ULTRALIFE CORP
Form 10-K
March 14, 2014

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

FORM 10-K

(Mark One)

/X/ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2013

OR

/ / Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________ to ____________

Commission file number 0-20852

ULTRALIFE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	16-1387013 (I.R.S. Employer Identification No.)
2000 Technology Parkway, Newark, New York (Address of principal executive offices)	14513 (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.10 per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes…. No..X...
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes…. No..X...
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..X… 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..X… No….

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in defin–itive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer …. Accelerated filer ...… Non-accelerated filer …. Smaller reporting company ..X...

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

On June 30, 2013, the aggregate market value of the common stock held by non-affiliates as defined in Rule 405 under the Securities Act of 1933) of the registrant was approximately $42,000,000 (in whole dollars) based upon the closing price for such common stock as reported on the NASDAQ Global Market on June 28, 2013.

As of March 7, 2014, the registrant had 17,523,329 shares of common stock outstanding, net of 1,383,977 treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement relating to the June 3, 2014 Annual Meeting of Shareholders are specifically incorporated by reference in Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K, except for the equity plan information required by Item 12 as set forth therein.

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PART I

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 certain key customers, reduced U.S. defense spending, including the uncertainty associated with government budget approvals, the successful commercialization of our products, future demand for our products, technological innovations in the non-rechargeable and rechargeable battery industries, general domestic and global economic conditions, significant fluctuations in our periodic results and stock price, the unique risks associated with our Chinese operations, the impairment of our intangible assets, business disruptions, including those caused by fires, our resources being overwhelmed by our growth prospects, residual effects of negative news related to our industries, loss of top management, raw material supplies, competition and customer strategies, government and environmental regulations, the process of U.S. defense procurement, finalization of non-bid government contracts, changes in our business strategy or development plans, capital deployment, and other risks and uncertainties, certain of which are beyond our control. Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained herein. In addition, even if our results of operations, financial condition and liquidity and the development of the industries in which we operate are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statements that we make herein speak only as of the date of those statements, and we undertake no obligation to update those statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data. 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 “Risk Factors” in Item 1A of this annual report.

As used in this annual report, unless otherwise indicated, the terms “we”, “our” and “us” refer to Ultralife Corporation (“Ultralife”) and includes our wholly-owned subsidiaries, Ultralife Batteries (UK) Ltd., ABLE New Energy Co., Limited and its wholly-owned subsidiary ABLE New Energy Co., Ltd, and our majority-owned joint venture Ultralife Batteries India Private Limited.

Operations of RedBlack Communications, Inc. (“RedBlack”), our divested company and certain components of UK operations are reported as discontinued operations.

Dollar amounts throughout this Form 10-K Annual Report are presented in thousands of dollars, except for per share amounts.

ITEM 1. BUSINESS

General

We offer products and services ranging from portable power solutions to communications and electronics systems to customers across the globe in the government, defense and commercial sectors. With an emphasis on strong engineering and a collaborative approach to problem solving, we design, 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, 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 enjoy strong name recognition in our markets under our Ultralife® Batteries, McDowell Research®, AMTITM, and ABLETM brands. We have sales, operations and product development facilities in North America, Europe and Asia.

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

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

Battery & Energy Products

We manufacture and/or market a family of lithium manganese dioxide (Li-MnO2) and lithium manganese dioxide carbon monofluoride hybrid non-rechargeable batteries including 9-volt, HiRate® cylindrical, ThinCell®, and other form factors. We also manufacture and market a family of lithium thionyl chloride (Li-SOCl2) non-rechargeable batteries produced at our Chinese operations. Applications for our 9-volt batteries include: smoke alarms, wireless security systems and intensive care monitors, among many other devices. Our HiRate® and ThinCell® lithium non-rechargeable batteries are sold primarily to the military and to OEMs in industrial markets for use in a variety of applications including radios, emergency radio beacons, search and rescue transponders, pipeline inspection gauges, portable medical devices and other specialty instruments and applications. Military applications for our non-rechargeable HiRate® batteries include: man-pack and survival radios, night vision devices, targeting devices, chemical agent monitors and thermal imaging equipment. Our lithium thionyl chloride batteries, sold under our ABLE and Ultralife brands as well as various private label brands, are used in a variety of applications including utility meters, wireless security devices, electronic meters, automotive electronics and geothermal devices. We believe that the chemistry of lithium batteries provides significant advantages over other currently available non-rechargeable battery technologies. These advantages include: higher energy density, lighter weight, longer operating time, longer shelf life and a wider operating temperature range. Our non-rechargeable batteries also have relatively flat voltage profiles, which provide stable power. Conventional non-rechargeable batteries, such as alkaline batteries, have sloping voltage profiles that result in decreasing power output during discharge. While the price for our lithium batteries is generally higher than alkaline batteries, the increased energy per unit of weight and volume of our lithium batteries allow for longer operating times and less frequent battery replacements for our targeted applications.

We believe that our ability to design and produce lightweight, high-energy lithium ion rechargeable batteries and charging systems in a variety of custom sizes, shapes, and thickness offer substantial benefits to our customers. We market lithium ion rechargeable batteries comprising cells manufactured by qualified cell manufacturers. Our rechargeable products can be used in a wide variety of applications including communications, medical and other portable electronic devices. Our GenSet Enhancer provides energy storage capabilities to generators and renewable energy sources, thereby promoting optimum efficiencies through the continuous charging and discharging of our lithium ion batteries incorporated into the system. Our Multi-Kilowatt Module lithium ion battery system is a large format battery utilizable for energy storage, battery back-up, and remote power applications. We believe that the chemistry of our lithium ion batteries provides significant advantages over other currently available rechargeable batteries. These advantages include: higher energy density, lighter weight, longer operating time, longer time between charges and a wider operating temperature range. Conventional rechargeable batteries such as nickel metal hydride and nickel cadmium are heavier, have lower energy and require more frequent charging.

Within this segment, we also seek to fund, and have been successful in obtaining funding for, the development of new products to advance our technologies through contracts with both government agencies and third parties.

We continue to obtain development contracts for intellectual property that we believe will enhance our efforts to commercialize new products that we develop. Revenues in this segment that pertain to technology contracts may vary widely each year, depending upon the quantity and size of contracts obtained.

Revenues for this segment for the year ended December 31, 2013 were $57,077 and segment contribution (gross profit) was $14,338.

Communications Systems

Under our McDowell Research and AMTI brands, we design and manufacture a line of communications systems and accessories to support military communications systems, including RF amplifiers, power supplies, power cables, connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems and integrated communication systems for fixed or vehicle applications such as vehicle adapters and SATCOM systems. All systems are packaged to meet specific customer needs in rugged enclosures to allow for their use in extreme environments. We market these products to all branches of the U.S. military and approved foreign defense organizations, as well as, U.S. and international prime defense contractors.

Revenues for this segment for the year ended December 31, 2013 were $21,758 and segment contribution (gross profit) was $8,283.

Corporate

We allocate revenues and cost of sales across the above operating segments. The balance of income and expense, including but not limited to research and development expenses, and selling, general and administrative expenses, are reported as Corporate expenses.

There were no revenues for this category for the year ended December 31, 2013 and our corporate expenses were $23,245.

See Management's Discussion and Analysis of Financial Condition and Results of Operations and the 2013 Consolidated Financial Statements and Notes thereto for additional information on the expenses referred to above. For information relating to total assets by segment, revenues for the last two years by segment, and contribution by segment for the last two years, see Note 10 in the Notes to Consolidated Financial Statements.

History

Ultralife formed as a Delaware corporation in December 1990. In March 1991, we acquired certain technology and assets from Eastman Kodak Company ("Kodak") relating to its 9-volt lithium manganese dioxide non-rechargeable battery. In December 1992, we completed our initial public offering and became listed on NASDAQ. In June 1994, we formed a subsidiary, Ultralife Batteries (UK) Ltd. ("Ultralife UK"), which acquired certain assets of Dowty Group PLC ("Dowty") and provided us with a presence in Europe. In 2012, certain of our Ultralife UK operations were discontinued. See Note 2 to our Consolidated Financial Statements for more information.

In May 2006, we acquired ABLE New Energy Co., Ltd. ("ABLE"), an established manufacturer of lithium batteries located in Shenzhen, China, which broadened our product offering, including a wide range of lithium-thionyl chloride and lithium-manganese batteries and coin cells, and provided additional exposure to new consumer markets.

In July 2006, we finalized the acquisition of substantially all the assets of McDowell Research, Ltd. ("McDowell"), a manufacturer of military communications accessories located originally in Waco, Texas, whose operations were relocated to our Newark, New York facility during the second half of 2007, which enhanced our channels into the military communications area and strengthened our presence in global defense markets. In January 2012, we relocated these operations to our Virginia Beach, Virginia facility in order to gain operational efficiencies.

In September 2007, we acquired RedBlack Communications, Inc. ("RedBlack"), located in Hollywood, Maryland, an engineering and technical services firm specializing in the design, integration, and fielding of mobile, modular and fixed-site communication and electronic systems. On September 28, 2012, we entered into and closed a stock purchase agreement to sell 100% of our capital stock in RedBlack to BCF Solutions, Inc. See Note 2 to our

Consolidated Financial Statements for more information.

In March 2008, we formed a joint venture, named Ultralife Batteries India Private Limited ("India JV"), with our distributor partner in India. The India JV assembles Ultralife power solution products and manages local sales and marketing activities, serving commercial, government and defense customers throughout India. We have invested cash into the India JV, as consideration for our 51% ownership stake in the India JV.

In March 2009, we acquired the tactical communications products business of Science Applications International Corporation. The tactical communications products business ("AMTI") designs, develops and manufactures tactical communications products including: amplifiers, man-portable systems, cables, power solutions and ancillary communications equipment, which are sold by Ultralife under the brand name AMTI. The acquisition strengthened our communications systems business and provided us with direct entry into the handheld radio/amplifier market, complementing Ultralife's communications systems offerings.

Products, Services and Technology

Battery & Energy Products

A non-rechargeable battery is used until discharged and then discarded. The principal competing non-rechargeable battery technologies are carbon zinc, alkaline and lithium. We manufacture a range of non-rechargeable battery products based on lithium manganese dioxide, lithium manganese carbon mono-fluoride hybrid, and lithium thionyl chloride technologies.

We believe that the chemistry of lithium batteries provides significant advantages over currently available non-rechargeable battery technologies, which include: lighter weight, longer operating time, longer shelf life, and a wider operating temperature range. Our non-rechargeable batteries also have relatively flat voltage profiles, which provide stable power. Conventional non-rechargeable batteries, such as alkaline batteries, have sloping voltage profiles that result in decreasing power during discharge. While the prices for our lithium batteries are generally higher than commercially available alkaline batteries produced by others, we believe that the increased energy per unit of weight and volume of our batteries will allow longer operating time and less frequent battery replacements for our targeted applications. As a result, we believe that our non-rechargeable batteries are price competitive with other battery technologies on a price per unit of energy or volume basis.

Our non-rechargeable products include the following product configurations:

9-Volt Lithium Battery. Our 9-volt lithium battery delivers a unique combination of high energy and stable voltage, which results in a longer operating life for the battery and, accordingly, fewer battery replacements. While our 9-volt battery price is generally higher than conventional 9-volt carbon zinc and alkaline batteries, we believe the enhanced operating performance and decreased costs associated with battery replacement make our 9-volt battery more cost effective than conventional batteries on a cost per unit of energy or volume basis when used in a variety of applications.

We market our 9-volt lithium batteries to OEM, distributor and retail markets including industrial electronics, safety and security and medical. Typical applications include: smoke alarms, wireless alarm systems, bone growth stimulators, telemetry devices, blood analyzers, ambulatory infusion pumps and parking meters. A significant portion of the sales of our 9-volt battery is to major U.S. and international smoke alarm OEMs for use in their long-life smoke alarms. We also manufacture our 9-volt lithium battery under private label for a variety of companies. Additionally, we sell our 9-volt battery to the broader consumer market through national and regional retail chains and Internet retailers.

Although designs exist using other battery configurations, such as three 2/3 A or 1/2 AA-type battery cells, we believe that our 9-volt solution is superior to these alternatives. Our current 9-volt battery manufacturing capacity is adequate to meet forecasted customer demand over the next three years.

Cylindrical Batteries. Featuring high energy, wide temperature range, long shelf life and operating life, our cylindrical cells and batteries, based on both lithium manganese dioxide and lithium thionyl chloride technologies, represent some of the most advanced lithium power sources currently available. We market a wide range of cylindrical non-rechargeable lithium cells and batteries in various sizes under both the Ultralife HiRate and ABLE brands. These include: D, C, 5/4 C, 1/2 AA, 2/3 A and other sizes, which are sold individually as well as packaged into multi-cell battery packs, including our leading BA-5390 military battery, an alternative to the competing Li-SO2 BA-5590 battery, and one of the most widely used battery types in the U.S. armed forces for portable applications. Our BA-5390 battery provides 50% to 100% more energy (mission time) than the BA-5590, and it is used in approximately 60 military applications. With the recent introduction of our lithium carbon mono-fluoride hybrid chemistry, we now offer a D-cell that has 100% more energy than the competing Li-SO2 D-cell. This chemistry has been expanded into C, 5/4 C, and 5/4F A sizes over the past year, all with class leading energy density.

