

ULTRALIFE CORP
Form 10-Q
October 27, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the Quarter Ended September 25, 2016

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the transition period from to

Commission File Number 0-27460

ULTRALIFE
CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

16-1387013

Edgar Filing: ULTRALIFE CORP - Form 10-Q

(State or other jurisdiction of incorporation) (I.R.S. Employer Identification No.)

2000 Technology Parkway

14513

Newark, New York

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code: **(315) 332-7100**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer:

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock was 15,235,246, net of 4,013,695 treasury shares, as of October 27, 2016.

ULTRALIFE CORPORATION AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

	<u>Page</u>
Item 1. Consolidated Financial Statements	
Consolidated Balance Sheets as of September 25, 2016 (unaudited) and December 31, 2015	3
Consolidated Statements of Income and Comprehensive Income for the Three and Nine Month Periods Ended September 25, 2016 and September 27, 2015 (unaudited)	4
Consolidated Statements of Cash Flows for the Nine Month Periods Ended September 25, 2016 and September 27, 2015 (unaudited)	5
Notes to Consolidated Financial Statements (unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 4. Controls and Procedures	28

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	28
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 6. Exhibits	30
Signatures	31
Index to Exhibits	32

PART I. FINANCIAL INFORMATION**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****ULTRALIFE CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Dollars in Thousands)****(unaudited)**

	September 25, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,650	\$ 14,393
Restricted cash	82	140
Trade accounts receivable, net of allowance for doubtful accounts of \$285 and \$300, respectively	12,888	11,430
Inventories, net	24,877	23,814
Prepaid expenses and other current assets	2,600	1,900
Due from insurance company	-	177
Deferred income taxes	92	92
Total current assets	47,189	51,946
Property, equipment and improvements, net	8,551	9,038
Goodwill	20,263	16,283
Intangible assets, net	7,481	3,946
Security deposits and other non-current assets	73	309
Total assets	\$ 83,557	\$ 81,522

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 6,323	\$ 6,494
Accrued compensation and related benefits	1,264	2,377
Accrued expenses and other current liabilities	3,690	1,749
Income taxes payable	199	227
Total current liabilities	11,476	10,847
Deferred income taxes	5,500	4,631
Other non-current liabilities	28	28
Total liabilities	17,004	15,506

Commitments and contingencies (Note 11)

Shareholders' equity:

Preferred stock – par value \$.10 per share; authorized 1,000,000 shares; none issued	-	-
Common stock – par value \$.10 per share; authorized 40,000,000 shares; issued – 19,245,357 shares at September 25, 2016 and 19,181,815 shares at December 31, 2015; outstanding – 15,231,662 shares at September 25, 2016 and 15,322,155 at December 31, 2015	1,925	1,918
Capital in excess of par value	177,737	177,007
Accumulated deficit	(92,287)	(94,051)
Accumulated other comprehensive loss	(2,221)	(907)
Treasury stock - at cost; 4,013,695 shares at September 25, 2016 and 3,859,660 shares at December 31, 2015	(18,433)	(17,808)
Total Ultralife Corporation equity	66,721	66,159
Non-controlling interest	(168)	(143)
Total shareholders' equity	66,553	66,016
 Total liabilities and shareholders' equity	 \$ 83,557	 \$ 81,522

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

ULTRALIFE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND

COMPREHENSIVE INCOME

(In Thousands except per share amounts)

(unaudited)

	Three month periods ended September 25, 2016		September 27, 2015		Nine month periods ended September 25, 2016		September 27, 2015	
Revenues	\$19,631		\$ 19,044		\$60,835		\$ 57,176	
Cost of products sold	13,634		13,144		42,533		39,410	
Gross profit	5,997		5,900		18,302		17,766	
Operating expenses:								
Research and development	1,357		1,224		4,438		3,917	
Selling, general and administrative	3,502		3,503		11,745		11,037	
Total operating expenses	4,859		4,727		16,183		14,954	
Operating income	1,138		1,173		2,119		2,812	
Other (expense) income:								
Interest and financing expense	(50)		(65)		(213)		(195)	
Miscellaneous	20		70		46		39	
Income before income tax provision	1,108		1,178		1,952		2,656	
Income tax provision	92		130		213		312	
Net income	1,016		1,048		1,739		2,344	
Net loss (income) attributable to non-controlling interest	3		(1)		25		23	
Net income attributable to Ultralife Corporation	1,019		1,047		1,764		2,367	
Other comprehensive loss:								
Foreign currency translation adjustment	(613)		(349)		(1,314)		(283)	
Comprehensive income attributable to Ultralife Corporation	\$406		\$ 698		\$450		\$ 2,084	
Net income per share attributable to Ultralife common shareholders – basic	\$.07		\$.07		\$.12		\$.14	

Net income per share attributable to Ultralife common shareholders – diluted	\$.07	\$.07	\$.11	\$.14
Weighted average shares outstanding – basic	15,207	15,633	15,262	16,503
Potential common shares	91	107	184	47
Weighted average shares outstanding - diluted	15,298	15,740	15,446	16,550

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

ULTRALIFE CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands)****(unaudited)**

	Nine month periods ended September 25, 2016		September 27, 2015	
OPERATING ACTIVITIES:				
Net income	\$	1,739	\$	2,344
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		1,698		1,795
Amortization of intangible assets		403		180
Amortization of financing fees		55		53
Stock-based compensation		555		439
Loss on long-lived asset disposals		-		36
Deferred income tax expense		165		165
Changes in operating assets and liabilities:				
Accounts receivable		(283))	(29)
Inventories		755		2,621
Prepaid expenses and other assets		176		(631)
Accounts payable and other liabilities		(1,695))	455
Net cash provided by operating activities		3,568		7,428
INVESTING ACTIVITIES:				
Acquisition of Accutronics, net of cash acquired		(9,857))	-
Cash paid for property, equipment and improvements		(990))	(1,310)
Change in restricted cash		60		12
Net cash used in investing activities		(10,787))	(1,298)
FINANCING ACTIVITIES:				
Cash paid to repurchase treasury stock		(607))	(9,266)
Proceeds from debt borrowings		3,030		-
Payments of debt borrowings		(3,030))	-
Return of security deposit		-		49
Proceeds from stock option exercise		181		28
Net cash used in financing activities		(426))	(9,189)
Effect of exchange rate changes on cash and cash equivalents		(98))	(67)
		(7,743))	(3,126)

**DECREASE IN CASH AND CASH
EQUIVALENTS**

Cash and cash equivalents, beginning of period	14,393	17,711
Cash and cash equivalents, end of period	\$ 6,650	\$ 14,585

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

ULTRALIFE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands – Except Share and Per Share Amounts)

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements of Ultralife Corporation (the “Company”) and subsidiaries have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the Consolidated Financial Statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the Consolidated Financial Statements and related notes thereto contained in our Form 10-K for the year ended December 31, 2015.

The December 31, 2015 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Our monthly closing schedule is a 4/4/5 weekly-based cycle for each fiscal quarter, as opposed to a calendar month-based cycle for each fiscal quarter. While the actual dates for the quarter-ends will change slightly each year, we believe that there are not any material differences when making quarterly comparisons.

