defective, replacement of batteries to this Customer or end-user may have a material adverse effect on the Company's financial position and results of operations. Note 9 - Shareholders' Equity a. Preferred Stock The Company has authorized 1,000,000 shares of preferred stock, with a par value of $0.10 per share. At June 30, 2002, no preferred shares were issued or outstanding. b. Common Stock In July 2001, the Company completed a $6,800 private placement of 1,090,000 shares of its common stock at $6.25 per share. 33 In April 2002, the Company issued 801,333 shares of its common stock at $3.00 per share in a private placement offering. In conjunction with this offering, another 200,000 shares will be issued in December 2002 subject to shareholder approval of a convertible note with one of the Company's directors (see Note 7). In December 2000, the shareholders approved an increase in the number of authorized shares of common stock from 20,000,000 to 40,000,000. c. Stock Options The Company sponsors several stock-based compensation plans, all of which are accounted for under the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation expense for its stock-based compensation plans has been recognized in the Company's Consolidated Statements of Operations. The Company has adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation". If the Company had elected to recognize compensation expense for all of the Company's stock-based compensation based on the fair value of the options at grant date as prescribed by SFAS No.123, the Company's net loss would have been $27,427, $19,597 and $12,333 for the years ended June 30, 2002, 2001 and 2000, compared with the reported losses of $26,136, $17,262 and $10,242, respectively. Loss per share would have been $2.21, $1.75 and $1.13 in the years ended June 30, 2002, 2001 and 2000, respectively, as compared to reported loss per share of $2.11, $1.55 and $0.94, respectively. The effect of SFAS No. 123 in the pro forma disclosures may not be indicative of future amounts. For purposes of this disclosure, the fair value of each fixed option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in fiscal 2002, 2001, and 2000: 2002 2001 2000 --- Risk-free interest rate 3.6% 4.8% 6.4% Volatility factor 75.8% 75.8% 74.1% Weighted average expected life (years) 4 4 6 Weighted average fair value of options granted $2.13 $3.56 $5.48 The shareholders of the Company have approved four stock option plans that permit the grant of options. In addition, the shareholders of the Company have approved the grant of options outside of these plans. Under the 1991 stock option plan, 100,000 shares of Common Stock were reserved for grant to key employees and consultants of the Company. These options expired on September 13, 2001, at which date the plan terminated. All options granted under the 1991 plan were Non-Qualified Stock Options ("NQSOs"). The shareholders of the Company have also approved a 1992 stock option plan that is substantially the same as the 1991 stock option plan. The shareholders approved reservation of 1,150,000 shares of Common Stock for grant under the plan. During 1997, the Board of Directors approved an amendment to the plan increasing the number of shares of Common Stock reserved by 500,000 to 1,650,000. Options granted under the 1992 plan are either Incentive Stock Options ("ISOs") or NQSOs. Key employees are eligible to receive ISOs and NQSOs; however, directors and consultants are eligible to receive only NQSOs. As of June 30, 2002, there are 28,410 shares available for grant. Effective March 1, 1995, the Company established the 1995 stock option plan and granted the former Chief Executive Officer ("CEO") options to purchase 100,000 shares at $14.25 per share under this plan. Of these shares, 60,000 vested prior to his termination and subsequently expired on March 1, 2001. There were no other grants under the 1995 stock option plan. In October 1992, the Company granted, to the former CEO, options to purchase 225,000 shares of Common Stock at $9.75 per share outside of any of the stock option plans. The options vested through June 1997 and expire in October 2002. Effective July 12, 1999, the Company granted the current CEO options to purchase 500,000 shares of Common Stock at $5.19 per share outside of any of the stock option plans. Of these, 50,000 options were exercisable on the grant date, and the remaining options are exercisable in annual increments of 90,000 over a five-year period commencing July 12, 2000 through July 12, 2004, and expire on July 12, 2005. Effective December 2000, the Company established the 2000 stock option plan which is substantially the same