We market our line of lithium cells and batteries to the OEM market for commercial, defense, medical, asset tracking and search and rescue applications, among others. Significant commercial applications include pipeline inspection equipment, automatic reclosers and oceanographic devices. Asset tracking applications include RFID (Radio Frequency Identification) systems. Among the defense uses are manpack radios, night vision goggles, chemical agent monitors and thermal imaging equipment. Medical applications include: AED's (Automated External Defibrillators), infusion pumps and telemetry systems. Search and rescue applications include: ELT's (Emergency Locator Transmitters) for aircraft and EPIRB's (Emergency Position Indicating Radio Beacons) for ships.

Thin Cell Batteries. We manufacture a range of thin lithium manganese dioxide batteries under the Thin Cell® brand. Thin Cell batteries are flat, lightweight batteries providing a unique combination of high energy, long shelf life, wide operating temperature range and very low profile. With their thin prismatic form and a high ratio of active materials to packaging, Thin Cell batteries can efficiently fill most battery cavities. We are currently marketing these batteries to OEMs for applications such as displays, wearable medical devices, theft detection systems, and RFID devices.

In contrast to non-rechargeable batteries, after a rechargeable battery is discharged, it can be recharged and reused many times. Generally, discharge and recharge cycles can be repeated hundreds of times in rechargeable batteries, but the achievable number of cycles (cycle life) varies among technologies and is an important competitive factor. All rechargeable batteries experience a small, but measurable, loss in energy with each cycle. The industry commonly reports cycle life in the number of cycles a battery can achieve until 80% of the battery's initial energy capacity remains. In the rechargeable battery market, the principal competing technologies are nickel cadmium, nickel metal hydride and lithium ion (including lithium polymer) batteries. Rechargeable batteries are used in many applications, such as military radios, laptop computers, mobile telephones, portable medical devices, wearable devices and many other commercial, defense and consumer products.

Three important performance characteristics of a rechargeable battery are design flexibility, energy density and cycle life. Design flexibility refers to the ability of rechargeable batteries to be designed to fit a variety of shapes and sizes of battery compartments. Thin profile batteries with prismatic geometry provide the design flexibility to fit the battery compartments of today's electronic devices. Energy density refers to the total amount of electrical energy stored in a battery divided by the battery’s weight and volume as measured in watt-hours per kilogram and watt-hours per liter, respectively. High energy density batteries generally are longer lasting power sources providing longer operating time and necessitating fewer battery recharges. High energy density and long achievable cycle life are important characteristics for comparing rechargeable battery technologies. Greater energy density will permit the use of batteries of a given weight or volume for a longer time period. Accordingly, greater energy density will enable the use of smaller and lighter batteries with energy comparable to those currently marketed. Lithium ion batteries, by the nature of their electrochemical properties, are capable of providing higher energy density than comparably sized batteries that utilize other chemistries and, therefore, tend to consume less volume and weight for a given energy content. Long achievable cycle life, particularly in combination with high energy density, is suitable for applications requiring frequent battery recharges, such as cellular telephones and laptop computers, and allows the user to charge and recharge many times before noticing a difference in performance. We believe that our lithium ion batteries generally have some of the highest energy density and longest cycle life available.

Lithium Ion Cells and Batteries. We market a variety of lithium ion cells and rechargeable batteries comprising cells manufactured by reputable cell manufacturers. These products are used in a wide variety of applications including communications, medical and other portable electronic devices.

Battery Charging Systems and Accessories. To provide our customers with complete power system solutions, we offer a wide range of rugged military and commercial battery charging systems and accessories including smart chargers, multi-bay charging systems and a variety of cables.

GenSet Enhancer. Our GenSet Enhancer provides energy storage capabilities to generators and renewable energy sources, thereby promoting optimum efficiencies through the continuous charging and discharging of our lithium ion batteries incorporated into the system. The system is mobile, flexible and scalable from 10 to 50 kWh of battery storage and will significantly reduce fuel consumption while enabling the primary generator or power source to be operated at 85% - 95% of its rated load capacity. The switch between the primary energy source and battery power is seamless to the user and allows for silent and clean (zero emission) operation when the batteries are in use. Our lithium ion batteries allow for continuous monitoring, reduce battery weight by a factor of four to five if comparable lead acid batteries are used, and allow much higher operating temperatures of up to 140°F (60°C) without degradation. The resulting benefits of lower fuel consumption, extended life expectancy, less maintenance to the primary power source, and silent watch capability make the GenSet Enhancer ideal for military bases that generate their own electricity.

Multi-Kilowatt Module. Our Multi-Kilowatt Module lithium ion battery system is a large format battery utilizable for energy storage, battery back-up, and remote power applications. This product is a direct replacement of 2.5 kWh and greater lead acid batteries in 24V or 48V applications. It can be connected in multiples to obtain higher-voltages and is capable of over 3,000 cycles while maintaining 80% of its capacity.

Technology Contracts. Our technology contract activities involve the development of new products or the advancement of existing products through contracts with both government agencies and third parties.

Communications Systems

Under our McDowell Research and AMTI brands, we design and manufacture a line of communications systems and accessories to support military communications systems, including RF amplifiers, power supplies, power cables, connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems and integrated communication systems for fixed or vehicle applications such as vehicle adapters and SATCOM systems. We package all systems to meet specific customer needs in rugged enclosures to allow their use in extreme environments.

We offer a wide range of military communications systems and accessories designed to enhance and extend the operation of communications equipment such as vehicle-mounted, manpack and handheld transceivers. Our communications products include the following product configurations:

RF Amplifiers. Our RF amplifiers include: 20, 50 and 75-watt amplifiers and 20-watt accessories and kits. These amplifiers are used to extend the range of manpack and handheld tactical transceivers and can be used on mobile or fixed site applications.

Integrated Systems. Our integrated systems include: SATCOM systems; rugged, deployable case systems; multiband transceiver kits; briefcase power systems; dual transceiver cases; enroute communications cases; and radio cases. These systems give communications operators everything that is needed to provide reliable links to support C4ISR (Command, Control, Communications, Computers and Information, Surveillance and Reconnaissance).

Power Systems. Our power systems include: universal AC/DC power supplies with battery backup for tactical manpack and handheld transceivers; Rover power supplies; interoperable power adapters and chargers; portable power systems; tactical combat and AC to DC power supplies, among many others. We can provide power supplies for virtually all tactical communications devices.

Communications and Electronics. Our communications and electronics services include the design, integration, and fielding of portable, mobile and fixed-site communications systems. Capabilities include engineering, rapid prototyping, and systems integration.

Sales and Marketing

We employ a staff of sales and marketing personnel in North America, Europe and Asia. We sell our products and services directly to commercial customers, including OEMs, as well as government and defense agencies in the U.S. and abroad and have contractual arrangements with sales agents who market our products on a commission basis in defined territories. While OEM agreements and contracts contain volume-based pricing based on expected volumes, industry practices dictate that pricing is rarely adjusted retroactively when contract volumes are not achieved. Every effort is made to adjust future prices accordingly, but the ability to adjust prices is generally based on market conditions.

We also distribute some of our products through domestic and international distributors and retailers. Our sales are generated primarily from customer purchase orders. We have several long-term contracts with the U.S. government and other customers. These contracts do not commit the customers to specific purchase volumes, nor to specific timing of purchase order releases, and they include fixed price agreements over various periods of time. In general we do not believe our sales are seasonal, although we may sometimes experience seasonality for some of our military products based on the timing of government fiscal budget expenditures.

A significant portion of our business comes from sales of products and services to the U.S. and foreign governments through various contracts. These contracts are subject to procurement laws and regulations that lay out policies and procedures for acquiring goods and services. The regulations also contain guidelines for managing contracts after they are awarded, including conditions under which contracts may be terminated, in whole or in part, at the government's convenience or for default. Failure to comply with the procurement laws or regulations can result in civil, criminal or administrative proceedings involving fines, penalties, suspension of payments, or suspension or debarment from government contracting or subcontracting for a period of time.

During the years ended December 31, 2013, 2012, and 2011, we had one major customer, a large defense primary contractor, which comprised 25%, 21% and 21% of our revenues, respectively in each year. There were no other customers that comprised greater than 10% of our total revenues during these years.

In 2013, sales to U.S. and non-U.S. customers were approximately $49,520 and $29,315, respectively. For more information relating to revenues by country for the last two fiscal years and long-lived assets for the last two fiscal years by country of origin, see Note 10 in the Notes to Consolidated Financial Statements.

Battery & Energy Products

We target sales of our non-rechargeable products to manufacturers of security and safety equipment, medical devices, search and rescue equipment, specialty instruments, point of sale equipment and metering applications, as well as users of military equipment. Our strategy is to develop sales and marketing alliances with OEMs and governmental agencies that utilize our batteries in their products, commit to cooperative research and development or marketing programs, and recommend our products for design-in or replacement use in their products. We are addressing these markets through direct contact by our sales and technical personnel, use of sales agents and stocking distributors, manufacturing under private label and promotional activities.

We seek to capture a significant market share for our products within our targeted OEM markets, which we believe, if successful will result in increased product awareness and sales at the end-user or consumer level. We are also selling our 9-volt battery to the consumer market through limited retail distribution through a number of national retailers. Most military procurements are done directly by the specific government organizations requiring products, based on a competitive bidding process. For those military procurements that are not bid, the procurements are typically subject to an audit of the product's underlying cost structure and associated profitability. Additionally, we are typically required to successfully meet contractual specifications and to pass various qualification testing for the products under contract by the military. An inability by us to pass these tests for our new products in a timely fashion could have a material adverse effect on future growth prospects. When a government contract is awarded, there is a government procedure that allows for unsuccessful companies to formally protest the award if they believe they were unjustly treated in the government's bid evaluation process. A prolonged delay in the resolution of a protest, or a reversal of an award resulting from such a protest could have a material adverse effect on our business, financial condition and results of operations.

We market our products to defense organizations in the U.S. and other countries. These efforts have resulted in us winning significant contracts. In September 2010, we were awarded a production contract by the Defense Logistics Agency for up to five years, with a maximum total potential of $42,100, to provide our BA-5390 non-rechargeable lithium manganese dioxide batteries to the U.S. military. Production deliveries began in the first quarter of 2011. Through December 31, 2013, we have received orders for deliveries under this contract totaling $6,500. This contract is set to expire in 2015.

We target sales of our lithium ion rechargeable batteries and charging systems to OEM customers, as well as distributors and resellers focused on our target markets. We seek design wins with OEMs, and believe that our design capabilities, product characteristics and solution integration will drive OEMs to incorporate our batteries into their product offerings, resulting in revenue growth opportunities for us.

We continue to expand our marketing activities as part of our strategic plan to increase sales of our rechargeable products for commercial, standby, defense and communications applications, as well as hand-held devices, wearable devices and other electronic portable equipment. A key part of this expansion includes increasing our design and assembly capabilities as well as building our network of distributors and value added distributors throughout the world.

At December 31, 2013 and 2012, our backlog related to Battery & Energy Products was $6,069 and $8,932, respectively. The decrease in our backlog related to Battery & Energy Products is primarily due to continued delays in U.S. government and defense orders and timing of orders for our commercial business. The majority of the 2013 backlog is related to orders that are expected to ship throughout 2014.

Communications Systems

We target sales of our communications systems, which include power solutions and accessories to support communications systems such as RF amplifiers, power supplies, power cables, connector assemblies, amplified speakers, equipment mounts, case equipment and integrated communication systems, to military OEMs and U.S. and allied foreign militaries. We sell our products directly and through authorized distributors to OEMs and to defense organizations in the U.S. and internationally.

We market our products to defense organizations and OEMs in the U.S. and internationally. These efforts resulted in a number of significant contracts for us. For example, in January 2012, we received a significant order from an international customer for RF amplifiers and accessories in support of force modernization.

At December 31, 2013 and 2012, our backlog related to Communications Systems orders was approximately $247 and $3,667, respectively. The decrease in our backlog related to Communications Systems orders is primarily due to the fulfillment of a large multi-year order for RF amplifiers and accessories in support of force modernization in a foreign country in 2013. The majority of the 2013 backlog was related to orders that are expected to ship throughout 2014.

Patents, Trade Secrets and Trademarks

We rely on licenses of technology as well as our patented and unpatented proprietary information, know-how and trade secrets to maintain and develop our competitive position. Despite our efforts to protect our proprietary information, there can be no assurance that others will neither develop the same or similar information independently nor obtain access to our proprietary information. In addition, there can be no assurance that we would prevail if we asserted our intellectual property rights against third parties, or that third parties will not successfully assert infringement claims against us in the future. We believe, however, that our success depends more on the knowledge, ability, experience and technological expertise of our employees, than on the legal protection that our patents and other proprietary rights may or will afford.