2. ACQUISITION

On January 13, 2016, Ultralife UK Limited (the “Merger Subsidiary”), a U.K. corporation and a wholly-owned subsidiary of Ultralife Corporation (the “Company”), completed the acquisition of all of the outstanding ordinary shares of Accutronics Limited (“Accutronics”), a U.K. corporation based in Newcastle-under-Lyme, U.K., from Intrinsic Equity Limited, Catapult Growth Fund Limited Partnership, MJF Pension Trustees Limited, Robert Andrew Phillips and Michael Allen (collectively, the “Sellers”). There are no material relationships between the Company or Merger Subsidiary and any of the Sellers, other than pertaining to this acquisition. Accutronics is a leading independent

designer and manufacturer of smart batteries and charger systems for high-performance, feature-laden portable and handheld electronic devices and is classified in the Battery & Energy Products segment. The acquisition of Accutronics advances our strategy of commercial revenue diversification and expands our geographic reach within European OEM's. With industry experts predicting mid-to-high single digit growth in the global medical batteries market, this strategic investment positions Ultralife well for further penetration of and growing revenue streams from an attractive commercial market.

The acquisition was completed pursuant to the terms of the Share Purchase Agreement dated January 13, 2016 by and among the Merger Subsidiary and the Sellers. The Merger Subsidiary paid at the time of closing an aggregate purchase price of £7,575 (\$10,976) in cash, and in exchange the Merger Subsidiary received all of the outstanding shares of Accutronics ordinary stock. Monies to fund the purchase price were advanced to the Merger Subsidiary from the Company's general corporate funds.

The purchase price was subject to adjustment based on the difference between actual and estimated amounts of working capital of Accutronics as well as the amount of net cash of Accutronics. The adjustment resulted in a final payment to the Sellers in the amount of £133 on February 24, 2016, bringing the total aggregate purchase price to £7,708 (\$11,161).

The purchase price allocation was determined in accordance with the accounting treatment of a business combination in Financial Accounting Standards Board (“FASB”) ASC Topic 805, *Business Combinations*. Under the guidance, the fair value of the consideration was determined and the assets acquired and liabilities assumed have been recorded at their fair values at the date of the acquisition. The excess of the consideration paid over the estimated fair values has been recorded as goodwill.

The allocation of purchase price to the assets acquired and liabilities assumed at the date of the acquisition is presented in the table below (in thousands). Management is responsible for determining the fair value of the tangible and intangible assets acquired and liabilities assumed as of the date of acquisition. Management considered a number of factors, including reference to an analysis performed under FASB ASC Topic 805 solely for the purpose of allocating the purchase price to the assets acquired and liabilities assumed. The Company’s estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management’s assumptions, which would not reflect unanticipated events and circumstances that occur. The originally reported purchase price allocation has been updated based on information obtained about facts and circumstances that existed as of the acquisition date. As a result, adjustments were made which reduced identifiable intangible assets and property, plant and equipment by \$402 and \$99, respectively, and increased prepaids and other current assets, inventory, deferred income taxes on intangible assets and goodwill by \$291, \$75, \$72 and \$63, respectively.

Cash	\$ 1,304
Accounts Receivable	1,344
Inventory	2,167
Prepaids and Other Current Assets	584
Property, Plant & Equipment	269
Identifiable Intangible Assets	4,374
Goodwill	4,446
Accounts Payable	(1,009)
Accrued Expenses	(1,136)
Income Taxes Payable	(111)
Non-Current Liabilities	(209)
Deferred Income Taxes	(74)
Deferred Income Taxes on Intangible Assets	(788)
Total Consideration	\$11,161

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

tax purposes.

The identifiable intangible assets included in the Company's purchase price allocation represent customer contracts and relationships of \$2,820, intellectual property of \$1,132 and tradename of \$421 which are amortized straight-line over a period ranging from 10 to 15 years.

During the nine-month period ended September 25, 2016, direct acquisition costs of \$251 and increased cost of sales related to purchase accounting adjustments of \$96 for inventory acquired were recorded in the Company's Consolidated Statement of Income and Comprehensive Income. Accutronics contributed revenue of \$7,551 and an operating loss of \$61 during the nine-month period ended September 25, 2016, reflecting the purchase accounting adjustments and non-recurring costs directly related to the acquisition.

Set forth below is the unaudited pro forma results of the Company and Accutronics for the nine-month period ended September 27, 2015 as if the acquisition occurred as of January 1, 2015 along with the reported results for the nine-month period ended September 25, 2016 which includes the consolidation of Accutronics (in thousands, except per share amounts). The unaudited pro forma results include purchase accounting adjustments to reflect the restatement of inventory to estimated fair value and the resulting increase in cost of sales for the sale of the inventory during this nine-month period, direct acquisition costs and the amortization of intangible assets resulting from the purchase price allocation.

	Nine Months Ended	
	Sept. 27, 2015	Sept. 25, 2016
Revenue	\$67,193	\$60,835
Operating Income	\$3,206	\$2,119
Net Income	\$2,589	\$1,764
Earnings Per Share:		
Basic	\$.16	\$.12
Diluted	\$.16	\$.11

The unaudited pro forma results do not reflect the realization of any expected cost savings or other synergies from the acquisition of Accutronics as a result of restructuring activities, other cost savings initiatives or sales synergies following the completion of the business combination. Accordingly, these unaudited pro forma results are presented for informational purposes only and not necessarily indicative of what the actual results of operations of the combined Company would have been if the acquisition had occurred at the beginning of the 2015 period presented, nor are they indicative of future results of operations.

3.SHARE REPURCHASE PROGRAM

On April 28, 2014, the Company's Board of Directors approved a share repurchase program (the "Share Repurchase Program") which became effective on May 1, 2014 and under which the Company was authorized to repurchase up to 1.8 million shares of its outstanding common stock over a period not to exceed twelve months. The Share Repurchase Program was extended through June 2, 2016, and the maximum number of shares authorized to be repurchased under the program was increased to 3.4 million shares.

Share repurchases under this program were made in accordance with SEC Rule 10b-18 using a variety of methods, which included open market purchases and block trades in compliance with applicable insider trading and other securities laws and regulations. With the exception of repurchases made during stock trading black-out periods under 10b5-1 Plans, the timing, manner, price and amount of any repurchases were determined at the Company's discretion. The Share Repurchase Program expired on June 2, 2016 and did not obligate the Company to repurchase any specific number of shares.

During the nine month period ended September 25, 2016, the Company repurchased 149,904 shares under this program for a total cost (excluding fees and commissions) of \$603. During the nine month period ended September 27, 2015, the Company repurchased 2,225,437 shares under this program for a total cost (excluding fees and commissions) of \$9,162.

From the inception of the Share Repurchase Program on May 1, 2014 through its expiration on June 2, 2016, the Company repurchased 2,592,095 shares for an aggregate cost (excluding fees and commissions) of \$10,480.

4. INVENTORIES

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

	September 25, 2016	December 31, 2015
Raw Materials	\$ 13,297	\$ 11,602
Work In Process	1,771	1,560
Finished Goods	9,809	10,652
Total	\$ 24,877	\$ 23,814

The September 25, 2016 inventories include \$1,868 for Accutronics, which was acquired in January 2016.