as the 1991 stock option plan. The shareholders approved reservation of 500,000 shares of Common Stock for grant under the plan. Options granted under the 2000 plan are either ISOs or NQSOs. Key employees are eligible to receive 34 ISOs and NQSOs; however, directors and consultants are eligible to receive only NQSOs. As of June 30, 2002, there are 94,900 shares available for grant. The following table summarizes data for the stock options issued by the Company: 2002 2001 2000 ---- ---- ---- Weighted Weighted Weighted Average Average Average Exercise Exercise Exercise Number Price Number Price Number Price of Shares Per Share Of Shares Per Share of Shares Per Share --------- --------- --------- --------- --------- --------- Shares under option at beginning of year ... 2,266,300 $7.95 2,189,880 $ 8.68 1,721,460 $10.16 Options granted .... 461,000 3.78 341,600 7.06 1,033,500 6.59 Options exercised .... -- -- (77,900) 7.77 (202,000) 10.22 Options canceled .... (286,160) 9.92 (187,280) 14.28 (363,080) 8.94 --------- ----- --------- ------ --------- ------ Shares under option at end of year .... 2,441,140 $6.90 2,266,300 $ 7.95 2,189,880 $ 8.68 --------- ----- --------- ------ --------- ------ Options exercisable at end of year .... 1,289,200 $8.13 675,480 $10.09 633,320 $10.49 The following table represents additional information about stock options outstanding at June 30, 2002: Options Outstanding Options Exercisable --- -------------------------------------- Weighted-Average Number Remaining Weighted- Number Weighted- Range of Outstanding Contractual Average Exercisable Average Exercise Prices at June 30, 2002 Life Exercise Price at June 30, 2002 Exercise Price --- -------------------------------------- $3.15 - $5.13 500,400 5.17 $ 3.78 80,500 $ 4.33 $5.19 - $6.50 742,600 3.33 $ 5.45 340,320 $ 5.43 $6.55 - $9.00 639,050 3.19 $ 7.69 353,550 $ 7.89 $9.75 - $17.88 559,090 0.93 $10.71 514,830 $10.68 --- --------------------------------- $3.15 - $17.88 2,441,140 3.12 $6.90 1,289,200 $8.13 d. Warrants In March 1998, the Company issued warrants to purchase 12,500 shares of its common stock to the Empire State Development Corporation in connection with a $500 grant. Proceeds of the grant were used to fund certain equipment purchases and are contingent upon the Company achieving and maintaining minimum employment levels. The warrants may be exercised through December 31, 2002 at an exercise price equal to 60% of the average closing price for the 10 trading days preceding the exercise date, but not less than the average closing price of the Company's common stock during the 20 trading days prior to the grant. In July 2001, the Company issued warrants to purchase 109,000 shares of its common stock to H.C. Wainwright & Co., Inc. and other affiliated individuals that participated as investment bankers in the $6,800 private placement of 1,090,000 shares of common stock that was completed at that time. The warrants have an exercise price of $6.25 per share and the term of the warrants is five years. e. Reserved Shares The Company has reserved 2,685,950 shares of common stock under the various stock option plans and warrants as of June 30, 2002, and 2,588,200 and 2,266,225 as of June 30, 2001 and 2000, respectively. 35 Note 10 - Income Taxes (As Restated; See Note 2) Foreign and domestic loss carryforwards totaling approximately $76,950 are available to reduce future taxable income. Foreign loss carryforwards of $12,118 can be carried forward indefinitely. The domestic net operating loss carryforward of $64,832 expires through 2022. If it is determined that a change in ownership as defined under Internal Revenue Code Section 382 has occurred, the net operating loss carryforward will be subject to an annual limitation. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. The Company increased its valuation allowance by approximately $9,856, $3,143 and $2,445 for the years ended June 30, 2002, 2001 and 2000, respectively, to offset the deferred tax assets based on the Company's estimates of its future earnings and the expected timing of temporary difference reversals. Significant components of the Company's deferred tax liabilities and assets as of June 30 are as follows: 2002 2001 ---- ---- Deferred tax liabilities: Investments .... $ 348 $ 1 Property, plant and equipment .... 2,766 913 -------- -------- Total deferred tax liabilities .... 3,114 914 Deferred tax assets: Impairment of long-lived assets .... 4,868 -- Net operating loss carryforward .... 25,678 18,560 Other .... 526 456 -------- -------- Total deferred tax assets .... 31,072 19,016 Valuation allowance for deferred tax assets .... (27,958) (18,102) -------- -------- Net deferred tax assets .... 3,114 914 -------- -------- Net deferred tax assets / liabilities .... $ -- $ -- There were no income taxes paid for the years ended June 30, 2002, 2001 and 2000. For financial reporting purposes, income (loss) from continuing operations before income taxes included the following: June 30, 2002 2001 2000 ---- ---- ---- United States .... $(23,848) $(13,999) $ (7,658) Foreign .... (2,288) (3,263) (2,584) -------- -------- -------- Total .... $(26,136) $(17,262) $(10,242) There are no undistributed earnings of Ultralife UK, the Company's foreign subsidiary,