We hold seventeen patents in the U.S. and foreign countries. Our patents protect technology that makes automated production more cost-effective and protects important competitive features of our products. However, we do not consider our business to be dependent on patent protection.

In 2003, we entered into an agreement with Saft Groupe S.A. to license certain tooling for battery cases. The licensing fee associated with this agreement is based on a percentage of the sales price of the individual battery case, up to a maximum of one dollar per battery case. The total royalty expense reflected in 2013 and 2012 was $1. This agreement is scheduled to expire in 2017.

As part of our employment commencement process, our employees are required to enter into agreements providing for confidentiality of certain information and the assignment of rights to inventions made by them while employed by us. These agreements also contain certain noncompetition and nonsolicitation provisions effective during the employment term and for varying periods thereafter depending on position and location. There can be no assurance that we will be able to enforce these agreements. All of our employees agree to abide by the terms of a Code of Ethics policy that provides for the confidentiality of certain information received during the course of their employment.

Trademarks are an important aspect of our business. We sell our products under a number of trademarks, which we own or use under license. The following are registered trademarks of ours: Ultralife®, Ultralife Thin Cell®, Ultralife HiRate®, The New Power Generation®, LithiumPower®, SmartCircuit®, We Are Power®, AMTI®, ABLE™, McDowell Research®, and Max Juice For More Gigs®.

Manufacturing and Raw Materials

We manufacture our products from raw materials and component parts that we purchase. Our manufacturing facilities in Newark, New York are ISO 9001:2008, ISO 14001, and ISO 13485 certified. Our manufacturing facilities in Shenzhen, China are ISO 9001:2008 and ISO 14001 certified. Our manufacturing facilities in Virginia Beach, Virginia are ISO 9001:2008 certified.

We expect our future raw material purchases to fluctuate based on our knowledge regarding the timing of customer orders, the related need to build inventory in anticipation of orders and actual shipment dates.

Battery & Energy Products

Our Newark, New York and Shenzhen, China facilities have the capacity to produce cylindrical cells, 9-volt batteries, and thin cells. Capacity, however, is also related to individual operations, and product mix changes can produce bottlenecks in an individual operation, constraining overall capacity. We have acquired new machinery and equipment in areas where production bottlenecks have resulted in the past and we believe that we have sufficient capacity in these areas. We continually evaluate our requirements for additional capital equipment, and we believe that the planned increases will be adequate to meet foreseeable customer demand.

Certain materials used in our products are available only from a single source or a limited number of sources. Additionally, we may elect to develop relationships with a single or limited number of sources for materials that are otherwise generally available. Although we believe that alternative sources are available to supply materials that could replace materials we use and that, if necessary, we would be able to redesign our products to make use of an alternative product, any interruption in our supply from any supplier that serves currently as our sole source could delay product shipments and adversely affect our financial performance and relationships with our customers. Although we have experienced interruptions of product deliveries by sole source suppliers, none of such interruptions has had a material adverse effect on us. All other raw materials utilized by us are readily available from many sources.

We use various utilities to provide heat, light and power to our facilities. As energy costs rise, we continue to seek ways to reduce these costs and will initiate energy-saving projects at times to assist in this effort. It is possible, however, that rising energy costs may have an adverse effect on our financial results.

We believe that the raw materials and components utilized for our rechargeable batteries are readily available from many sources. Although we believe that alternative sources are available to supply materials that could replace materials we use, any interruption in our supply from any supplier that serves currently as our sole source could delay product shipments and adversely affect our financial performance and relationships with our customers.

Our Newark, New York facility has the capacity to produce significant volumes of rechargeable batteries, as this operation generally assembles battery packs and chargers and is limited only by physical space and is not constrained by manufacturing equipment capacity.

The total carrying value of our Battery & Energy Products inventory, including raw materials, work in process and finished goods, amounted to approximately $15,489 and $22,871 as of December 31, 2013 and 2012, respectively.

Communications Systems

In general, we believe that the raw materials and components utilized by us for our communications accessories and systems, including RF amplifiers, power supplies, cables, repeaters and integration kits, are available from many sources. Although we believe that alternative sources are available to supply materials that could replace materials we use, any interruption in our supply from any supplier that serves currently as our sole source could delay product shipments and adversely affect our financial performance and relationships with our customers.

Our Virginia Beach, Virginia facility has the capacity to produce communications products and systems. This operation generally assembles products and is limited only by physical space and is not constrained by manufacturing equipment capacity.

The total carrying value of our Communications Systems inventory, including raw materials, work in process and finished goods, amounted to approximately $10,564 and $7,499 as of December 31, 2013 and 2012, respectively.

Research and Development

We concentrate significant resources on research and development activities to improve upon our technological capabilities and to design new products for customers' applications. We conduct our research and development in Newark, New York, Virginia Beach, Virginia, Tallahassee, Florida and Shenzhen, China. During 2013 and 2012, we expended approximately $5,900 and $7,200, respectively, on research and development, including $403 and $1,200, respectively, on customer sponsored research and development activities. We expect that research and development expenditures in the future will be modestly higher than those in 2013, as new product development initiatives will drive our growth. As in the past, we will continue to make funding decisions for our research and development efforts based upon strategic demand for customer applications.

Battery & Energy Products

We continue to internally develop non-rechargeable cells and batteries that broaden our product offering to our customers.

We continue to internally develop our rechargeable product portfolio, including batteries, cables and charging systems, as our customers' needs for portable power continue to grow.

The U.S. government sponsors research and development programs designed to improve the performance and safety of existing battery systems and to develop new battery systems.

Communications Systems

We continue to internally develop a variety of communications accessories and systems for the global defense market to meet the ever-changing demands of our customers.

Safety; Regulatory Matters; Environmental Considerations

Certain of the materials utilized in our batteries may pose safety problems if improperly used, stored, or handled. We have designed our batteries to minimize safety hazards both in manufacturing and use.

The transportation of non-rechargeable and rechargeable lithium batteries is regulated in the U.S. by the Department of Transportation’s Pipeline and Hazardous Materials Safety Administration (“PHMSA”), and internationally by the International Civil Aviation Organization (“ICAO”) and corresponding International Air Transport Association (“IATA”) Dangerous Goods Regulations and the International Maritime Dangerous Goods Code (“IMDG”), and other country specific regulations. These regulations are based on the United Nations Recommendations on the Transport of Dangerous Goods Model Regulations and the United Nations Manual of Tests and Criteria. We currently ship our products pursuant to PHMSA, ICAO, IATA, IMDG and other country specific hazardous goods regulations. The regulations require companies to meet certain testing, packaging, labeling, marking and shipping paper specifications for safety reasons. We have not incurred, and do not expect to incur, any significant costs in order to comply with these regulations. We believe we comply with all current U.S. and international regulations for the shipment of our products, and we intend and expect to comply with any new regulations that are imposed. We have established our own testing facilities to ensure that we comply with these regulations. If we are unable to comply with the new regulations, however, or if regulations are introduced that limit our or our customers’ ability to transport our products in a cost-effective manner, this could have a material adverse effect on our business, financial condition and results of operations.

The European Union’s Restriction of Hazardous Substances (”RoHS”) Directive places restrictions on the use of certain hazardous substances in electrical and electronic equipment. All applicable products sold in the European Union market must pass RoHS compliance. While this directive does not apply to batteries and does not currently affect our defense products, should any changes occur in the directive that would affect our products, we intend and expect to comply with any new regulations that are imposed, however, we cannot assure you that the cost of complying with such new regulations would not have a material effect on us. Our commercial chargers are in compliance with this directive. Additional European Union Directives, entitled the Waste Electrical and Electronic Equipment (“WEEE”) Directive and the Directive "on batteries and accumulators and waste batteries and accumulators", impose regulations affecting our non-defense products. These directives require that producers or importers of particular classes of electrical goods are financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. These directives assign levels of responsibility to companies doing business in European Union markets based on their relative market share. These directives call on each European Union member state to enact enabling legislation to implement the directive. As additional European Union member states pass enabling legislation our compliance system should be sufficient to meet such requirements. Our current estimated costs associated with our compliance with these directives based on our current market share are not significant. However, we continue to evaluate the impact of these directives as European Union member states implement guidance, and actual costs could differ from our current estimates.

The European Union’s Battery Directive "on batteries and accumulators and waste batteries and accumulators" is intended to cover all types of batteries regardless of their shape, volume, weight, material composition or use. It is aimed at reducing mercury, cadmium, lead and other metals in the environment by minimizing the use of these substances in batteries and by treating and re-using old batteries. The Directive applies to all types of batteries except those used to protect European Member States' security, for military purposes, or sent into space. To achieve these objectives, the Directive prohibits the marketing of some batteries containing hazardous substances. It establishes schemes aimed at high level of collection and recycling of batteries with quantified collection and recycling targets. The Directive sets out minimum rules for producer responsibility and provisions with regard to labeling of batteries and their removability from equipment. Product markings are required for batteries and accumulators to provide information on capacity and to facilitate reuse and safe disposal. We currently ship our products pursuant to the requirements of the Directive.

China's "Management Methods for Controlling Pollution Caused by Electronic Information Products Regulation" ("China RoHS") provides a two-step, broad regulatory framework including similar hazardous substance restrictions as are imposed by the European Union's RoHS Directive, and applies to methods for the control and reduction of pollution and other public hazards to the environment caused during the production, sale, and import of electronic information products ("EIP") in China affecting a broad range of electronic products and parts. Currently, only the first step of the regulatory framework of China RoHS, which details marking and labeling requirements under Standard SJT11364-2006 ("Marking Standard"), is in effect. However, the methods under China RoHS only apply to EIP placed in the marketplace in China. Additionally, the Marking Standard does not apply to components sold to OEM's for use in other EIPs. Our sales in China are limited to sales to OEM's and to distributors who supply to OEM's. Should our sales strategy change to include direct sales to end-users, we believe our compliance system is sufficient to meet our requirements under China RoHS. Our current estimated costs associated with our compliance with this regulation based on our current market share are not significant. However, we continue to evaluate the impact of this regulation, and actual costs could differ from our current estimates.

National, state and local laws impose various environmental controls on the manufacture, transportation, storage, use and disposal of batteries and of certain chemicals used in the manufacture of batteries. Although we believe that our operations are in substantial compliance with current environmental regulations, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. There can be no assurance that additional or modified regulations relating to the manufacture, transportation, storage, use and disposal of materials used to manufacture our batteries or restricting disposal of batteries will not be imposed or how these regulations will affect us or our customers, that could have a material adverse effect on our business, financial condition and results of operations. In 2013, 2012, and 2011, we spent approximately $38, $190, and $421, respectively, on environmental controls, including costs to properly dispose of potentially hazardous waste.

Since non-rechargeable and rechargeable lithium battery chemistries react adversely with water and water vapor, certain of our manufacturing processes must be performed in a controlled environment with low relative humidity. Our Newark, New York and Shenzhen, China facilities contain dry rooms or glove box equipment, as well as specialized air-drying equipment.

In addition to the environmental regulations previously described, our products are subject to U.S. and international laws and regulations governing international trade and exports including but not limited to the International Traffic in Arms Regulations (“ITAR”), the Export Administration Regulations (“EAR”) and trade sanctions against embargoed countries.

The ITAR is a set of United States government regulations that control the export and import of defense-related articles and services on the United States Munitions List. These regulations implement the provisions of the Arms Export Control Act , and are described in the Code of Federal Regulations. The Department of State Directorate of Defense Trade Controls interprets and enforces ITAR. Its goal is to safeguard U.S. national security and further U.S. foreign policy objectives.

The related EAR are enforced and interpreted by the Bureau of Industry and Security in the Commerce Department. The Department of Defense is also involved in the review and approval process. Physical enforcement of import and export laws at border crossings is performed by Customs and Border Protection, an agency of the Department of Homeland Security.

Products and services developed and manufactured in our foreign locations are subject to the export and import controls of the nation in which the foreign location operates.

We believe we are in substantial compliance with these domestic and international export regulations. However, failure of compliance could have a material adverse effect on our business through possible fines, denial of export privileges, or loss of customers. Further, while we are not aware of any proposed changes to these regulations, any change in the scope or enforcement of export or import regulations or related legislation could have a material adverse affect on our business through increased costs of compliance or reduction in the international growth prospects available to us.

Our future estimated costs associated with our compliance with ITAR, EAR, and the foreign export and import controls we are subject to based on our current sales volumes are not significant. However, we continue to evaluate the impact of these regulations, and actual costs could differ from our current estimates.

Battery & Energy Products

Our non-rechargeable battery products incorporate lithium metal, which reacts with water and may cause fires if not handled properly. In the past, we have experienced fires that have temporarily interrupted certain manufacturing operations. We believe that we have adequate fire suppression systems and insurance, including business interruption insurance, to protect against the occurrence of fires and fire losses in our facilities.

Our 9-volt battery, among other sizes, is designed to conform to the dimensional and electrical standards of the American National Standards Institute, and the 9-volt battery and a range of 3-volt cells are recognized under the Underwriters Laboratories, Inc. Component Recognition Program.