5. PROPERTY, EQUIPMENT AND IMPROVEMENTS

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

	September 25, 2016	December 31, 2015
Land	\$ 123	\$ 123
Buildings and Leasehold Improvements	7,785	7,490
Machinery and Equipment	50,044	49,609
Furniture and Fixtures	1,980	1,974
Computer Hardware and Software	5,021	4,585
Construction In Process	619	745
	65,572	64,526
Less-Accumulated Depreciation	(57,021)	(55,488)
Property, Equipment and Improvements, net	\$ 8,551	\$ 9,038

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

	Three-Month Periods Ended		Nine-Month Periods Ended	
	Sept. 25, 2016	Sept. 27, 2015	Sept. 25, 2016	Sept. 27, 2015
Depreciation Expense	\$ 533	\$ 617	\$ 1,698	\$ 1,795

6. GOODWILL, INTANGIBLE ASSETS AND LONG TERM ASSETS**a. Goodwill**

The following table summarizes the goodwill activity by segment for the nine-month periods ended September 25, 2016 and September 27, 2015:

	Battery & Energy Products	Communi- cations Systems	Total
Balance - December 31, 2014	\$ 4,914	\$ 11,493	\$ 16,407
Effect of Foreign Currency Translation	(80)	-	(80)
Balance – September 27, 2015	4,834	11,493	16,327
Effect of Foreign Currency Translation	(44)	-	(44)
Balance - December 31, 2015	4,790	11,493	16,283
Acquisition of Accutronics	4,446	-	4,446
Effect of Foreign Currency Translation	(466)	-	(466)
Balance – September 25, 2016	\$ 8,770	\$ 11,493	\$ 20,263

b. Intangible Assets

The composition of intangible assets was:

	at September 25, 2016		
	Cost	Accumulated Amortization	Net
Trademarks	\$ 3,413	\$ -	\$ 3,413
Patents and Technology	5,504	4,373	1,131
Customer Relationships	6,516	3,940	2,576
Distributor Relationships	377	365	12
Trade Name	377	28	349
Total Intangible Assets	\$ 16,187	\$ 8,706	\$ 7,481

at December 31, 2015

	Cost	Accumulated Amortization	Net
Trademarks	\$3,411	\$ -	\$3,411
Patents and Technology	4,482	4,217	265
Customer Relationships	3,971	3,716	255
Distributor Relationships	370	355	15
Total Intangible Assets	\$12,234	\$ 8,288	\$3,946

Amortization expense for intangible assets was as follows:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	Sept. 25, 2016	Sept. 27, 2015	Sept. 25, 2016	Sept. 27, 2015
Amortization Included In:				
Research and Development	\$ 49	\$ 32	\$ 152	\$ 97
Selling, General and Administrative	80	29	251	83
Total Amortization Expense	\$ 129	\$ 61	\$ 403	\$ 180

The change in the cost value of total intangible assets from December 31, 2015 to September 25, 2016 is a result of the acquisition of Accutronics and the effect of foreign currency translations.

7. REVOLVING CREDIT AGREEMENT

We have financing through a Revolving Credit, Guaranty and Security Agreement (the “Credit Agreement”) and related security agreements with PNC Bank, National Association (“PNC Bank”), which provides a \$20,000 secured asset-based revolving credit facility that includes a \$1,000 letter of credit sub-facility (the “Credit Facility”). The Credit Agreement provides that the Credit Facility may be increased with PNC Bank’s concurrence to an amount not to exceed \$35,000 prior to the last six months of the term and expires on May 24, 2017.

Our available borrowing limit under the Credit Facility is based on a borrowing base formula equal to a percentage of accounts receivable, inventory and eligible foreign in-transit inventory. Interest is payable quarterly and accrues on outstanding indebtedness under the Credit Agreement at either a LIBOR-based rate or an alternate base rate, as defined in the Credit Agreement. The applicable interest rate was 4.5% at September 25, 2016. We pay a quarterly fee on the Credit Facility’s unused availability at 0.375% per annum.

As of September 25, 2016, we had approximately \$10,660 of borrowing capacity under our \$20,000 Credit Facility with PNC Bank, and we had no borrowings under the Credit Facility. At September 27, 2015, the Company had no borrowings or outstanding letters of credit under the Credit Facility.

8. SHAREHOLDERS’ EQUITY

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

	Three-Month Periods Ended		Nine-Month Periods Ended	
	Sept. 25, 2016	Sept. 27, 2015	Sept. 25, 2016	Sept. 27, 2015
Stock Options	\$ 197	\$ 112	\$ 525	\$ 368
Restricted Stock Grants	8	23	30	71
Total	\$ 205	\$ 135	\$ 555	\$ 439

These are more fully discussed as follows:

a. Stock Options

We have stock options outstanding from various stock-based employee compensation plans for which we record compensation cost relating to share-based payment transactions in our financial statements. As of September 25, 2016, there was \$666 of total unrecognized compensation cost related to outstanding stock options, which is expected to be recognized over a weighted average period of 1.25 years.

The following table summarizes stock option activity for the nine-month period ended September 25, 2016:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2016	2,257,969	\$ 6.30		
Granted	346,000	4.71		
Exercised	(47,642)	3.81		
Forfeited or Expired	(64,651)	8.02		
Outstanding at Sept. 25, 2016	2,491,676	6.08	3.46	\$ 246
Vested and Expected to Vest at Sept. 25, 2016	2,347,190	6.17	3.26	\$ 226
Exercisable at Sept. 25, 2016	1,392,204	\$ 4.90	2.17	\$ 168

The following assumptions were used to value stock options granted during the nine months ended September 25, 2016:

Risk-Free Interest Rate	0.89 %
Volatility Factor	48.08 %
Dividends	0.00 %
Weighted Average Expected Life (Years)	2.82

The weighted average grant date fair value of options granted during the nine months ended September 25, 2016 was \$2.01.

FASB's guidance for share-based payments requires cash flows from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised stock options in excess of the deferred tax asset attributable to stock compensation costs for such stock options. We did not record any excess tax benefits in the first nine months of 2016 or 2015.

Cash received from stock option exercises under our stock-based compensation plans for the three-month periods ended September 25, 2016 and September 27, 2015 was \$106 and \$19, respectively. Cash received from stock option exercises for the nine-month periods ended September 25, 2016 and September 27, 2015 was \$181 and \$28, respectively.

b. Restricted Stock Awards

In September 2014, 49,200 shares of restricted stock were awarded to certain of our employees. These units vest over three years and we estimated their weighted average grant date fair value to be \$3.24 per share. In September 2016, 15,900 shares of the awarded restricted stock vested and the Company repurchased 4,131 shares to satisfy the statutory tax withholding on shares vested for certain employees. There is \$15 of unrecognized compensation cost related to these restricted shares at September 25, 2016.

9.INCOME TAXES

We use the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

For the three-month periods ended September 25, 2016 and September 27, 2015, we recorded \$92 and \$130, respectively, in income tax expense. For the nine-month periods ended September 25, 2016 and September 27, 2015, we recorded \$213 and \$312, respectively, in income tax expense. These are detailed as follows:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	Sept. 25, 2016	Sept. 27, 2015	Sept. 25, 2016	Sept. 27, 2015
Current Income Tax Provision:				
Foreign	\$ 12	\$ 44	\$(1)	\$ 87
Federal	21	26	38	48
State	4	5	11	12
Deferred Income Tax Provision	55	55	165	165
Total	\$ 92	\$ 130	\$ 213	\$ 312

The deferred income tax provision is primarily due to the recognition of deferred tax liabilities relating to goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carryforward periods. The current income tax provision is primarily due to the income reported for our China operation and Accutronics (U.K.) and estimated U.S. federal alternative minimum taxes, while the remaining expense is primarily due to state taxes.

Our effective consolidated tax rates for the three and nine-month periods ended September 25, 2016 and September 27, 2015 were:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	Sept. 25, 2016	Sept. 27, 2015	Sept. 25, 2016	Sept. 27, 2015
Income Before Income Taxes (a)	\$1,108	\$1,178	\$1,952	\$2,656
Income Tax Provision (b)	92	130	213	312
Effective Income Tax Rate (b/a)	8.3 %	11.0 %	10.9 %	11.7 %

The overall effective tax rate is the result of the combination of income and losses in each of our tax jurisdictions, which is particularly influenced by the fact that we have recorded a full reserve against our deferred tax assets pertaining to cumulative historical losses for our U.S. operations and certain foreign subsidiaries, as management does not believe, at this time, that it is more likely than not that we will realize the benefit of these losses.