at June 30, 2002. The Company's effective tax benefit is lower than would be expected if the statutory rate was applied to the pretax loss because the Company has recorded an increase in the valuation allowance for deferred tax assets equal to the tax benefit of the current year net operating loss carryforwards due to the uncertainty of future operating results. Accordingly, the effective tax rate is 0.0% for each of the years ended June 30, 2002, 2001 and 2000. Note 11 - 401(k) Plan The Company maintains a defined contribution 401(k) plan covering substantially all employees. Employees can contribute a portion of their salary or wages as prescribed under Section 401(k) of the Internal Revenue Code and, subject to certain limitations, the Company may, at the Board of Directors discretion, authorize an employer contribution based on a portion of the employees' contributions. Effective January 1, 2001, the Board of Directors approved Company matching of employee contributions up to a maximum of 4% of the employee's income. Prior to this, the maximum contribution for participants was 3%. For the years ended June 30, 2002, 2001 and 2000, the Company contributed $162, $234 and $150, respectively. In January 2002, the employer match was suspended in an effort to conserve cash. 36 Note 12 - Related Party Transactions During 2000, the Company sold the majority of its investment in Intermagnetics General Corporation (IGC) common stock and realized a gain on sale of securities of $3,147. IGC was considered a related party since certain directors of the Company served as officers or directors of IGC. In conjunction with the Company's private placement offering in April 2002, a note was issued to one of the Company's directors. The note will convert automatically into 200,000 shares of the Company's common stock if the Company's shareholders vote to approve the conversion of the note at the Company's Annual Meeting in December 2002. If shareholder approval is not obtained, the Company is obligated to repay the note on December 31, 2002, with accrued interest at 10% per year. All shares will be issued at $3.00 per share. Note 13 - Business Segment Information In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", the Company reports its results in four operating segments: Primary Batteries, Rechargeable Batteries, Technology Contracts and Corporate. The Primary Batteries segment includes 9-volt batteries, cylindrical batteries and various specialty batteries. The Rechargeable Batteries segment consists of the Company's polymer rechargeable batteries. The Technology Contracts segment includes revenues and related costs associated with various government and military development contracts. The Corporate segment consists of all other items that do not specifically relate to the three other segments and are not considered in the performance of the other segments. 2002 (As Previously Reported) ---------------------------- Primary Rechargeable Technology Batteries Batteries Contracts Corporate Total -- Revenues $ 31,334 $ 445 $ 736 $ -- $ 32,515 Segment contribution 3,276 (20,612) 73 (7,948) (25,211) Interest income, net (291) (291) Other income (expense), net 320 320 Income taxes -- -- -------- Net loss (25,182) Long-lived assets 11,761 3,198 -- 1,358 16,317 Total assets 21,351 4,256 33 4,423 30,063 Capital expenditures 1,884 333 -- 113 2,330 Depreciation and amortization expense 1,425 2,312 -- 628 4,265 2002 (As Restated; See Note 2) ---------------------------- Primary Rechargeable Technology Batteries Batteries Contracts Corporate Total -- Revenues $ 31,334 $ 445 $ 736 $ -- $ 32,515 Segment contribution 3,276 (20,612) 73 (7,948) (25,211) Interest income, net (291) (291) Other income (expense), net (634) (634) Income taxes -- -- -------- Net loss (26,136) Long-lived assets 11,761 3,198 -- 5,616 20,575 Total assets 21,351 4,256 33 8,681 34,321 Capital expenditures 1,884 333 -- 113 2,330 Depreciation and amortization expense 1,425 2,312 -- 628 4,265 37 2001 ---- Primary Rechargeable Technology Batteries Batteries Contracts Corporate Total -- Revenues $ 22,105 $ 370 $ 1,688 $ -- $ 24,163 Segment contribution 443 (7,551) 151 (8,009) (14,966) Interest income, net 166 166 Other income (expense), net (2,462) (2,462) Income