Communications Systems

We are not currently aware of any regulatory requirements regarding the disposal of communications products.

Corporate

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 Section 1502 (the "Dodd-Frank Act") requires public companies to disclose whether certain minerals (such as tantalum, tin, gold and tungsten), commonly known as "conflict minerals," are necessary to the functionality or production of a product manufactured by a public company and if those minerals originated in the Democratic Republic of Congo or an adjoining country. To comply with the Dodd-Frank Act, as implemented by SEC rules, we are required to perform due diligence and disclose whether or not our products contain such minerals and from which countries and source (smelter) the minerals were obtained. The first report is due by May 31, 2014 for the 2013 calendar year and we are implementing appropriate measures to comply with such requirements.

Competition

Competition in both the battery and communications systems markets is, and is expected to remain, intense. The competition ranges from development stage companies to major domestic and international companies, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours. We compete against companies producing batteries as well as companies producing communications systems. We compete on the basis of design flexibility, performance, price, reliability and customer support. There can be no assurance that our technologies and products will not be rendered obsolete by developments in competing technologies or services that are currently under development or that may be developed in the future or that our competitors will not market competing products and services that obtain market acceptance more rapidly than ours.

Historically, although other entities may attempt to take advantage of the growth of the battery market, the lithium battery cell industry has certain technological and economic barriers to entry. The development of technology, equipment and manufacturing techniques and the operation of a facility for the automated production of lithium battery cells require large capital expenditures, which may deter new entrants from commencing production. Through our experience in battery cell manufacturing, we have also developed expertise, which we believe would be difficult to reproduce without substantial time and expense in the non-rechargeable battery market.

Employees

As of December 31, 2013, we employed a total of 597 permanent and temporary employees: 51 in research and development, 442 in production and 104 in sales and administration. None of our employees are represented by a labor union.

ITEM 1A. RISK FACTORS

Our business faces many risks. As such, prospective investors and shareholders should carefully consider and evaluate all of the risk factors described below as well as other factors discussed in this Annual Report on Form 10-K and in our other filings with the SEC. Any of these factors could adversely affect our business, financial conduction and results of operations. Additional risks and uncertainties that are not currently known to us or that are not currently believed by us to be material may also harm our business operations and financial results. These risk factors may change from time to time and may be amended, supplemented, or superseded by updates to the risk factors contained in periodic reports on Form 10-Q and Form 10-K that we file with the SEC in the future.

A significant portion of our revenues is derived from a certain key customer.

During the years ended December 31, 2013 and 2012, we had one major customer, a large defense primary contractor, which comprised 25% and 21% of our revenues, respectively in each year. There were no other customers that comprised greater than 10% of our total revenues during these years. The reduction, delay or cancellation of orders from this customer for any reason would reduce our revenue and operating income and could materially and adversely affect our business, operating results and financial condition in other ways.

Reductions in U.S. and foreign military spending could have a material adverse effect on our business, financial condition and results of operations.

A significant portion of our revenues is derived from contracts with the U.S. and foreign militaries or OEMs that supply the U.S. and foreign militaries. In the years ended December 31, 2013 and 2012, approximately $52,300 or 66% and $66,200 or 65%, respectively, of our revenues were comprised of sales made directly or indirectly to the U.S. and foreign militaries.

We are highly dependent on sales to U.S. Government customers. The percentage of our net revenue that was derived from sales to U.S. Government customers, including the Department of Defense, whether directly or through prime contractors, was approximately $39,600 or 50% in 2013 and $43,700 or 43% in 2012. Therefore, any significant disruption or deterioration of our relationship with the U.S. Government would significantly reduce our revenue. Our competitors continuously engage in efforts to expand their business relationships with the U.S. Government and will continue these efforts in the future, and the U.S. Government may choose to use other contractors.

Budget and appropriations decisions made by the U.S. Government, including possible future sequestration periods or other similar formulaic reductions in federal expenditures, are outside of our control and have long-term consequences for our business. A decline in U.S. military expenditures could result in a reduction in the military’s demand for our products, which could have a material adverse effect on our business, financial condition and results of operations.

Our efforts to develop new commercial applications for our products could be prolonged or could fail.

Although we are involved with developing certain products for new commercial applications, we cannot assure that acceptance of our products will occur due to the highly competitive nature of the business. There are many new product and technology entrants into the marketplace, and we must continually reassess the market segments in which our products can be successful and seek to engage customers in these segments that will adopt our products for use in their products. In addition, these companies must be successful with their products in their markets for us to gain increased business. Increased competition, failure to gain customer acceptance of products, the introduction of competitive technologies or failure of our customers in their markets could have a further adverse effect on our business and reduce our revenue and operating income.

A decline in demand for products using our batteries or communications systems could reduce demand for our products and/or our products could become obsolete.

A substantial portion of our business depends on the continued demand for products using our batteries and communications systems sold by our customers, including original equipment manufacturers. Our success depends significantly upon the success of those customers' products in the marketplace. We are subject to many risks beyond our control that influence the success or failure of a particular product or service offered by a customer, including:

- competition faced by the customer in its particular industry,
- market acceptance of the customer's product or service,
- the engineering, sales, marketing and management capabilities of the customer,
- technical challenges unrelated to our technology or products faced by the customer in developing its products or services, and
- the financial and other resources of the customer.

For instance, in the years ended December 31, 2013 and 2012, 16% and 14% of our revenues, respectively, were comprised of sales of our 9-volt batteries, and of this, approximately 13% and 26%, respectively, pertained to sales to smoke alarm original equipment manufacturers. If the retail demand for long-life smoke alarms decreases significantly or if innovation leads to alternative sources of power for long-life smoke alarms, this could have a material adverse effect on our business, financial condition and results of operations.

The market for our products is characterized by changing technology and evolving industry standards, often resulting in product obsolescence or short product lifecycles. Although we believe that our products are comprised of state-of-the-art technology, there can be no assurance that competitors will not develop technologies or products that would render our technologies and products obsolete or less marketable. Many of the companies with which we compete have substantially greater resources than we do, and some have the capacity and volume of business to be able to produce their products more efficiently than we can. In addition, these companies are developing or have developed products using a variety of technologies that are expected to compete with our technologies. If these companies successfully market their products in a manner that renders our technologies obsolete, this would reduce our revenue and operating income and could have other material adverse effects on our business, financial condition and results of operations.

The global recession that began in 2008 adversely affected and may continue to adversely affect our business and our industries, as well as the industries and businesses of many of our customers and suppliers.

In general, our operating results can be significantly affected by negative economic conditions, high labor, material and commodity costs and unforeseen changes in demand for our products and services. The global recession, and the sluggish pace of the recovery, resulted in a significant decrease in customer demand, diminished availability of credit and other capital, throughout in all of our end markets. The volatile domestic and global recessionary climate could continue to have a negative impact on demand for our products and services, which may directly reduce our sales and profitability.

Our quarterly and annual results and the price of our common stock could fluctuate significantly.

Our future operating results may vary significantly from quarter to quarter and from year to year depending on factors such as the timing and shipment of significant orders, new product introductions, U.S. and foreign government demand, delays in customer releases of purchase orders, delays in receiving raw materials from vendors, the mix of distribution channels through which we sell our products and services and general economic conditions. Frequently, a substantial portion of our revenue in each quarter is generated from orders booked and fulfilled during that quarter. As a result, revenue levels are difficult to predict for each quarter. If revenue results are below expectations, operating results will be adversely affected as we have a sizeable base of fixed overhead costs that do not fluctuate much with the changes in revenue. Due to such variances in operating results, we have sometimes failed to meet, and in the future may not meet, market expectations or even our own guidance regarding our future operating results.

In addition to the uncertainties of quarterly and annual operating results, future announcements concerning us or our competitors, including technological innovations or commercial products, litigation or public concerns as to the safety or commercial value of one or more of our products may cause the market price of our common stock to fluctuate substantially for reasons which may be unrelated to our operating results. These fluctuations, as well as general economic, political, competitive and market conditions, may have a material adverse effect on the market price of our common stock.

Our operations in China are subject to unique risks and uncertainties.

Our operating facility in China presents risks including, but not limited to, changes in local regulatory requirements, including changes in labor laws, local wage laws, environmental regulations, taxes and operating licenses, compliance with U.S. regulatory requirements, including the Foreign Corrupt Practices Act, uncertainties as to application and interpretation of local laws and enforcement of contract and intellectual property rights, currency restrictions, currency exchange controls, fluctuations of currency, and currency revaluations, eminent domain claims, civil unrest, power outages, water shortages, labor shortages, labor disputes, increase in labor costs, rapid changes in government, economic and political policies, political or civil unrest, acts of terrorism, or the threat of boycotts, and other civil disturbances that are outside of our control. Any such disruptions could depress our earnings and have other material adverse effects on our business, financial condition and results of operations.

Any impairment of goodwill and indefinite-lived intangible assets, and other intangible assets, could negatively impact our results of operations.

Our goodwill and indefinite-lived intangible assets are subject to an impairment test on an annual basis and are also tested whenever events and circumstances indicate that goodwill and/or indefinite-lived intangible assets may be impaired. Any excess goodwill and/or indefinite-lived intangible assets value resulting from the impairment test must be written off in the period of determination. Intangible assets (other than goodwill and indefinite-lived intangible assets) are generally amortized over the useful life of such assets. In addition, from time to time, we may acquire or make an investment in a business which will require us to record goodwill based on the purchase price and the value of the acquired tangible and intangible assets. We may subsequently experience unforeseen issues with such business which adversely affect the anticipated returns of the business or value of the intangible assets and trigger an evaluation of the recoverability of the recorded goodwill and intangible assets for such business. Future determinations of significant write-offs of goodwill or intangible assets as a result of an impairment test or any accelerated amortization of other intangible assets could have a negative impact on our results of operations and financial condition. We are constantly reviewing the costs and the benefits of retiring several of our current brands, the retirement of which could result in a non-cash impairment charge of the associated indefinite-lived intangible asset, reducing operating earnings by the associated amount or amounts on the balance sheet. We have completed our annual impairment analysis for goodwill and indefinite-lived intangible assets, in accordance with the applicable accounting guidance, and have concluded that we do not have any impairment of goodwill and indefinite-lived intangible assets for the year ended December 31, 2013. However, due to the narrow margin of passing the testing in 2013, there is potential that the McDowell - Communications Systems trademark may become partially or fully impaired in 2014 if the projected revenue targets are not met. As of December 31, 2013, the McDowell - Communications Systems trademark had a carrying value of $2,400.

Breaches in security and other disruptions, could diminish our ability to generate revenues or contain costs and negatively impact our business in other ways.

We face certain security threats, including threats to our information technology infrastructure, attempts to gain access to our proprietary or classified information, and threats to physical security. Our information technology networks and related systems are critical to the operation of our business and essential to our ability to successfully perform day-to-day operations. The risks of a security breach or disruption, particularly through cyber attack or cyber intrusion, including actions taken by computer hackers, foreign governments and cyber terrorists, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Although we have acquired and developed systems and processes designed to protect our proprietary or classified information, they may not be sufficient and the failure to prevent these types of events could disrupt our operations, require significant management attention and resources, and could negatively impact our reputation among our customers and the public, which could have a negative impact on our financial condition, and weaken results of operations and liquidity.

Our growth and expansion strategy could strain or overwhelm our resources.

Rapid growth of our business could significantly strain management, operations and technical resources. If we are successful in obtaining rapid market growth of our products and services, we will be required to deliver large volumes of quality products and increased levels of services to customers on a timely basis at a reasonable cost. For example, demand for our new or existing products combined with our ability to penetrate new markets and geographies, could strain the current capacity of our manufacturing facilities and require additional equipment and time to build a sufficient support infrastructure. We cannot assure, however, that our business will grow rapidly or that our efforts to expand manufacturing and quality control activities will be successful or that we will be able to satisfy commercial scale production requirements on a timely and cost-effective basis.

We also may be required to continue to improve our operations, management and financial systems and controls in order to remain competitive. The failure to manage growth and expansion effectively could have an adverse effect on our business, financial condition, and results of operations.

Negative publicity of lithium-ion batteries may negatively impact the industries or markets we operate in.

We are unable to predict the impact, severity or duration of negative publicity and how it may impact the industries or markets we serve. Ongoing negative attention being given to lithium ion batteries that are integrated into the power systems of new commercial aircraft and electric motor vehicles may have an impact on the lithium ion battery industry as a whole, regardless of the designed usage of those batteries. The residual effects of such events could have an adverse effect on our business, financial condition, and results of operations.

We may incur significant costs because of the warranties we supply with our products and services.

With respect to our battery products, we typically offer warranties against any defects due to product malfunction or workmanship for a period up to one year from the date of purchase. With respect to our communications systems products, we now offer up to a three-year warranty. Previously, we had offered up to a four-year warranty. We provide for a reserve for these potential warranty expenses, which is based on an analysis of historical warranty issues. There is no assurance that future warranty claims will be consistent with past history, and in the event we experience a significant increase in warranty claims, there is no assurance that our reserves will be sufficient. This could have a material adverse effect on our business, financial condition and results of operations.