As of December 31, 2015, we have foreign and domestic net operating loss ("NOL") and credit carryforwards totaling approximately \$86,800 and \$1,600, respectively, available to reduce future taxable income. Included in our NOL carryforwards are foreign loss carryforwards of approximately \$12,400 that can be carried forward indefinitely. The domestic NOL carryforward of \$74,400 expires from 2019 through 2034. The domestic NOL carryforward includes approximately \$3,000 for which a benefit will be recorded in capital in excess of par value when realized.

As a result of our operations, we file income tax returns in various jurisdictions including U.S. federal, U.S. state and foreign jurisdictions. We are routinely subject to examination by taxing authorities in these various jurisdictions. Our U.S. tax matters for the years 2001 through 2015 remain subject to examination by the Internal Revenue Service (“IRS”) and various state and local tax jurisdictions due to our NOL carryforwards. Our U.S. tax matters for the years 2001 through 2015 remain subject to examination by various state and local tax jurisdictions due to our NOL carryforwards. Our foreign tax matters for the years 2009 through 2015 remain subject to examination by the respective foreign tax jurisdiction authorities.

10. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed by dividing earnings attributable to the Company’s common shareholders by the weighted-average shares outstanding during the period. Diluted EPS includes the dilutive effect of securities, if any, and is calculated using the treasury stock method. For the three-month period ended September 25, 2016, 758,593 stock options and 15,900 restricted stock units were included in the calculation of Diluted EPS as such securities are dilutive. Inclusion of these securities resulted in 91,041 additional shares in the calculation of fully diluted earnings per share. For the comparable three-month period ended September 27, 2015, 1,026,282 stock options and 34,200 restricted stock units were included in the calculation of Diluted EPS resulting in 107,000 additional shares in the calculation of fully diluted earnings per share. For the nine-month periods ended September 25, 2016 and September 27, 2015, 1,139,843 and 431,532 stock options and 15,900 and 34,200 restricted stock units, respectively, were included in the calculation of Diluted EPS as such securities are dilutive. Inclusion of these securities resulted in 184,564 and 47,000 additional shares, respectively, in the calculation of fully diluted earnings per share.

There were 1,733,083 and 1,264,422 outstanding stock options for the three-month periods ended September 25, 2016 and September 27, 2015, respectively, that were not included in EPS as the effect would be anti-dilutive. There were 1,351,833 and 1,859,172 outstanding stock options for the nine-month periods ended September 25, 2016 and September 27, 2015, respectively, that were not included in EPS as the effect would be anti-dilutive.

11. COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENT

a. Purchase Commitments

As of September 25, 2016, we have made commitments to purchase approximately \$493 of production machinery and equipment.

b. Product Warranties

We estimate future costs associated with expected product failure rates, material usage and service costs in the development of our warranty obligations. Warranty reserves are based on historical experience of warranty claims and generally will be estimated as a percentage of sales over the warranty period. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded. Changes in our product warranty liability during the first nine months of 2016 and 2015 were as follows:

	Nine-Month Periods Ended	
	Sept. 25, 2016	Sept. 27, 2015
Accrued Warranty Obligations – Beginning	\$192	\$376
Accruals for Warranties Issued	30	16
Settlements Made and Effect of Foreign Currency Translation	(43)	(34)
Accrued Warranty Obligations – Ending	\$179	\$358

c. Contingencies and Legal Matters

We are subject to legal proceedings and claims that arise from time to time in the normal course of business. We believe that the final disposition of such matters, other than the matters described below, will not have a material adverse effect on our financial position, results of operations or cash flows.

Dreamliner Litigation

In July 2013, an unoccupied Boeing 787 Dreamliner aircraft operated by Ethiopian Airlines was damaged by a fire while parked at London Heathrow Airport. We participated in and provided technical assistance in support of an investigation of this incident conducted by U.K. and U.S. regulatory authorities as well as by the manufacturer of the aircraft, as we are one of many downstream suppliers to that manufacturer. A final report was issued by the Air Accidents Investigative Branch – UK Civil Aviation regulatory authority, with findings indicating that the fire was primarily caused by circumstances related to the plane’s emergency locator transmitter (“ELT”) manufactured and installed by another company.

A component of the ELT is a battery pack which incorporates Ultralife's industry-standard lithium manganese dioxide non-rechargeable D-cell. Ultralife has had this cell in production since 2001, with millions of units produced and this cell is widely-used for global defense and commercial applications. This battery product has gone through rigorous safety and qualification testing, including United Nations Transport of Dangerous Goods, Manual of Tests and Criteria, and is authorized for use in aerospace applications under Technical Standard Order C142.

On May 4, 2015, we were notified of a lawsuit in which we were named, along with other suppliers to the aircraft manufacturer, concerning that 2013 fire. The suit was filed by Ethiopian Airlines Enterprise in the Commercial Court, Queen's Bench Division of the High Court of Justice, London. The suit seeks as damages \$42,000 plus other unspecified amounts, including those for loss of use and diminution in value of the aircraft. We maintain liability and products liability insurance through reputable providers, and in accordance with our corporate practices, immediately advised and referred this matter to our insurers. We are working with those insurers and their counsel to respond to and actively defend against this action, which is ongoing.

At this time, we believe that there is not a reasonable possibility that this incident will result in a material financial exposure to the Company.

Arista Power Litigation

Since September 2011, we have been pursuing legal action against Arista Power, Inc. (“Arista”) and our former employee, David Modeen, for, among other things, alleged breach of certain agreements, duties and obligations, including misappropriation of our confidential information and trade secrets, tortious interference, and breach of contract. On January 12, 2016, Arista filed for liquidation under Chapter 7 of the bankruptcy laws of the United States, without accurately identifying our ongoing lawsuit against them. Although we have not withdrawn our lawsuit, nor has it been dismissed, the Company does not intend to submit a Proof of Claim in connection with Arista’s bankruptcy filing, or otherwise continue pursuing its claims against Arista.

12. BUSINESS SEGMENT INFORMATION

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

The components of segment performance were as follows:

Three-Month Period Ended September 25, 2016:

Battery & Energy Products	Communi- cations Systems	Corporate	Total
--	---	------------------	--------------

Edgar Filing: ULTRALIFE CORP - Form 10-Q

Revenues	\$ 14,943	\$ 4,688	\$ -	\$ 19,631
Segment Contribution	4,522	1,475	(4,859)	1,138
Interest, Financing and Miscellaneous Expense, Net			(30)	(30)
Tax Provision			(92)	(92)
Non-Controlling Interest			3	3
Net Income Attributable to Ultralife				\$1,019
Total Assets	\$ 42,394	\$ 32,129	\$ 9,034	\$ 83,557

Three-Month Period Ended September 27, 2015:

	Battery & Energy Products	Communi- cations Systems	Corporate	Total
Revenues	\$ 16,390	\$ 2,654	\$ -	\$ 19,044
Segment Contribution	4,774	1,126	(4,727)	1,173
Interest, Financing and Miscellaneous Expense, Net			5	5
Tax Provision			(130)	(130)
Non-Controlling Interest			(1)	(1)
Net Income Attributable to Ultralife				\$ 1,047
Total Assets	\$ 35,828	\$ 28,191	\$ 17,333	\$ 81,352

Nine-Month Period Ended September 25, 2016:

	Battery & Energy Products	Communi- cations Systems	Corporate	Total
Revenues	\$ 47,142	\$ 13,693	\$ -	\$ 60,835
Segment Contribution	14,404	3,898	(16,183)	2,119
Interest, Financing and Miscellaneous Expense, Net			(167)	(167)
Tax Provision			(213)	(213)
Non-Controlling Interest			25	25
Net Income Attributable to Ultralife				\$ 1,764

Nine-Month Period Ended September 27, 2015:

	Battery & Energy Products	Communi- cations Systems	Corporate	Total
Revenues	\$ 48,638	\$ 8,538	\$ -	\$57,176
Segment Contribution	14,100	3,666	(14,954)	2,812
Interest, Financing and Miscellaneous Expense, Net			(156)	(156)
Tax Provision			(312)	(312)
Non-Controlling Interest			23	23
Net Income Attributable to Ultralife				\$2,367

13.DUE FROM INSURANCE COMPANY

In June 2011, we experienced a fire that damaged certain inventory and machinery and equipment at our facility in China. The total amount of the loss pertaining to assets and the related expenses was approximately \$1,589. We have pursued a claim against our insurance policy, with the majority of our insurance claim related to the recovery of damaged inventory. We had received payments in June 2012 and April 2013 totaling approximately \$1,286 as a partial payment on our insurance claim, which resulted in no gain or loss being recognized. Since the filing of the claim and through June 26, 2016, we reflected a receivable from the insurance company of \$177, net of our deductible of approximately \$126, representing additional proceeds expected to be received. On September 6, 2016, our claim was finalized with the insurance company resulting in a \$55 loss included in our third quarter 2016 results.

14.RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)". This ASU amends the existing accounting standards for revenue recognition and is based on the principle that revenue should be recognized to depict the transfer of goods or services to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The new revenue standards are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently evaluating the potential impacts of this new guidance as well as the available transition methods.

In March 2016, the FASB issued ASU 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. The Company is currently evaluating the potential impacts of this new guidance.

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

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, our reliance on a certain key customer; potential costs because of the warranties we supply with our products and services; our ability to comply with changes to the regulations for the shipment of our products; our efforts to develop new commercial applications for our products; the unique risks associated with our China operations; possible future declines in demand for the products that use our batteries or communications systems; reduced U.S. and foreign military spending including the uncertainty associated with government budget approvals; possible impairments of our goodwill and other intangible assets; possible breaches in security and other disruptions; variability in our quarterly and annual results and the price of our common stock; safety risks, including the risk of fire; negative publicity of lithium-ion batteries; the risk that we are unable to protect our proprietary and intellectual property; our resources being overwhelmed by our growth prospects; our ability to retain top management and key personnel; potential disruptions in our supply of raw materials and components; our exposure to foreign currency fluctuations; our customers' demand falling short of volume expectations in our supply agreements; rules and procedures regarding contracting with the U.S. and foreign governments; exposure to possible violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act or other anti-corruption laws; our ability to utilize our net operating loss carryforwards; our ability to comply with government regulations regarding the use of "conflict minerals"; possible audits of our contracts by the U.S. and foreign governments and their respective defense agencies; known and unknown environmental matters; technological innovations in the non-rechargeable and rechargeable battery industries; and other risks and uncertainties, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those forward-looking statements described herein. When used in this report, the words "anticipate", "believe", "estimate" or "expect" or words of similar import are intended to identify forward-looking statements. For further discussion of certain of the matters described above and other risks and uncertainties, see Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

Undue reliance should not be placed on our forward-looking statements. Except as required by law, we disclaim any obligation to update any risk factors or to publicly announce the results of any revisions to any of the forward-looking statements contained in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended December 31, 2015 to reflect new information or risks, future events or other developments.

The following discussion and analysis should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-Q and the Risk Factors and our Consolidated Financial Statements and Notes thereto contained in our Form 10-K for the year ended December 31, 2015.

The financial information in this Management's Discussion and Analysis of Financial Condition and Results of Operations is presented in thousands of dollars, except for share and per share amounts. All figures presented below represent results from continuing operations, unless otherwise specified.

General

We offer products and services ranging from power solutions to communications and electronics systems. Through our engineering and collaborative approach to problem solving, we serve government, defense and commercial customers across the globe. We design, manufacture, install and maintain power and communications systems including rechargeable and non-rechargeable batteries, charging systems, communications and electronics systems and accessories, and custom engineered systems. We continually evaluate ways to grow and broaden the scope of our products and services, including the design, development and sale of new products, expansion of our sales force to penetrate new markets and geographies, as well as seeking opportunities to expand through acquisitions. We sell our products worldwide through a variety of trade channels, including original equipment manufacturers (“OEMs”), industrial and defense supply distributors and directly to U.S. and international defense departments.

We report our results in two operating segments: Battery & Energy Products and Communications Systems. The Battery & Energy Products segment includes: lithium 9-volt, cylindrical and other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories. The Communications Systems segment includes: RF amplifiers, power supplies, cable and connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems, integrated communication systems for fixed or vehicle applications and communications and electronics systems design. We believe that reporting performance at the gross profit level is the best indicator of segment performance. As such, we report segment performance at the gross profit level and operating expenses as corporate charges. (See Note 12 in the Notes to Consolidated Financial Statements.)

Overview

Consolidated revenues of \$19,631 for the three-month period ended September 25, 2016, increased by \$587 or 3.1%, from \$19,044 during the three-month period ended September 27, 2015, reflecting the Company’s acquisition of Accutronics in January 2016 and higher revenues from our Communications Systems business driven by shipments of Vehicle Installed Power Enhanced Rifleman Appliqué (“VIPER”) systems.

Gross profit for the three-month period ended September 25, 2016 was \$5,997, or 30.5% of revenues, compared to \$5,900, or 31.0% of revenues, for the same quarter a year ago. The 50 basis point reduction in gross margin resulted from the sales mix of products for our Communications Systems business which offset an increase in gross margin for our Battery & Energy Products business.

Operating expenses increased to \$4,859 during the three-month period ended September 25, 2016, compared to \$4,727 during the three-month period ended September 27, 2015. The increase of \$132 or 2.8% was fully attributable to Accutronics which contributed \$654 of operating expenses in the third quarter. Excluding Accutronics, operating expenses decreased \$522 or 11.0% due primarily to strict control over discretionary spending while focusing on the development of new products and revenue growth.

Operating income for the three-month period ended September 25, 2016 was \$1,138 or 5.8% of revenues, compared to \$1,173 or 6.2% for the year-earlier period. The year-over-year decrease in operating income primarily reflects the slightly higher operating expenses and the impact of the 50 basis point decline in gross margin in the 2016 period.

Net income attributable to Ultralife was \$1,019 or \$0.07 per share, for the three-month period ended September 25, 2016, compared to \$1,047 or \$0.07 per share for the three-month period ended September 27, 2015.

Adjusted EBITDA, defined as net income (loss) attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, stock-based compensation expenses, plus/minus expenses/income that we do not consider reflective of our ongoing operations, amounted to \$2,046 in the third quarter of 2016 compared to \$2,055 in the third quarter of 2015. See the section “Adjusted EBITDA” beginning on Page 25 for a reconciliation of Adjusted EBITDA to net income attributable to Ultralife.

Primarily as a result of our acquisition of Accutronics on January 13, 2016, together with the purchase of shares under the Company’s share repurchase program, we utilized \$7,743 of cash and cash equivalents for the nine-month period ended September 25, 2016. Accordingly, cash and cash equivalents decreased from \$14,393 at December 31, 2015 to \$6,650 at September 25, 2016.

Although weak economic conditions continued to constrain revenue growth, we delivered operating income for the third quarter that was more than double the second quarter, and profitability for the eighth consecutive quarter. We also remain poised to achieve profitable growth for 2016. Finally, we continue to build resources to support investments in organic and inorganic growth opportunities through greater operating leverage and inventory reductions.

Results of Operations

Three-month periods ended September 25, 2016 and September 27, 2015

Revenues. Consolidated revenues for the three-month period ended September 25, 2016 amounted to \$19,631, an increase of \$587 or 3.1%, from the \$19,044 reported for the three-month period ended September 27, 2015.