taxes -- -- -------- Net loss (17,262) Long-lived assets 11,628 19,490 280 1,882 33,280 Total assets 18,609 21,166 303 7,125 47,203 Capital expenditures 2,241 1,382 -- 744 4,367 Depreciation and amortization expense 1,159 2,153 1 498 3,811 2000 ---- Primary Rechargeable Technology Batteries Batteries Contracts Corporate Total -- Revenues $ 21,840 $ 25 $ 2,649 $ -- $ 24,514 Segment contribution (1,244) (5,306) 246 (7,385) (13,689) Interest income, net 909 909 Other income (expense), net 2,538 2,538 Income taxes -- -- -------- Net loss (10,242) Long-lived assets 10,892 19,985 281 4,349 35,507 Total assets 19,171 20,632 493 24,164 64,460 Capital expenditures 1,377 1,012 -- 557 2,946 Depreciation and amortization expense 1,128 591 1 318 2,038 Geographical Information ----------------------- Revenues Long-Lived Assets 2002 2001 2000 2002 2000 2001 (As Restated; See Note 2) ------------------------------------ ----------------------------------- United States $ 21,208 $ 15,715 $ 13,587 $ 16,605 $ 29,139 $ 30,685 United Kingdom 3,853 1,797 2,874 3,970 4,141 4,822 Hong Kong 3,330 3,347 3,211 -- -- -- Europe, excluding United Kingdom 2,518 1,572 2,812 -- -- -- Other 1,606

1,732 2,030 -- -- -- -------- -------- -------- -------- -------- -------- Total $ 32,515 $ 24,163 $ 24,514 $ 20,575 $ 33,280 $ 35,507 ======== ======== ======== ======== ======== ======== Note 14 - Investment in Affiliate In December 1998, the Company announced the formation of a venture with PGT Energy Corporation (PGT), together with a group of investors, to produce Ultralife's polymer rechargeable batteries in Taiwan. During fiscal 2000, Ultralife provided the venture, named Ultralife Taiwan, Inc. (UTI), with its proprietary technology and 700,000 shares of Ultralife Common Stock, in exchange for approximately a 46% ownership interest. Ultralife holds half the seats on UTI's board of directors. PGT and the group of investors funded UTI with $21,250 in cash and hold the remaining seats on the board. Due to subsequent sales of UTI common stock to third parties to raise additional capital, the Company's equity interest was reduced to approximately 33% as of June 30, 2002. As a result of these "change in interest" transactions, the Company's share of UTI's underlying net assets actually increased, creating gains on the transactions that were recorded as adjustments in additional paid in capital on the balance sheet. These increases in additional paid in capital amounted 38 to $5,212 in Fiscal 2002. (The Company was precluded from recognizing gains from these "change in interest" transactions in its consolidated statement of income because UTI was a development stage company.) The Company accounts for its investment in UTI using the equity method of accounting. The Company recorded equity losses in UTI in the Company's consolidated statement of income of $954, $2,338, and $818 in Fiscal 2002, 2001 and 2000, respectively. Summarized financial statement information for the unconsolidated venture is as follows: (unaudited) Condensed Statements of Operations Year Ended June 30, 2002 2001 2000 ------- ------- ------- Net revenue $ 101 $ -- $ -- Cost of Sales (1,573) -- -- Operating loss (8,360) (7,540) (1,897) Net loss (8,784) (6,637) (1,778) Condensed Balance Sheets June 30, 2002 2001 ------- ------- Current assets $ 5,902 $11,577 Non-current assets 60,271 35,238 ------- ------- $66,173 $46,815 ======= ======= Current liabilities $12,372 $ 2,663 Non-current liabilities 16,260 6,362 Shareholders' equity 37,541 37,790 ------- ------- $66,173 $46,815 ======= ======= Note 15 - Selected Quarterly Information (unaudited) The following table presents reported net revenues, gross margin (net sales less cost of products sold), net loss and net loss per share, basic and diluted, for each quarter during the past two years: Quarter ended --- Fiscal 2002 Sept. 30, Dec. 31, March 31, June 30, Full 2001 2001 2002 2002 Year -------- -------- -------- -------- -------- Revenues $ 7,616 $ 7,459 $ 8,862 $ 8,578 $ 32,515 Gross margin (448) (212) 922 1,085 1,347 Net loss (As Previously Reported) (3,642) (3,420) (2,292) (15,828) (25,182) Net loss (As Restated; See Note 2) (3,006) (3,831) (2,793) (16,506) (26,136) Net loss per share, basic and diluted (As Previously Reported) (0.30) (0.28) (0.19) (1.23) (2.03) Net loss per share, basic and diluted (As Restated; See Note 2) (0.25) (0.31) (0.23) (1.28) (2.11) Quarter ended --- Fiscal 2001 Sept. 30, Dec. 31, March 31, June 30, Full 2000 2000 2001 2001 Year -------- -------- -------- -------- -------- Revenues $ 6,851 $ 5,290 $ 5,817 $ 6,205 $ 24,163 Gross margin (452) (1,699) (731) (651) (3,533) Net loss (3,104) (5,737) (3,921) (4,500) (17,262) Net loss per share, basic and diluted (0.28) (0.51) (0.35) (0.40) (1.55) 39 PART IV ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (a) Documents filed as part of this Report: 1. Financial Statements The financial statements and schedules required by this Item 15 are set forth in Part II, Item 8 of this Report. 