The loss of top management and key personnel could significantly harm our business, and the ability to put in place a succession plan and recruit experienced, competent management is critical to the success of the business.

The loss of top management and key personnel could significantly harm our business, and the ability to put in place a succession plan and recruit experienced, competent management is critical to the success of our business. The continuity of our officers and executive team are vital to the successful implementation of our business model and growth strategy designed to deliver sustainable, consistent profitability. A top management priority has been the development and implementation of a formal succession plan to mitigate the risks associated with the loss of senior executives. There is no guarantee that we will be successful in our efforts to effectively implement our succession plan.

Because of the specialized, technical nature of our business, we are highly dependent on certain members of our management, sales, engineering and technical staffs. The loss of these employees could have a material adverse effect on our business, financial condition and results of operations. Our ability to effectively pursue our business strategy will depend upon, among other factors, the successful retention of our key personnel, recruitment of additional highly skilled and experienced managerial, sales, engineering and technical personnel, and the integration of such personnel obtained through business acquisitions. We cannot assure that we will be able to retain or recruit this type of personnel. An inability to hire sufficient numbers of people or to find people with the desired skills could result in greater demands being placed on limited management resources which could delay or impede the execution of our business plans and have other material adverse effects on our business, financial condition and results of operations.

Our supply of raw materials and components could be disrupted.

Certain materials and components used in our products are available only from a single or a limited number of suppliers. As such, some materials and components could become in short supply resulting in limited availability and/or increased costs. Additionally, we may elect to develop relationships with a single or limited number of suppliers for materials and components that are otherwise generally available. Due to our involvement with supplying defense products to the government, we could receive a government preference to continue to obtain critical supplies to meet military production needs. However, if the government did not provide us with a government preference in such circumstances, the difficulty in obtaining supplies could have a material adverse effect on our business, financial condition and results of operations. Although we believe that alternative suppliers are available to supply materials and components that could replace materials and components currently used and that, if necessary, we would be able to redesign our products to make use of such alternatives, any interruption in the supply from any supplier that serves as a sole source could delay product shipments and have a material adverse effect on our business, financial condition and results of operations. We have experienced interruptions of product deliveries by sole source suppliers in the past, and we cannot guarantee that we will not experience a material interruption of deliveries from sole source suppliers in the future. Additionally, we could face increasing pricing pressure from our suppliers dependent upon volume due to rising costs by these suppliers that could be passed on to us in higher prices for our raw materials, which could increase our cost of business, lower our margins and have other materially adverse effects on our business, financial condition and results of operations.

Our customers may not meet the volume expectations in our supply agreements.

We sell most of our products and services through supply agreements and contracts. While supply agreements and contracts contain volume-based pricing based on expected volumes, we cannot assure that such adjustments will be made under current industry practices, pricing is rarely adjusted retroactively when contract volumes are not achieved. Every effort is made to adjust future prices accordingly, but our ability to adjust prices is generally based on market conditions and we may not be able to adjust prices in various circumstances.

Any inability to protect our proprietary and intellectual property could allow our competitors and others to produce competing products based on our proprietary and intellectual property.

We believe our success depends more on the knowledge, ability, experience and technological expertise of our employees than on the legal protection of patents and other proprietary rights. We claim proprietary rights in various unpatented technologies, know-how, trade secrets and trademarks relating to products and manufacturing processes. We cannot guarantee the degree of protection these various claims may or will afford, or that competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. We protect our proprietary rights in our products and operations through contractual obligations, including nondisclosure agreements with certain employees, customers, consultants and strategic partners. There can be no assurance as to the degree of protection these contractual measures may or will afford. We have had patents issued and have patent applications pending in the U.S. and elsewhere. We cannot assure (1) that patents will be issued from any of these pending applications, or that the claims allowed under any patents will be sufficiently broad to protect our technology, (2) that any patents issued to us will not be challenged, invalidated or circumvented, or (3) as to the degree or adequacy of protection any patents or patent applications may or will afford. If we are found to be infringing third party patents, we cannot assure that we will not be subjected to significant damages or will be able to obtain licenses with respect to such patents on acceptable terms, if at all. The failure to obtain necessary licenses could delay product shipments or the introduction of new products, and costly attempts to design around such patents could foreclose the development, manufacture or sale of products.

Our ability to use our Net Operating Loss Carryforwards in the future may be limited, which could increase our tax liabilities and reduce our net income.

At December 31, 2013, we had approximately $62,152 of U.S. and U.K. net operating loss carryforwards ("NOL's") available to offset future taxable income. We continually assess the carrying value of this asset based on the relevant accounting standards. As of December 31, 2013, we reflected a full valuation allowance against our deferred tax asset to the extent the asset is not able to be offset by future reversing temporary differences. As we continue to assess the realizability of our deferred tax assets, the amount of the valuation allowance could be reduced. In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. Achieving our business plan targets, particularly those relating to revenue and profitability, is integral to our assessment regarding the recoverability of our net deferred tax asset.

We could be adversely affected by violations of the US Foreign Corrupt Practices Act ("FCPA"), the U.K. Bribery Act or other anti-corruption laws.

The FCPA, U.K. Bribery Act and other anti-corruption laws generally prohibit companies and their intermediaries from making improper payments (to foreign officials and otherwise) and require companies to keep accurate books and records and maintain appropriate internal controls. Our training program and policies mandate compliance with such laws. We operate in some parts of the world that have experienced governmental corruption to some degree, and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. If we are found to be liable for violations of anti-corruption laws (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others, including employees of our third party partners or agents), we could suffer from civil and criminal penalties or other sanctions, incur significant internal investigation costs and suffer reputational harm.

We are subject to foreign currency fluctuations.

We maintain manufacturing operations in North America, Europe and Asia, and we export products to various countries. We purchase materials and sell our products in foreign currencies, and therefore currency fluctuations may impact our pricing of products sold and materials purchased. In addition, our foreign subsidiaries maintain their books in local currency, and the translation of those subsidiary financial statements into U.S. dollars for our consolidated financial statements could have an adverse effect on our consolidated financial results, due to changes in local currency relative to the U.S. dollar. Accordingly, currency fluctuations could have a material adverse effect on our business, financial condition and results of operations by increasing our expenses and reducing our income.

We are subject to the contract rules and procedures of the U.S. and foreign governments. These rules and procedures create significant risks and uncertainties for us that are not usually present in contracts with private parties.

We will continue to develop battery products, communications systems and services to meet the needs of the U.S. and foreign governments. We compete in solicitations for awards of contracts. The receipt of an award, however, does not always result in the immediate release of an order and does not guarantee in any way any given volume of orders. Any delay of solicitations or anticipated purchase orders by, or future failure of, the U.S. or foreign governments to purchase products manufactured by us could have a material adverse effect on our business, financial condition and results of operations. Additionally, in these scenarios we are typically required to successfully meet contractual specifications and to pass various qualification-testing for the products under contract. Our inability to pass these tests in a timely fashion, as well as meet delivery schedules for orders released under contract, could have a material adverse effect on our business, financial condition and results of operations.

When a government contract is awarded, there is a government procedure that permits unsuccessful companies to formally protest such award if they believe they were unjustly treated in the evaluation process. As a result of these protests, the government is precluded from proceeding under these contracts until the protests are resolved. A prolonged delay in the resolution of a protest, or a reversal of an award resulting from such a protest could have material adverse effects on our business, financial condition and results of operations.

The U.S. and foreign governments can audit our contracts with their respective defense and government agencies and, under certain circumstances, can adjust the economic terms of those contracts.

A significant portion of our business comes from sales of products and services to the U.S. and foreign governments through various contracts. These contracts are subject to procurement laws and regulations that lay out policies and procedures for acquiring goods and services. The regulations also contain guidelines for managing contracts after they are awarded, including conditions under which contracts may be terminated, in whole or in part, at the government’s convenience or for default. Failure to comply with the procurement laws or regulations can result in civil, criminal or administrative proceedings involving fines, penalties, suspension of payments, or suspension or disbarment from government contracting or subcontracting for a period of time.

Any inability to comply with changes to the regulations for the shipment of our products could limit our ability to transport our products to customers in a cost-effective manner and reduce our operating income and margins.

The transportation of lithium batteries is regulated by the International Civil Aviation Organization (“ICAO”) and corresponding International Air Transport Association (“IATA”) Dangerous Goods Regulations and the International Maritime Dangerous Goods Code (“IMDG”) and in the U.S. by the Department of Transportation’s Pipeline and Hazardous Materials Safety Administration (“PHMSA”). These regulations are based on the United Nations Recommendations on the Transport of Dangerous Goods Model Regulations and the United Nations Manual of Tests and Criteria. We currently ship our products pursuant to ICAO, IATA and PHMSA hazardous goods regulations. These regulations require companies to meet certain testing, packaging, labeling and shipping specifications for safety reasons. We have not incurred, and do not expect to incur, any significant costs in order to comply with these regulations. We believe we comply with all current U.S. and international regulations for the shipment of our products, and we intend and expect to comply with any new regulations that are imposed. We have established our own testing facilities to ensure that we comply with these regulations. If we are unable to comply with the new regulations, however, or if regulations are introduced that limit our ability to transport our products to customers in a cost-effective manner, this could reduce our operating income and margins, and have other material adverse effects on our business, financial condition and results of operations.

We are subject to certain safety risks, including the risk of fire, inherent in the manufacture, use and transportation of lithium batteries.

Due to the high energy inherent in lithium batteries, our lithium batteries can pose certain safety risks, including the risk of fire. We incorporate procedures in research, development, product design, manufacturing processes and the transportation of lithium batteries that are intended to minimize safety risks, but we cannot assure that accidents will not occur or that our products will not be subject to recall for safety concerns. Although we currently carry insurance policies which cover loss of the plant and machinery, leasehold improvements, inventory and business interruption, any accident, whether at the manufacturing facilities or from the use of the products, may result in significant production delays or claims for damages resulting from injuries or death. While we maintain what we believe to be sufficient casualty liability coverage to protect against such occurrences, these types of losses could reduce our operating income and have other material adverse effects on our business, financial condition and results of operation.

We may incur significant costs because of known and unknown environmental matters.

National, state and local laws impose various environmental controls on the manufacture, transportation, storage, use and disposal of batteries and of certain chemicals used in the manufacture of batteries. We use and generate a variety of chemicals and other hazardous by-products in our manufacturing operations. These environmental laws govern, among other things, air emissions, wastewater discharges and the handling, storage and release of wastes and hazardous substances. Such laws and regulations can be complex and change. Although we believe that our operations are in substantial compliance with current environmental regulations and that, except as noted below, there are no environmental conditions that will require material expenditures for clean-up at our present or former facilities or at facilities to which we have sent waste for disposal, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. There can be no assurance that additional or modified regulations relating to the manufacture, transportation, storage, use and disposal of materials used to manufacture our batteries or restricting disposal of batteries will not be imposed or how these regulations will affect us or our customers. Such changes in regulations could reduce our operating income and margins and have other material adverse effects on our business, financial condition and results of operations. We could incur substantial costs, including clean-up costs, fines and sanctions and third-party property damage or personal injury claims, as a result of violations of environmental laws. Failure to comply with environmental requirements could also result in enforcement actions that materially limit or otherwise affect the operations of the facilities involved. Under certain environmental laws, a current or previous owner or operator of an environmentally contaminated site may be held liable for the entire cost of investigation, removal or remediation of hazardous materials at such property. This liability could result whether or not the owner or operator knew of, or was responsible for, the presence of any hazardous materials.

The European Union’s Restriction of Hazardous Substances (”RoHS”) Directive places restrictions on the use of certain hazardous substances in electrical and electronic equipment. All applicable products sold in the European Union market after July 1, 2006 must pass RoHS compliance. While this directive does not apply to batteries and does not currently affect our defense products, should any changes occur in the directive that would affect our products, we intend and expect to comply with any new regulations that are imposed. Our commercial chargers are in compliance with this directive. Additional European Union Directives, entitled the Waste Electrical and Electronic Equipment (“WEEE”) Directive and the Directive "on batteries and accumulators and waste batteries and accumulators", impose regulations affecting our non-defense products. These directives require that producers or importers of particular classes of electrical goods are financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. These directives assign levels of responsibility to companies doing business in European Union markets based on their relative market share. These directives call on each European Union member state to enact enabling legislation to implement the directive. As additional European Union member states pass enabling legislation our compliance system should be sufficient to meet such requirements. Our current estimated costs associated with our compliance with these directives based on our current market share are not significant. However, we continue to evaluate the impact of these directives as European Union member states implement guidance, and actual costs could differ from our current estimates.