Battery & Energy Products revenues decreased \$1,447 or 8.8%, to \$14,943 for the three-month period ended September 25, 2016 from \$16,390 for the three-month period ended September 27, 2015. Commercial revenues for the third quarter of 2016 increased 14.1% over the prior year period, reflecting Accutronics sales, which partially offset the year earlier sales demand for our 9-Volt batteries from large global smoke detector OEM’s to comply with legislation and trends in certain European Union countries for products lasting ten years and large shipments of batteries to service the metering and toll pass industries in China. Sales to medical customers in the 2016 period increased by 6.0% over 2015 when excluding Accutronics and almost doubled when including Accutronics. Government and defense sales decreased 35.1% from the 2015 period due primarily to lower shipments to a large international prime defense supplier, and lower shipments of primary batteries to the U.S. Department of Defense, which was partially offset by higher charger shipments to an international defense customer.

Communications Systems revenues increased \$2,034 or 76.6%, from \$2,654 during the three-month period ended September 27, 2015 to \$4,688 for the three-month period ended September 25, 2016. This increase is attributable to shipments of VIPER systems.

Cost of Products Sold. Cost of products sold totaled \$13,634 for the quarter ended September 25, 2016, an increase of \$490, or 3.7%, from the \$13,144 reported for the same quarter a year ago. Consolidated cost of products sold as a percentage of total revenue increased to 69.5% for the three-month period ended September 25, 2016 from 69.0% for the three-month period ended September 27, 2015. Correspondingly, consolidated gross margin was 30.5% for the three-month period ended September 25, 2016, compared with 31.0% for the three-month period ended September 27, 2015, reflecting the mix of products sold associated with the Communications Systems business which offset an increase in gross margin for our Battery & Energy Products business.

In our Battery & Energy Products segment, cost of products sold decreased \$1,196 or 10.3%, to \$10,420 for the three-month period ended September 25, 2016 from \$11,616 during the three-month period ended September 27, 2015. Battery & Energy Products' gross profit for the third quarter of 2016 was \$4,523 or 30.3% of revenues, a decrease of \$251 or 5.3%, from gross profit of \$4,774 or 29.1% of revenues for the third quarter of 2015. Battery & Energy Products' gross margin as a percentage of revenues increased for the three-month period ended September 25, 2016 by 120 basis points, reflecting favorable product mix including the higher gross margins realized by Accutronics.

In our Communications Systems segment, the cost of products sold increased by \$1,686 or 110.3% from \$1,528 during the three-month period ended September 27, 2015 to \$3,214 during the three-month period ended September 25, 2016 due to higher sales in 2016. Communications Systems' gross profit for the third quarter of 2016 was \$1,474 or 31.4% of revenues, an increase of \$348 or 30.9%, from gross profit of \$1,126 or 42.4% of revenues, for the third quarter of 2015. The 1,150 basis points decrease in gross margin as a percentage of revenue during 2016 is driven by the mix of products sold.

Operating Expenses. Operating expenses for the three-month period ended September 25, 2016 totaled \$4,859, an increase of \$132 or 2.8% from the \$4,727 recorded during the three-month period ended September 27, 2015. The increase was fully attributable to the acquisition of Accutronics, which contributed operating expenses of \$654 in the third quarter, including \$84 of intangible asset amortization. Excluding Accutronics results, operating expenses decreased \$522 or 11.0% due primarily to strict control over discretionary spending while focusing on the development of new products and revenue growth.

Overall, operating expenses as a percentage of revenues were 24.8% for the quarter ended September 25, 2016 equal to the 24.8% for the quarter ended September 27, 2015. Amortization expense associated with intangible assets related to our acquisitions was \$129, including \$84 for Accutronics, for the third quarter of 2016 (\$80 in selling, general and administrative expenses and \$49 in research and development costs), compared with \$61 for the third quarter of 2015 (\$29 in selling, general, and administrative expenses and \$32 in research and development costs). Research and development costs were \$1,357 for the three-month period ended September 25, 2016, an increase of \$133 or 10.9%, from \$1,224 for the three-months ended September 27, 2015. The increase is attributable to \$116 of research and development costs (including intangible asset amortization of \$26) incurred by Accutronics. Selling, general, and administrative expenses of \$3,502 incurred during the third quarter of 2016 were slightly below the \$3,503 for the third quarter of 2015. This reflects the continued actions in the core businesses to reduce discretionary expenses which offset the inclusion of Accutronics results which contributed \$537 (including intangible asset amortization of \$58) of selling, general and administrative expenses for the third quarter.

Other Income (Expense). Other income (expense) totaled (\$30) for the three-month period ended September 25, 2016 compared to \$5 for the three-month period ended September 27, 2015. Interest and financing expense was \$50 for the third quarter of 2016 compared to \$65 for the 2015 period. Miscellaneous income (expense) amounted to \$20 for the third quarter of 2016 compared with \$70 for the third quarter of 2015, primarily due to transactions impacted by foreign currency fluctuations between the U.S. dollar relative to Pounds Sterling and the Euro.

Income Taxes. We reflected a tax provision of \$92 for the third quarter of 2016 compared to \$130 for the third quarter of 2015, a reduction of \$38. The decrease results from the domestic and international mix of our sales and operations.

See Note 9 in the Notes to Consolidated Financial Statements in this Form 10-Q for additional information regarding our income taxes.

Net Income Attributable to Ultralife. Net income attributable to Ultralife and net income attributable to Ultralife common shareholders per diluted share was \$1,019 and \$0.07, respectively, for the three months ended September 25, 2016, compared to \$1,047 and \$0.07, respectively, for the three months ended September 27, 2015. Average common shares outstanding used to compute diluted earnings per share decreased from 15,740,000 in the third quarter of 2015 to 15,298,000 in the third quarter of 2016 due primarily to the repurchase of shares under the Company's share repurchase program up through its expiration on June 2, 2016.

Nine-Month Periods ended September 25, 2016 and September 27, 2015

Revenues. Consolidated revenues for the nine-month period ended September 25, 2016 amounted to \$60,835, an increase of \$3,659 or 6.4%, from the \$57,176 reported for the nine-month period ended September 27, 2015.

Battery & Energy Products revenues decreased \$1,496, or 3.1%, from \$48,638 for the nine-month period ended September 27, 2015 to \$47,142 for the nine-month period ended September 25, 2016. Commercial revenues of this business increased 12.7% over the 2015 nine-month period and now comprise 60.7% of total segment sales versus 52.2% last year. The year-over-year increase resulted from the inclusion of Accutronics sales, which offset the year-earlier demand for our 9-Volt batteries from large global smoke detector OEM's to comply with legislation and trends in certain European Union countries for products lasting ten years and large shipments of batteries to service the metering and toll pass industries in China. Government and defense sales of this business decreased 20.6% from the 2015 nine-month period and now comprise 39.3% of total segment sales versus 47.8% last year. The year-over-year decline was due primarily to the lower battery and charger shipments to a large international prime defense supplier and lower shipments of primary batteries to the U.S. Department of Defense in 2015.

Communications Systems revenues increased \$5,155, or 60.4%, from \$8,538 during the nine-month period ended September 25, 2015 to \$13,693 for the nine-month period ended September 25, 2016, reflecting shipments of VIPER systems which more than offset a decrease in core product sales due to closing and funding delays associated with some orders which are expected to ship in subsequent quarters.