2. Financial Statement Schedules Schedule II - Valuation and Qualifying Accounts See Item 15 (d) (b) Reports on Form 8-K On June 7, 2002, the Company filed a Form 8-K with the Securities and Exchange Commission indicating that Arthur Lieberman, member of the Board of Directors, tendered his resignation from the Board effective June 4, 2002, citing business and personal demands on available time resources. On July 24, 2002, the Company filed a Form 8-K with the Securities and Exchange Commission indicating that the Company had dismissed its independent public accountants, Arthur Andersen LLP ("Andersen"), and engaged PricewaterhouseCoopers LLP ("PwC") as its new independent public accountants, effective immediately, for the fiscal year ending June 30, 2002. This decision was approved by the Company's Board of Directors, based on the recommendation of its Audit Committee. The decision was based on interviews with large public accounting firms and reflected the Audit Committee's judgment as to which firm was best suited to deliver external audits to the Company. PwC replaces the Company's previous audit firm, Andersen, who had been the Company's auditors since 1996. (c) Exhibits. The following Exhibits are filed as a part of this Report: Exhibit Index Description of Document Incorporated By Reference to: 23.1 Consent of PricewaterhouseCoopers LLP Filed herewith 99 CEO and CFO Certifications Filed herewith 40 (d) Financial Statement Schedules. The following financial statement schedules of the Registrant are filed herewith: Schedule II - Valuation and Qualifying Accounts Additions --------- Charged to Charged to Other June 30, 2001 Expense Accounts Deductions June 30, 2002 ------------- ------- -------- ---------- ------------ Allowance for doubtful accounts $ 262 $ 30 $

17 $ 37 $ 272 Inventory reserves 411 1,038 -- 1,042 407 Warranty reserves 253 222 -- 254 221 Deferred tax valuation allowance 18,102 9,856 -- -- 27,958 Additions --------- Charged to Charged to Other June 30, 2000 Expense Accounts Deductions June 30, 2002 ------------- ------- -------- ---------- ------------- Allowance for doubtful accounts $ 268 $ 11 $ -- $ 17 $ 262 Inventory reserves 399 825 -- 813 411 Warranty reserves 384 292 -- 423 253 Deferred tax valuation allowance 14,959 3,143 -- -- 18,102 Additions --------- Charged to Charged to Other June 30, 1999 Expense Accounts Deductions June 30, 2002 ------------- ------- -------- ---------- ------------- Allowance for doubtful accounts $ 429 $ 45 $ -- $ 206 $ 268 Inventory reserves 295 1,035 -- 931 399 Warranty reserves 169 300 -- 85 384 Deferred tax valuation allowance 12,514 2,445 -- -- 14,959 41 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. ULTRALIFE BATTERIES, INC. Date: April 11, 2003 By: /s/ John D. Kavazanjian -- John D. Kavazanjian President and Chief Executive Officer (Principal Executive Officer) Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. Date: April 11, 2003 /s/ John D. Kavazanjian -- John D. Kavazanjian President, Chief Executive Officer and Director Date: April 11, 2003 /s/ Robert W. Fishback -- Robert W. Fishback Vice President - Finance and Chief Financial Officer (Principal Financial Officer) Date: April 11, 2003 /s/ Joseph C. Abeles -- Joseph C. Abeles (Director) Date: April 11, 2003 /s/ Joseph N. Barrella -- Joseph N. Barrella (Director) Date: -- Patricia C. Barron (Director) Date: April 11, 2003 /s/ Daniel W. Christman -- Daniel W. Christman (Director) Date: April 11, 2003 /s/ Carl H. Rosner -- Carl H. Rosner (Director) Date: April 11, 2003 /s/ Ranjit C. Singh -- Ranjit C. Singh (Director) 42 I, John D. Kavazanjian, certify that: 1. I have reviewed this annual report on Form 10-K of Ultralife Batteries, Inc.; 2. Based on my knowledge, this annual 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 annual report; 3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report. Date: April 11, 2003 /s/ John D. Kavazanjian ---------------------------------- John D. Kavazanjian President and Chief Executive Officer I, Robert W. Fishback, certify that: 1. I have reviewed this annual report on Form 10-K of Ultralife Batteries, Inc.; 2. Based on my knowledge, this annual 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 annual report; 3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report. Date: April 11, 2003 /s/ Robert W. Fishback ---------------------------------- Robert W. Fishback Vice President of Finance and Chief Financial Officer 43