The European Union’s Battery Directive "on batteries and accumulators and waste batteries and accumulators" is intended to cover all types of batteries regardless of their shape, volume, weight, material composition or use. It is aimed at reducing mercury, cadmium, lead and other metals in the environment by minimizing the use of these substances in batteries and by treating and re-using old batteries. The Directive applies to all types of batteries except those used to protect European Member States' security, for military purposes, or sent into space. To achieve these objectives, the Directive prohibits the marketing of some batteries containing hazardous substances. It establishes schemes aimed at high level of collection and recycling of batteries with quantified collection and recycling targets. The Directive sets out minimum rules for producer responsibility and provisions with regard to labeling of batteries and their removability from equipment. Product markings are required for batteries and accumulators to provide information on capacity and to facilitate reuse and safe disposal. We currently ship our products pursuant to the requirements of the Directive. Our current estimated costs associated with our compliance with these directives based on our current market share are not significant. However, we continue to evaluate the impact of these directives as European Union member states implement guidance, and actual costs could differ from our current estimates.

China's "Management Methods for Controlling Pollution Caused by Electronic Information Products Regulation" ("China RoHS") provides a two-step, broad regulatory framework, including similar hazardous substance restrictions as are imposed by the European Union's RoHS Directive, and applies to methods for the control and reduction of pollution and other public hazards to the environment caused during the production, sale, and import of electronic information products ("EIP") in China affecting a broad range of electronic products and parts. Currently, only the first step of the regulatory framework of China RoHS, which details marking and labeling requirements under Standard SJT11364-2006 ("Marking Standard"), is in effect. However, the methods under China RoHS only apply to EIP placed in the marketplace in China. Additionally, the Marking Standard does not apply to components sold to OEMs for use in other EIPs. Our sales in China are limited to sales to OEMs and to distributors who supply to OEMs. Should our sales strategy change to include direct sales to end-users, we believe our compliance system is sufficient to meet our requirements under China RoHS. Our current estimated costs associated with our compliance with this regulation based on our current market share are not significant. However, we continue to evaluate the impact of this regulation, and actual costs could differ from our current estimates.

A number of domestic and international communities are prohibiting the landfill disposal of batteries and requiring companies to make provisions for product recycling. Of particular note are the European Union's Batteries Directive and the New York State Rechargeable Battery Recycling law. We are committed to responsible product stewardship and ongoing compliance with these and future regulations. The compliance costs associated with current recycling regulations are not expected to be significant at this time. However, we continue to evaluate the impact of these regulations, and actual costs could differ from our current estimates and additional laws could be enacted by these and other states which entail greater costs of compliance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2013, we own two buildings in Newark, New York comprising approximately 250,000 square feet, which serve operations primarily in the Battery & Energy Products operating segment. Our corporate headquarters are located in our Newark, New York facility. In addition, we lease approximately 3,500 square feet in a facility based in Abingdon, England, serving the operations in the Battery and Energy Services Products operating segment. We also lease approximately 130,000 square feet in four buildings on one campus in Shenzhen, China, which serve operations in the Battery & Energy Products operating segment. The Shenzhen, China campus location includes dormitory facilities. See note 12 within our financial statements for further discussion on the status of our China facility. We lease approximately 32,500 square feet in a facility based in Virginia Beach, Virginia, which serve operations in the Communications Systems operating segment. We also lease sales and administrative offices, as well as manufacturing and production facilities, in India, which serves operations in the Battery & Energy Products operating segment. Our research and development efforts for our Battery & Energy Products are conducted at our Newark, New York and Shenzhen, China facilities, while our research and development efforts for our Communications Systems products are conducted in Tallahassee, Florida and at our facility in Virginia Beach, Virginia. On occasion, we rent additional warehouse space to store inventory and non-operational equipment. We believe that our facilities are adequate and suitable for our current needs. However, we may require additional manufacturing and administrative space if demand for our products and services continues to grow.

ITEM 3. LEGAL PROCEEDINGS

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

Arista Power Litigation

On September 23, 2011, we initiated an action against Arista Power, Inc. (“Arista”) and our former senior sales and engineering employee, David Modeen (“Modeen”) in the State of New York Supreme Court, County of Wayne (Index No. 73379). In our Complaint, we allege that Arista recruited all but one of the members of its executive team from us, subsequently changed and redirected its business to compete directly with us by using our confidential information, and during the summer of 2011, recruited Modeen to become an Arista employee. We allege that, as a result of actions by Arista and Modeen: (i) Modeen has breached the terms of his Employee Confidentiality, Non-Disclosure, Non-Compete, Non-Disparagement and Assignment Agreement with us; (ii) Modeen has breached certain agreements, duties and obligations he owed us, including to protect and refrain from disclosing our trade secrets and confidential and proprietary information; (iii) Arista’s employment of Modeen will inevitably lead to the disclosure and use of our trade secrets by Arista, in violation of Modeen’s duties and obligations to us; (iv) Arista unlawfully induced Modeen to breach his agreements with and duties and obligations to us; and (v) Arista’s recruitment and employment of Modeen has breached a subcontract between Arista and us. We seek damages as determined at trial and preliminary and permanent injunctive relief. The defendants have answered the allegations set forth in the Complaint, without asserting any counterclaims.

On December 5, 2011, Arista served us with a Complaint it filed on November 29, 2011 in the State of New York Supreme Court, County of Monroe (Index No. 11-13896) against us, our officers, several of our directors, and an employee. In its Complaint, Arista alleges that we and our named defendants have violated the terms of a Confidentiality Agreement with Arista and have unfairly competed against Arista by unlawfully appropriating Arista’s trade secrets and that as a result of such activity, Arista has incurred damages in excess of $60,000. Arista seeks damages, an accounting, and preliminary and permanent injunctive relief.

On December 21, 2011, we and our officers, directors and employee named in Arista's Complaint filed a motion to dismiss Arista's Complaint against our officers, directors and employee as Arista's Complaint fails to state any cause of action against any of them and to dismiss the claim of fraud against our officers, directors and employee. Subsequently, Arista filed an Amended Complaint alleging essentially the same causes of action but adding additional factual allegations against us and our officers, directors and employee. In addition, Arista filed a motion to disqualify our outside legal counsel representing us and our officers, directors and employee in both Arista's Complaint and our Complaint against Arista. In response, we and our officers, directors and employee filed a new motion to dismiss Arista's Complaint against us in its entirety and seeking dismissal of the fraud claim against us. Arista's motion to disqualify our outside legal counsel was denied on February 10, 2012. On March 9, 2012, the Court issued its decision on our motion to dismiss, granting the motion to the extent of dismissing some claims against us, but denying the motion to dismiss the individuals from the lawsuit at this preliminary stage. On April 19, 2012, an Answer was filed on behalf of us, our officers, directors and employee. On September 10, 2013, Arista filed a Second Amended Complaint deleting all individual defendants except our named employee, to which an Answer was filed on our behalf on September 30, 2013. Discovery has commenced with respect to the Arista litigation and is ongoing.

We initiated the September 23, 2011 Complaint against Arista Power to protect our customers, employees and shareholders from the unauthorized use and theft of our investments in intellectual property, trade secrets and confidential information by Arista and its employees. Protecting our collective intellectual property and know-how, developed at great cost to us to form our competitive position in the marketplace and create value for our shareholders, is a fundamental responsibility of all our employees.

We believe the November 29, 2011 Arista Complaint is retaliatory and without merit. Our development of the foundation for the new product concept for which Arista claims we allegedly used its trade secrets commenced in 2008, long prior to the departure of those individuals who now constitute the executive team of Arista. Furthermore, we believe the purported damage of $60,000 being claimed by Arista is based solely on the reduction in its market capitalization between November 2009 and the filing date of the Complaint. This market value loss is totally unrelated to any actions on account of us, and claims for recovery of this or any other amount are legally and factually baseless.

Accordingly, we will vigorously pursue our complaint against Arista and defend what we believe to be a meritless action on the part of Arista Power.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Ultralife's common stock is listed on the NASDAQ Global Market under the symbol "ULBI."

The following table sets forth the quarterly high and low closing sales prices of our common stock during 2012 and 2013:

	Closing Sales Prices	
	High	Low
2012:		
Quarter ended April 1, 2012	$ 5.45	$ 4.02
Quarter ended July 1, 2012	5.17	3.60
Quarter ended September 30, 2012	3.94	2.67
Quarter ended December 31, 2012	3.53	2.58
2013:		
Quarter ended March 31, 2013	$ 4.47	$ 2.94
Quarter ended June 30, 2013	4.24	3.42
Quarter ended September 29, 2013	4.10	3.47
Quarter ended December 31, 2013	4.47	3.30

Holders

As of March 7, 2013, there were 351 registered holders of record of our common stock.

Purchases of Equity Securities by the Issuer

None.

Dividends

We have never declared or paid any cash dividends on our capital stock. We intend to retain earnings, if any, to finance future operations and expansion and, therefore, do not anticipate paying any cash dividends in the foreseeable future. Any future payment of dividends will depend upon our financial condition, capital requirements and earnings, as well as upon other factors that our Board of Directors may deem relevant. Pursuant to our current credit facility, we are precluded from paying any dividends.

ITEM 6. SELECTED FINANCIAL DATA

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

ITEM 7. 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 certain key customers, reduced U.S. defense spending, including the uncertainty associated with government budget approvals, the successful commercialization of our products, future demand for our products, technological innovations in the non-rechargeable and rechargeable battery industries, general domestic and global economic conditions, significant fluctuations in our periodic results and stock price, the unique risks associated with our Chinese operations, the impairment of our intangible assets, business disruptions, including those caused by fires, our resources being overwhelmed by our growth prospects, residual effects of negative news related to our industries, loss of top management, raw material supplies, competition and customer strategies, government and environmental regulations, the process of U.S. defense procurement, finalization of non-bid government contracts, changes in our business strategy or development plans, capital deployment, and other risks and uncertainties, certain of which are beyond our control. Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained herein. In addition, even if our results of operations, financial condition and liquidity and the development of the industries in which we operate are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statements that we make herein speak only as of the date of those statements, and we undertake no obligation to update those statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data. 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 “Risk Factors” in Item 1A of this annual report.

Undue reliance should not be placed on our forward-looking statements. Except as required by law, we disclaim any obligation to update any factors or to publicly announce the results of any revisions to any of the forward-looking statements contained in this annual report on Form 10-K to reflect new information, 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-K.

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 portable power solutions to communications and electronics systems to customers across the globe in the government, defense and commercial sectors. With an emphasis on strong engineering and a collaborative approach to problem solving, we design, manufacture, install and maintain power and communications systems including: rechargeable and non-rechargeable batteries, communications and electronics systems and accessories and custom engineered systems. 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 various other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories, such as cables. The Communications Systems segment includes: RF amplifiers, power supplies, cable and connector assemblies, amplified speakers, equipment mounts, case equipment, integrated communication system kits 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.

We continually evaluate ways to grow, including opportunities to expand through mergers, acquisitions and joint ventures, which can broaden the scope of our products and services, expand operating and market opportunities and provide the ability to enter new lines of business synergistic with our portfolio of offerings.

On February 16, 2012, we announced our intention to divest our RedBlack Communications, Inc. ("RedBlack") business. As a result of management's ongoing review of our business portfolio, management had determined that RedBlack offered limited opportunities to achieve the operating thresholds of our new business model.

On September 28, 2012, we entered into and closed a Stock Purchase Agreement to sell 100% of our capital stock in RedBlack to BCF Solutions, Inc. (the "Agreement"). In exchange for the sale of RedBlack, we received $2,533 as a purchase price, comprised of cash at closing in the amount of $2,133, funds held in escrow for up to one year in the amount of $250, as well as $150 to be available for RedBlack employee retention programs. In addition, there was a customary post-closing working capital adjustment to the purchase price of $125 recorded in 2013. The Agreement contains customary representations and warranties that survive the closing the closing for a period of two or three years. The Agreement also contains customary indemnification for breaches of the representations and warranties identified in the Agreement. Pursuant to the Agreement, we are prohibited from engaging or participating with any current customer of RedBlack in any business, directly or indirectly, that competes with the business conducted by RedBlack for two years. We are also prohibited from hiring, soliciting, or recruiting any current employee, independent contractor, or consultant of BCF Solutions, Inc. or RedBlack for two years.

Commencing with the first quarter of 2012, the results of the RedBlack operations and related divestiture costs have been reported as a discontinued operation. Certain items included within income from discontinued operations are based upon management's best estimates as of the date of sale and may change should our estimates be different from our actual experience.

During the fourth quarter of 2012, we elected not to renew the lease for its U.K. manufacturing facility which expired on March 24, 2013, and to relocate our sales and services operations to a smaller facility. As a result of this decision, we were required to restore the facility back to its original condition per a previous contractual commitment. The estimated costs associated with the restoration total approximately $950 of which $200 was recorded in fourth quarter of 2012 as general & administrative expenses and $750 was recorded as discontinued operations. This liability was settled in the first quarter of 2013 resulting in a gain from discontinued operations of $241. In addition, our decision to relocate is generating net savings of approximately $500 on an annualized basis.

Currently, we do not experience significant seasonal sales trends in any of our operating segments, although sales to the U.S. Defense Department and other international defense organizations can be sporadic based on the needs of those particular customers.