Cost of Products Sold. Cost of products sold totaled \$42,533 for the nine-month period ended September 25, 2016, an increase of \$3,123 or 7.9%, from the \$39,410 reported for the same nine-month period a year ago. Consolidated cost of products sold as a percentage of total revenue increased from 68.9% for the nine-month period ended September 27, 2015 to 69.9% for the nine-month period ended September 25, 2016. Correspondingly, consolidated gross margin was 30.1% for the nine-month period ended September 25, 2016, compared with 31.1% for the nine-month period ended September 27, 2015, due primarily to product mix impacting the Communications Systems segment and a one-time adjustment to increase the opening inventory of Accutronics to fair market value in accordance with purchase accounting.

For our Battery & Energy Products segment, the cost of products sold decreased \$1,800 or 5.2%, from \$34,538 during the nine-month period ended September 27, 2015 to \$32,738 during the nine-month period ended September 25, 2016. Battery & Energy Products' gross profit for the 2016 nine-month period was \$14,404 or 30.6% of revenues, an increase of \$304 or 2.2% from gross profit of \$14,100, or 29.0% of revenues, for the 2015 nine-month period. As a result, Battery & Energy Products' gross margin as a percentage of revenues increased for the nine-month period ended September 27, 2015 by 160 basis points, reflecting favorable product mix including the higher overall gross margins recognized for Accutronics products.

For our Communications Systems segment, the cost of products sold increased by \$4,923 or 101.0% from \$4,872 during the nine-month period ended September 27, 2015 to \$9,795 during the nine-month period ended September 25, 2016. Communications Systems' gross profit for the first nine months of 2016 was \$3,898 or 28.5% of revenues, an increase of \$232 or 6.3% from gross profit of \$3,666 or 42.9% of revenues, for the third quarter of 2015. The 1,440 basis points decrease in gross margin as a percentage of revenue during 2016 is due to unfavorable sales product mix.

Operating Expenses. Total operating expenses for the nine-month period ended September 25, 2016 totaled \$16,183, an increase of \$1,229 or 8.2% from the \$14,954 recorded during the nine-month period ended September 27, 2015. This increase was fully attributable to the acquisition of Accutronics on January 13, 2016, which contributed operating expenses of \$2,196 in 2016, including \$203 of one-time direct acquisition costs and \$268 of intangible asset amortization. Excluding Accutronics results, operating expenses decreased \$967 or 6.5% due primarily to strict control over discretionary spending.

Overall, operating expenses as a percentage of revenues were 26.6% for the nine-month period ended September 25, 2016 compared to 26.2% for the comparable 2015 period. Amortization expense associated with intangible assets related to our acquisitions was \$403, including \$267 for Accutronics, for the first nine months of 2016 (\$251 in selling, general and administrative expenses and \$152 in research and development costs), compared with \$180 for the first nine months of 2015 (\$83 in selling, general, and administrative expenses and \$97 in research and development costs). Research and development costs were \$4,438 for the nine-month period ended September 25, 2016, an increase of \$521, or 13.3%, from \$3,917 for the nine-months ended September 27, 2015. The increase is comprised of \$460 of research and development costs (including intangible asset amortization of \$82) incurred by Accutronics and an increase of \$61 due to the higher level of new product development spending in the 2016 period in response to the internal new product development and the level of requests for proposals. Selling, general, and administrative expenses increased \$708 or 6.4%, from \$11,037 during the first nine months of 2015 to \$11,745 during the first nine months of 2016. The increase is fully attributable to the inclusion of Accutronics results and the one-time direct acquisition costs which contributed \$1,736 (including intangible asset amortization of \$186) of selling, general and administrative expenses for the 2016 period, partially offset by continued actions in the core businesses to reduce discretionary expenses.

Other Income (Expense). Other (expense) totaled \$(167) for the nine-month period ended September 25, 2016 compared to \$(156) for the nine-month period ended September 27, 2015. Interest and financing expense increased \$18 to \$213 for the 2016 period from \$195 for the comparable period in 2015, as a result of one-time costs of \$48 associated with the acquisition of Accutronics. Miscellaneous income (expense) amounted to \$46 for the first nine months of 2016 compared with \$39 for the first nine months of 2015, primarily due to the impact of foreign currency fluctuation between the U. S. dollar, Pounds Sterling and the Euro.

Income Taxes. We reflected a tax provision of \$213 for the first three quarters of 2016 compared with a tax provision of \$312 for the first three quarters of 2015. The decrease of \$99 or 31.7% was due to the amounts and geographic mix of earnings as well as the tax benefit associated with the acquisition costs related to Accutronics. The effective consolidated tax rates for the three and nine-month periods ended September 25, 2016 and September 27, 2015 were:

Three-Month Periods Ended	Nine-Month Periods Ended
--------------------------------------	-------------------------------------

Edgar Filing: ULTRALIFE CORP - Form 10-Q

	Sept. 25, 2016	Sept. 27, 2015	Sept. 25, 2016	Sept. 27, 2015
Income Before Income Taxes (a)	\$ 1,108	\$ 1,178	\$ 1,952	\$ 2,656
Income Tax Provision (b)	92	130	213	312
Effective Income Tax Rate (b/a)	8.3 %	11.0 %	10.9 %	11.7 %

See Note 9 in the Notes to Consolidated Financial Statements for additional information regarding our income taxes.

Net Income Attributable to Ultralife. Net income attributable to Ultralife and income attributable to Ultralife common shareholders per diluted share was \$1,764 and \$0.11, respectively, for the nine months ended September 25, 2016, compared to \$2,367 and \$0.14, respectively, for the nine months ended September 27, 2015. The 2016 period was impacted by the purchase accounting adjustments and non-recurring costs totaling \$343 related to the acquisition of Accutronics, equivalent to \$0.02 per share. Average common shares outstanding used to compute diluted earnings per share decreased from 16,550,000 in the 2015 period to 15,446,000 in the 2016 period, mainly due to the repurchase of shares under the Company's share repurchase plan.

Adjusted EBITDA from Continuing Operations

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

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

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

Adjusted EBITDA does not reflect (1) our cash expenditures or future requirements for capital expenditures or contractual commitments; (2) changes in, or cash requirements for, our working capital needs; (3) the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; (4) income taxes or the cash requirements for any tax payments; and (5) all of the costs associated with operating our business;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and Adjusted EBITDA from continuing operations does not reflect any cash requirements for such replacements;

while stock-based compensation is a component of cost of products sold and operating expenses, the impact on our consolidated financial statements compared to other companies can vary significantly due to such factors as assumed life of the stock-based awards and assumed volatility of our common stock; and

other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA only supplementally. Adjusted EBITDA is calculated as follows for the periods presented:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	Sept. 25, 2016	Sept. 27, 2015	Sept. 25, 2016	Sept. 27, 2015
Net Income Attributable to Ultralife	\$1,019	\$1,047	\$1,764	\$2,367
Add:				
Interest and Financing Expense, Net	50	65	213	195
Income Tax Provision	92	130	213	312
Depreciation Expense	533	617	1,698	1,795
Amortization of Intangible Assets & Financing Fees	147	61	457	180
Stock-Based Compensation Expense	205	135	555	439
Non-Cash Purchase Accounting Adjustments		-	96	-
Other		-	12	36

Adjusted EBITDA	\$2,046	\$2,055	\$5,008	\$5,324
-----------------	---------	---------	---------	---------

Liquidity and Capital Resources

As of September 25, 2016, cash and cash equivalents totaled \$6,650, a decrease of \$7,743 from the beginning of the year primarily attributable to the Company's acquisition of Accutronics. During the nine-month period ended September 25, 2016, we generated \$3,568 of cash from our operating activities as compared to \$7,428 during the nine-month period ended September 27, 2015, a decrease of \$3,860. Cash generated by operations in 2016 consisted of cash provided from net income attributable to Ultralife of \$1,739, non-cash expenses (depreciation, amortization and stock-based compensation) totaling \$2,711 and a decrease in inventory of \$755. This was partially offset by a net decrease in accounts payable and other working capital items of \$1,637 due in large part to payment of the inventory procured associated with servicing backlog. Cash generated from operations in 2015 included our net income of \$2,344 plus non-cash expenses (depreciation, amortization and stock-based compensation) totaling \$2,502, and cash provided by a \$2,621 decrease in inventories, and \$455 increase in accounts payable and other liabilities, offset partially by a net increase in prepaid expenses and other working capital items of \$495.