Overview

Consolidated revenues decreased by $22,822 or 22.5% to $78,835 for the year-ended December 31, 2013 compared to $101,657 during the year ended December 31, 2012. This decrease was caused by declining revenues in both our Battery & Energy Products and Communications Systems segments in 2013 when compared to 2012, primarily due to lower government and defense sales resulting from budget and sequestration uncertainties. Gross margin increased to 28.7% for the year ended December 31, 2013, as opposed to 28.3% for the year ended December 31, 2012, due primarily to productivity improvements resulting from our Lean initiatives, increased pricing for some of our products and product mix.

Operating expenses decreased by $5,599 or 19.4% to $23,245 during the year ended December 31, 2013, compared to $28,844 during the year ended December 31, 2012, reflecting the rightsizing of our businesses in line with our revenues. The decreased spending primarily resulted from more focused spending in our research and development activities and our continued efforts to reduce discretionary general and administrative expenses. Operating expenses as a percentage of revenues increased from 28.4% in 2012 to 29.5% in 2013 due to the impact of lower revenues in the current year.

Net loss from continuing operations was $1,088, or $0.06 per share, for the year ended December 31, 2013, compared to a net loss from continuing operations of $1,128, or $0.06 per share, for the year ended December 31, 2012. Net income from discontinued operations, net of tax, was $128, or $0.01 per share, for the year ended December 31, 2013, compared to a net loss, net of tax of $501, or $0.03 per share, for the year ended December 31, 2012.

Adjusted EBITDA, defined 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 continuing operations, amounted to $3,874 for the year ended December 31, 2013 compared to $5,054 for the prior period. See the section "Adjusted EBITDA" beginning on page 29 for a reconciliation of Adjusted EBITDA to net loss attributable to Ultralife.

As a result of careful working capital management and cash generated from operations, our liquidity remains solid with total cash of $16,489, a $6,411 improvement over the cash position of $10,078 as of December 31, 2012. We had no debt as of December 31, 2013. Our inventory levels decreased by $4,317, or 14.2%, to $26,053 at the end of 2013 from $30,370 at the end of 2012 due primarily to more focused inventory management and planning.

Outlook

For 2014, management expects mid-single digit organic revenue growth, despite anticipated continued constraints on global government spending. Based on this outlook for revenue growth and the improvements made to the business model in 2013, management expects to increase operating profit for the year and generate a mid-single digit operating margin.

Management cautions that the timing of orders and shipments may cause variability in quarterly results.

Results of Operations

Year Ended December 31, 2013 Compared With the Year Ended December 31, 2012

	Year Ended		Increase /
	12/31/2013	12/31/2012	(Decrease)
Revenues	$78,835	$101,657	$ (22,822)
Cost of products sold	56,214	72,927	(16,713)
Gross margin	22,621	28,730	(6,109)
Operating expenses	23,245	28,844	(5,599)
Operating income (loss)	(624)	(114)	(510)
Other expense, net	(225)	(460)	235
Income (loss) from continuing operations before taxes	(849)	(574)	(275)
Income tax provision	239	554	(315)
Net income (loss) from continuing operations	(1,088)	(1,128)	40
Loss from discontinued operations, net of tax	128	(501)	629
Net loss	(960)	(1,629)	669
Net loss attributable to noncontrolling interest	34	31	3
Net loss attributable to Ultralife	$(926)	$(1,598)	672
Net income (loss) attributable to Ultralife common shares - basic			
Continuing operations	$(0.06)	$(0.06)	$ 0.00
Discontinued operations	$0.01	$(0.03)	$ 0.04
Net income (loss) attributable to Ultralife common shares - diluted			
Continuing operations	$(0.06)	$(0.06)	$ 0.00
Discontinued operations	$0.01	$(0.03)	$ 0.04
Weighted average shares outstanding-basic	17,465,000	17,403,000	62,000
Weighted average shares outstanding-diluted	17,465,000	17,403,000	62,000

Revenues. Total revenues for the year ended December 31, 2013 amounted to $78,835, a decrease of $22,822, or 22.5% from the $101,657 reported for the year ended December 31, 2012.

Battery & Energy Products revenues decreased $14,007, or 19.7%, to $57,077 for the year ended December 31, 2013 from the $71,084 reported for the year ended December 31, 2012 due to the continued slowdown in U.S. government and defense order rate for rechargeable and non-rechargeable batteries and charger systems, lower sales of 9-volt batteries resulting from the selloff of the remaining legacy products in the first quarter of 2012 with the introduction of our new battery design, as well as large orders for our M-1 primary battery products during 2012.

Communications Systems revenues decreased $8,815, or 28.8%, from $30,573 for the year ended December 31, 2012 to $21,758 for the year ended December 31, 2013. The year-over-year decline reflects timing delays due to the government furloughs and shutdown, which has heightened the uncertainty of converting Communication Systems' sales opportunities as planned, as well as shipments of SATCOM units in the amount of approximately $3,400 to a large prime contractor which services the US Department of Defense during the third quarter of 2012 and the shipment of orders under a soldier modernization program of an international allied military in the fourth quarter of 2012.

Cost of Products Sold. Cost of products sold decreased $16,713 or 22.9%, from $72,927 for the year ended December 31, 2012 to $56,214 for the year ended December 31, 2013. Consolidated cost of products sold as a percentage of total revenue decreased slightly from 71.7% for the year ended December 31, 2012 to 71.3% for the year ended December 31, 2013. Correspondingly, consolidated gross margin was 28.7% for the year ended December 31, 2013, compared with a gross margin of 28.3% for the year ended December 31, 2012. The increase in margin is primarily attributable to productivity gains in both businesses resulting from our Lean initiatives and favorable product mix.

In our Battery & Energy Products segment, the cost of products sold decreased $10,783, from $53,522 for the year ended December 31, 2012 to $42,739 for the year ended December 31, 2013. Battery & Energy Products gross margin for 2013 was $14,338 or 25.1%, a decrease of $3,224 from 2012's gross margin of $17,562, or 24.7%. Battery & Energy Products' gross margin increased by 40 basis points for the twelve-month period ended December 31, 2013, primarily as a result of productivity gains from reductions in labor and overhead spending and, to a lesser extent, receipts of property tax credits relating to prior years.

In our Communications Systems segment, the cost of products sold decreased $5,930 from $19,405 for the year ended December 31, 2012 to $13,475 for the year ended December 31, 2013. Communications Systems gross margin for 2013 was $8,283, or 38.1%, a decrease of $2,885 from 2012's gross margin of $11,168, or 36.5%. The 160 basis point increase in gross margin year-over-year is due to more favorable product mix, productivity improvements, and the non-recurrence of a reserve in 2012 of approximately $200 related to a request by a strategically important customer for certain product upgrades.

Operating Expenses. Operating expenses decreased by $5,599, or 19.4%, from $28,844 for the year ended December 31, 2012 to $23,245 for the current period, reflecting more focused spending in our research and development activities, actions to reduce discretionary general and administrative expenses, and reduced sales commissions. Overall, operating expenses as a percentage of revenues increased to 29.5% in 2013 from 28.4% reported for the prior year, due to the impact of lower revenues in 2013. Amortization expense associated with intangible assets related to our acquisitions was $497 for 2012 ($237 in selling, general and administrative expenses and $260 in research and development costs), compared with $402 for 2013 ($179 in selling, general, and administrative expenses and $223 in research and development costs). Research and development costs were $5,859 in 2013, a decrease of $1,357 or 18.8%, over the $7,216 reported in 2012. Selling, general, and administrative expenses decreased $4,242, or 19.6%, to $17,386 for the year ended December 31, 2013 from $21,628 for the year ended December 31, 2012, reflecting on-going actions to reduce discretionary general and administrative expenses and a reduction in sales commissions from the prior year period.

Other Income (Expense). Other income (expense) totaled ($225) for the year ended December 31, 2013, compared to ($460) for the year ended December 31, 2012. Interest expense, net of interest income, decreased $237, from $436 during 2012 to $199 during 2013, as a result of no draws under our revolving credit facilities during the course of 2013 and a reduction in the unused line fee associated with our new Credit Facility with PNC, as herein defined. Miscellaneous expense amounted to $26 for 2013, mainly unchanged from the $24 in 2012, and was primarily due to transactions impacted by changes in foreign currencies relative to the U.S. dollar.

Income Taxes. We recorded a tax provision of $239 for the year ended December 31, 2013 compared with a tax provision of $554 for the same period of 2012. The expense is primarily due to (a) the income reported for our China operations during the periods, and (b) the recognition of deferred tax liabilities generated from the amortization of goodwill and certain intangible assets for tax purposes that cannot be predicted to reverse for book purposes during our loss carryforward periods. The decrease year over year is also partially attributable to a reduction in our effective tax rate in China. The effective consolidated tax rate for the years ended December 31, 2013 and 2012 was:

	Years Ended December 31, 2013	2012
Income (Loss) before Incomes Taxes (a)	$ (849)	$ (574)
Total Income Tax Provision (Benefit) (b)	$ 239	$ 554
Effective Tax Rate (b/a)	28.2 %	96.5 %

In 2013 and 2012, in the U.S. and the U.K., we continue to report a valuation allowance for our deferred tax assets that cannot be offset by reversing temporary differences. This results from the conclusion that it is more likely than not that we would not utilize our U.S. and U.K. NOL's that had accumulated over time. The recognition of a valuation allowance on our deferred tax assets resulted from our evaluation of all available evidence, both positive and negative. The assessment of the realizability of the NOL's was based on a number of factors including, our history of net operating losses, the volatility of our earnings, our historical operating volatility, our historical inability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate as of the end of 2013. We concluded that these factors represent sufficient negative evidence and have concluded that we should record a full valuation allowance under Financial Accounting Standards Board's ("FASB") guidance on the accounting for income taxes. (See Notes 1 and 8 in the Notes to Consolidated Financial Statements for additional information.)

In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. This limitation did not have an impact on income taxes determined for 2013 and 2012. The use of our U.K. NOL carryforwards may be limited due to the change in the U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center.

Discontinued Operations. Income from discontinued operations, net of tax, totaled $128 for the year ended December 31, 2013, compared to a loss of $501 in the same period of 2012. The 2013 income is primarily due to lower than anticipated restoration costs related to our decision to not renew the U.K. facility lease in the beginning of 2013, offset slightly by working capital adjustments related to the sale of the RedBlack operations. Discontinued operations for 2012 included the discontinued operations of our U.K. and RedBlack entities. For more information, see Note 2 to the Consolidated Financial Statements.

Net Loss Attributable to Ultralife. Net loss attributable to Ultralife and net loss attributable to Ultralife common shareholders per share were $926 and $0.05, respectively, for the year ended December 31, 2013, compared to net loss attributable to Ultralife and net loss attributable to Ultralife common shareholders per share of $1,598 and $0.09, respectively, for the year ended December 31, 2012, primarily as a result of the reasons described above. Average common shares outstanding used to compute earnings per share increased from 17,403,000 in 2012 to 17,465,000 in 2013, mainly due to stock option exercises and shares of common stock issued to our non-employee directors.

Adjusted EBITDA from continuing operations

In evaluating our business, we consider and use Adjusted EBITDA from continuing operations, a non-GAAP financial measure, as a supplemental measure of our operating performance. We define Adjusted EBITDA from continuing operations 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 use Adjusted EBITDA from continuing operations 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 from continuing operations facilitates investors' use of operating performance comparisons from period to period and company to company 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 continuing 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 from continuing operations 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 from continuing operations 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 from continuing operations 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 to continuing operations, we assist investors in gaining a better understanding of our business on a going forward basis. We provide information relating to our Adjusted EBITDA from continuing operations 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 from continuing operations 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 from continuing operations 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 from continuing operations has limitations as an analytical tool, and when assessing our operating performance, Adjusted EBITDA from continuing operations 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:

a. Adjusted EBITDA from continuing operations 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;

b. 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;

c. 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;

d. although discontinued operations does not reflect our current business operations, discontinued operations includes the costs we incurred by exiting for certain of our U.K. operations that were not transferred to our facilities in Newark, NY and divesting our RedBlack Communications business; and

e. other companies may calculate Adjusted EBITDA from continuing operations 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 from continuing operations only supplementally. Adjusted EBITDA from continuing operations is calculated as follows for the periods presented:

	Years ended December 31,	
	2013	2012
Net loss attributable to Ultralife	$ (926)	$ (1,598)
Add: interest expense, net	199	436

Add: income tax provision	239	554
Add: depreciation	2,957	3,285
Add: amortization of intangible assets	402	497
Add: stock-based compensation expense	1,131	1,379
Add (less) : loss (gain) from discontinued operations, net of tax	(128)	501
Adjusted EBITDA	$ 3,874	$ 5,054

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Liquidity and Capital Resources

Cash Flows and General Business Matters

The following cash flow information is being presented net of continuing and discontinued operations.