We used \$10,787 in cash for investing activities during the first nine months of 2016. The Company acquired Accutronics in the 2016 period utilizing cash of \$11,161, which was partially offset by the cash acquired from Accutronics of \$1,304. Cash paid for capital expenditures totaled \$990 and \$1,310 in the first nine months of 2016 and 2015, respectively. Cash utilized to repurchase shares under the Company's share repurchase program during the 2016 nine-month period was \$607.

As of September 25, 2016, we had made commitments to purchase approximately \$493 of production machinery and equipment, which we expect to fund through operating cash flows or debt borrowings.

On April 28, 2014, the Company's Board of Directors approved a share repurchase program which became effective on May 1, 2014, under which the Company was authorized to repurchase up to 1.8 million shares of its outstanding common stock over a period not to exceed twelve months. The Share Repurchase Program was extended through June 2, 2016, and the maximum number of shares authorized to be repurchased under the program was increased to 3.4 million shares.

During the nine month period ended September 25, 2016, the Company repurchased 149,904 shares under this program for a total cost (excluding fees and commissions) of \$603. During the nine month period ended September 27, 2015, the Company repurchased 2,225,437 shares under this program for a total cost (excluding fees and commissions) of \$9,162.

From the inception of the Share Repurchase Program on May 1, 2014 through its expiration on June 2, 2016, the Company repurchased 2,592,095 shares for an aggregate cost (excluding fees and commissions) of \$10,480.

Debt Commitments

We have financing through our Credit Facility with PNC Bank, which provides a \$20,000 secured asset-based revolving credit facility that includes a \$1,000 letter of credit sub-facility. As of September 25, 2016, we had approximately \$10,660 of borrowing capacity under our \$20,000 Credit Facility with PNC Bank, and we had no borrowings of under the Credit Facility.

Our available borrowing limit under the Credit Facility is based on a borrowing base formula equal to a percentage of accounts receivable, inventory and eligible foreign in-transit inventory. Interest is payable quarterly and accrues on

outstanding indebtedness under the Credit Agreement at either a LIBOR-based rate or an alternate base rate, as defined in the Credit Agreement. The applicable interest rate was 4.5% at September 25, 2016. We pay a quarterly fee on the Credit Facility's unused availability at 0.375% per annum.

The Company currently believes that the cash flow generated from operations and when necessary, available borrowing from our Credit Facility, will be sufficient to meet its current and long-term funding requirements for the foreseeable future.

Critical Accounting Policies

Management exercises judgment in making important decisions pertaining to choosing and applying accounting policies and methodologies in many areas. Not only are these decisions necessary to comply with U.S. GAAP, but they also reflect management's view of the most appropriate manner in which to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 ("Summary of Operations and Significant Accounting Policies") to our Consolidated Financial Statements in our 2015 Annual Report on Form 10-K should be reviewed for a greater understanding of how our financial performance is recorded and reported.

During the first nine months of 2016, there were no significant changes in the manner in which our significant accounting policies were applied or in which related assumptions and estimates were developed.

ITEM 4. Controls and Procedures

Evaluation Of Disclosure Controls And Procedures

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

Changes In Internal Control Over Financial Reporting

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Dreamliner Litigation

In July 2013, an unoccupied Boeing 787 Dreamliner aircraft operated by Ethiopian Airlines was damaged by a fire while parked at London Heathrow Airport. We participated in and provided technical assistance in support of an investigation of this incident conducted by U.K. and U.S. regulatory authorities as well as by the manufacturer of the aircraft, as we are one of many downstream suppliers to that manufacturer. A final report was issued by the Air Accidents Investigative Branch - - UK Civil Aviation regulatory authority, with findings indicating that the fire was primarily caused by circumstances related to the plane's emergency locator transmitter ("ELT") manufactured and installed by another company.

A component of the ELT is a battery pack which incorporates Ultralife's industry-standard lithium manganese dioxide non-rechargeable D-cell. Ultralife has had this cell in production since 2001, with millions of units produced and this cell is widely-used for global defense and commercial applications. This battery product has gone through rigorous safety and qualification testing, including United Nations Transport of Dangerous Goods, Manual of Tests and Criteria, and is authorized for use in aerospace applications under Technical Standard Order C142.

On May 4, 2015, we were notified of a lawsuit in which we were named, along with other suppliers to the aircraft manufacturer, concerning that 2013 fire. The suit was filed by Ethiopian Airlines Enterprise in the Commercial Court, Queen's Bench Division of the High Court of Justice, London. The suit seeks as damages \$42,000 plus other unspecified amounts, including those for loss of use and diminution in value of the aircraft. We maintain liability and products liability insurance through reputable providers, and in accordance with our corporate practices, immediately advised and referred this matter to our insurers. We are working with those insurers and their counsel to respond to and actively defend against this action, which is ongoing.

At this time, we believe that there is not a reasonable possibility that this incident will result in a material financial exposure to the Company.

Arista Power Litigation

Since September 2011, we have been pursuing legal action against Arista Power, Inc. ("Arista") and our former employee, David Modeen, for, among other things, alleged breach of certain agreements, duties and obligations, including misappropriation of our confidential information and trade secrets, tortious interference, and breach of contract. On January 12, 2016, Arista filed for liquidation under Chapter 7 of the bankruptcy laws of the United States, without accurately identifying our ongoing lawsuit against them. Although we have not withdrawn our lawsuit, nor has it been dismissed, the Company does not intend to submit a Proof of Claim in connection with Arista's bankruptcy filing, or otherwise continue pursuing its claims against Arista.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

2(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Under the Company's Share Repurchase Program, the Board of Directors authorized the repurchase of up to 1.8 million shares of the Company's Common Stock through April 30, 2015. The Board of Directors extended the program through June 2, 2016 and expanded the maximum number of shares authorized to be repurchased from 1.8 million shares to 3.4 million shares. The Share Repurchase Program expired on June 2, 2016 and did not obligate the Company to repurchase any specific number of shares.

From the inception of the Share Repurchase Program on May 1, 2014 through its expiration on June 2, 2016, the Company repurchased 2,592,095 shares for an aggregate cost (excluding fees and commissions) of \$10,480.

ITEM 6. EXHIBITS

Exhibit

Index	Description of Document	Incorporated By Reference from:
31.1	Rule 13a-14(a) / 15d-14(a) CEO Certifications	Filed herewith
31.2	Rule 13a-14(a) / 15d-14(a) CFO Certifications	Filed herewith
32	Section 1350 Certifications	Filed herewith
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Calculation Linkbase Document	
101.LAB	XBRL Taxonomy Label Linkbase Document	
101.PRE	XBRL Taxonomy Presentation Linkbase Document	
101.DEF	XBRL Taxonomy Definition Document	

SIGNATURES

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

ULTRALIFE CORPORATION

(Registrant)

Date: October 27, 2016

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

Date: October 27, 2016

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

Index to Exhibits

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INSXBRL Instance Document
- 101.SCHXBRL Taxonomy Extension Schema Document
- 101.CALXBRL Taxonomy Calculation Linkbase Document
- 101.LABXBRL Taxonomy Label Linkbase Document
- 101.PREXBRL Taxonomy Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Definition Document