As of December 31, 2013, cash and cash equivalents totaled $16,066, an increase of $6,410 from the beginning of the year. During the year ended December 31, 2013, we generated $6,897 of cash from operating activities as compared to generating $4,768 of cash for the year ended December 31, 2012. In 2013, the cash generated from operating activities was caused by our net loss of $960 plus an add back of $4,562 for non-cash expenses of depreciation, amortization, and stock-based compensation. Working capital changes accounted for $4,169 of the operating cash generation, due mainly to a decrease in accounts receivable and inventory reductions, offset by a decline in our accounts payable and other liabilities. The cash from operating activities provided in 2012 was mainly attributable to our net loss of $1,629, plus an add back of $5,343 for non-cash expenses of depreciation, amortization and stock-based compensation and a loss from discontinued operations, net of tax of $501. Approximately $823 of cash was generated from working capital due mainly to decreases in our inventory due to the continued focus on improving inventory management, a decrease in our insurance receivable relating to fires and a decrease in accounts receivable. These cash generations were offset partially by a decrease in our accounts payable.

We used $269 in cash for investing activities during 2013 compared with $812 in cash used for investing activities in 2012. In 2013, we spent $766 to purchase plant, property, and equipment and decreased our restricted cash by $2. Offsetting these outlays was a cash inflow from our divestiture of RedBlack Communications of $499 relating to the settlement of working capital adjustments. In 2012, we spent $2,685 to purchase plant, property and equipment and increased our restricted cash by $260. Offsetting these outlays was a cash inflow from our divesture of RedBlack Communications of $2,133.

We received $12 and $115 in 2013 and 2012, respectively, in funds from financing activities. The financing activities in both years were solely due to the proceeds of the issuance of our common stock in connection with the exercise of stock options by our employees.

Although we booked a full reserve for our deferred tax asset during and continued to carry this reserve as of December 31, 2013 and 2012, we continue to have significant U.S. NOL's available to us to utilize as an offset to taxable income. As of December 31, 2013, none of our U.S. NOL's have expired. See Note 8 in the Notes to the Consolidated Financial Statements for additional information.

Inventory turnover for the year ended December 31, 2013 averaged 1.9 turns compared to 2.2 turns for 2012. The decrease in this metric is due mainly to lower sales year over year offset slightly by a reduction in average inventory over that same period.

Our order backlog at December 31, 2013 was approximately $6,316, lower than the $12,599 in prior years, mostly due to continued delays in government orders and the fulfillment of a large multi-year order for RF amplifiers and accessories in support of force modernization in a foreign country in 2013. The majority of the backlog was related to orders that are expected to ship throughout 2014.

As of December 31, 2013, we had made commitments to purchase approximately $221 of production machinery and equipment, which we expect to fund through operating cash flows.

Debt and Lease Commitments

On May 24, 2013, we entered into a Revolving Credit, Guaranty and Security Agreement (the “Credit Agreement”) and related security agreements with PNC Bank, National Association (“PNC”) to establish a $20 million secured asset-based revolving credit facility that includes a $1 million letter of credit subfacility (the “Credit Facility”). The Credit Agreement provides that the Credit Facility may be increased with PNC’s concurrence to $35 million prior to the last six months of the term and expires on May 24, 2017. The Credit Facility replaces the prior credit facility with RBS Business Capital, a division of RBS Asset Finance, Inc., which expired in accordance with its terms on May 15, 2013, with no debt outstanding.

Our available borrowing limit under the Credit Facility fluctuates from time to time based on a borrowing base formula equal to the sum of up to 85% of eligible accounts receivable plus the least of (a) up to 65% of the eligible inventory and eligible foreign in-transit inventory, (b) up to 85% of the appraised net orderly liquidation value of eligible inventory and eligible foreign in-transit inventory, and (c) $7.5 million, in each case subject to the definitions in the Credit Agreement and reserves required by PNC.

Interest is payable quarterly and will accrue on outstanding indebtedness under the Credit Agreement at the alternate base rate, as defined in the Credit Agreement, plus the applicable margin or at the one, two or three month LIBOR rate plus the applicable margin as selected by us from time to time and listed below.

Quarterly Average Undrawn Borrowing Availability	Applicable Margin for Alternate Base Rate Loans	Applicable Margin for LIBOR Rate Loans
Greater than $8,000,000	1.00%	2.00%
$5,000,000 up to $8,000,000	1.25%	2.25%
Less than $5,000,000	1.50%	2.50%

We must pay a fee on the Credit Facility's unused availability of 0.375% per annum and customary letter of credit fees in addition to various collateral monitoring and related fees and expenses.

In addition to customary affirmative and negative covenants, we must maintain a fixed charge coverage ratio as defined in the Credit Agreement of 1:15 to 1:00 tested quarterly for the four-quarters then ended. As of December 31, 2013, we were in compliance with all covenants. The Credit Facility is secured by substantially all our assets.

Any outstanding advances must be repaid upon expiration of the term of the Credit Facility. Payments must be made during the term to the extent outstanding advances exceed the maximum amount then permitted to be drawn as advances under the Credit Facility and from the proceeds of certain transactions. Upon the occurrence of an event of default, the outstanding obligations may be accelerated and PNC will have other customary remedies.

As of December 31, 2013, we had $-0- outstanding under the Credit Facility, an applicable interest rate of 2.17%, approximately $12,969 of borrowing capacity in addition to our unrestricted cash on hand of $16,066, and no outstanding letters of credit related to the Credit Facility.

See Note 5 in the Notes to Consolidated Financial Statements for additional information.

Other Matters

With respect to our battery products, we typically offer warranties against any defects due to product malfunction or workmanship for up to one year from the date of purchase. With respect to our communications accessory products, we typically offer a three-year warranty. We provide for a reserve for these potential warranty expenses, which is based on an analysis of historical warranty issues. There is no assurance that future warranty claims will be consistent with past history, and in the event we experience a significant increase in warranty claims, there is no assurance that our reserves would be sufficient. This could have a material adverse effect on our business, financial condition and results of operations.

We are currently participating in and providing technical assistance in support of an investigation conducted by a downstream customer and regulatory authorities with regard to a fire that occurred in the third quarter of 2013 in an unoccupied and parked Boeing 787 Dreamliner aircraft.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The above discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. The preparation of these financial statements requires management to make estimates and assumptions that affect amounts reported therein. The estimates and assumptions that require management's most difficult, subjective or complex judgments are described below.

Revenue recognition:
Product Sales – In general, revenues from the sale of products are recognized when products are shipped. When products are shipped with terms that require transfer of title upon delivery at a customer's location, revenues are recognized on date of delivery. A provision is made at the time the revenue is recognized for warranty costs expected to be incurred. Customers, including distributors, do not have a general right of return on products shipped.

Technology Contracts – We recognize revenue using the proportional method, measured by the percentage of actual costs incurred to date to the total estimated costs 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. We allocate costs to all technology contracts based upon actual costs incurred including an allocation of certain research and development costs incurred.

Deferred Revenue - For each source of revenues, we defer recognition if: i) evidence of an agreement does not exist, ii) delivery or service has not occurred, iii) the selling price is not fixed or determinable, or iv) collectability is not reasonably assured.

Valuation of Inventory:
Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. Our inventory includes raw materials, work in process and finished goods. We record provisions for excess, obsolete or slow moving inventory based on changes in customer demand, technology developments or other economic factors. The factors that contribute to inventory valuation risks are our purchasing practices, material and product obsolescence, accuracy of sales and production forecasts, introduction of new products, product lifecycles, product support and foreign regulations governing hazardous materials (see Item 1A – Risk Factors for further information on foreign regulations). We manage our exposure to inventory valuation risks by maintaining safety stocks, minimum purchase lots, managing product end-of-life issues brought on by aging components or new product introductions, and by utilizing certain inventory minimization strategies such as vendor-managed inventories. We believe that the accounting estimate related to valuation of inventories is a "critical accounting estimate" because it is susceptible to changes from period-to-period due to the requirement for management to make estimates relative to each of the underlying factors ranging from purchasing, to sales, to production, to after-sale support. If actual demand, market conditions or product lifecycles are adversely different from those estimated by management, inventory adjustments to lower market values would result in a reduction to the carrying value of inventory, an increase in inventory write-offs and a decrease to gross margins.

Warranties:
We maintain provisions related to normal warranty claims by customers. We evaluate these reserves quarterly based on actual experience with warranty claims to date and our assessment of additional claims in the future. There is no assurance that future warranty claims will be consistent with past history, and in the event we experience a significant increase in warranty claims, there is no assurance that our reserves would be sufficient.

Impairment of Long-Lived Assets:
We regularly assess all of our long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable. This is accomplished by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. Fair value is estimated either through the assistance of an independent valuation or as the present value of expected discounted future cash flows. The discount rate used by us in our evaluation approximates our weighted average cost of capital. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment charge is recognized.

Environmental Issues:

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate, in accordance with the Financial Accounting Standards Board's ("FASB") guidance on 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.

Goodwill and Other Intangible Assets:
In accordance with the revised FASB guidance for business combinations, the purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value. In accordance with FASB's guidance for the accounting of goodwill and other intangible assets, we do not amortize goodwill and intangible assets with indefinite lives, but instead evaluate these assets for impairment at least annually, or when events indicate that impairment exists. We amortize intangible assets that have definite lives so that the economic benefits of the intangible assets are being utilized over their weighted-average estimated useful life.

The impairment analysis of goodwill consists first of a review of various qualitative factors of the identified reporting units to determine whether it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, including goodwill. This review includes, but is not limited to, an evaluation of the macroeconomic, industry or market, and cost factors relevant to the reporting unit as well as financial performance and entity or reporting unit events that may affect the value of the reporting unit. If this review leads to the determination that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, further impairment testing is not required. However, if this review cannot support a conclusion that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, or at our discretion, quantitative impairment steps are performed. Similarly, the analysis for indefinite-lived intangible assets consists of review of various qualitative factors to determine if it is more likely than not that the indefinite-lived intangible asset is not impaired. If a conclusion that it is more likely than not that the indefinite-lived asset is not impaired cannot be supported, or at our discretion, quantitative impairment steps are performed.

The quantitative impairment test for goodwill consists of a comparison of the fair value of the reporting unit with the carrying amount of the reporting unit to which it is assigned. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, a second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any. The impairment test for intangible assets with indefinite lives consists of a comparison of the fair value of the intangible assets with their carrying amounts. If the carrying value of the intangible assets exceeds the fair value, an impairment loss shall be recognized in an amount equal to that excess. We determine the fair value of the reporting unit for goodwill impairment testing based on a discounted cash flow model. We determine the fair value of our intangibles assets with indefinite lives (trademarks) through the royalty relief income valuation approach.

We conduct our annual impairment analysis for goodwill and intangible assets with indefinite lives in October of each fiscal year. For 2013, we identified three goodwill reporting units for analysis. We performed a quantitative analysis on all of our reporting units as of September 29, 2013 due to the early test of our McDowell – Communications Systems trademark in the third quarter of 2013 and due to the length of time lapsed in our quantitative assessment of our remaining reporting units. This testing indicated no impairment.

For 2013, we identified four trademarks for analysis. We performed an early impairment test on the McDowell – Communications Systems trademark and annual quantitative tests on the remaining three trademarks. No impairment of any trademark tested was indicated. However, due to the narrow margin of passing the testing in 2013, there is potential that the McDowell - Communications Systems trademark may become partially or fully impaired in 2014 if the projected revenue targets are not met. As of December 31, 2013, the McDowell - Communications Systems trademark had a carrying value of $2,400.

Stock-Based Compensation:
We follow the provisions of FASB's guidance on share-based payments, which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award). We calculate expected volatility for stock options by taking an average of historical volatility over the past five years and a computation of implied volatility. The computation of expected term was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield in effect at the time of grant. If required, our market based awards are valued using a Monte Carlo simulation.

Income Taxes:
We apply FASB's guidance 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 may be in effect when the differences are expected to reverse.

In 2013 and 2012, in the U.S. and the U.K., we continued to report a valuation allowance for our deferred tax assets that cannot be offset by reversing temporary differences. This results from the conclusion that it is more likely than not that we would not be able to utilize our U.S. and U.K. Net Operating Losses ("NOL's") that had accumulated over time. The recognition of a valuation allowance on our deferred tax assets resulted from our evaluation of all available evidence, both positive and negative. The assessment of the realizability of the NOL's was based on a number of factors including, our history of net operating losses, the volatility of our earnings, our historical operating volatility, our historical inability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate as of the end of 2013. We concluded that these factors represent sufficient negative evidence and have concluded that we should record a full valuation allowance under FASB's guidance on the accounting for income taxes. We currently carry a deferred tax asset in China that we have determined does not require a valuation allowance as we are more likely than not to fully utilize the NOL in China. We continually assess the carrying value of this asset based on relevant accounting standards.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and schedules listed in Item 15(a)(1) are included in this Report beginning on page 37.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Ultralife Corporation

We have audited the accompanying consolidated balance sheet of Ultralife Corporation as of December 31, 2013, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for the year ended December 31, 2013. Ultralife Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ultralife Corporation as of December 31, 2013, and the results of its operations and its cash flows for the year ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ Bonadio & Co., LLP
Pittsford, New York
March 14, 2014

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Ultralife Corporation
Newark, New York

We have audited the accompanying consolidated balance sheet of Ultralife Corporation as of December 31, 2012 and the related consolidated statement of operations and comprehensive income (loss), stockholders' equity, and cash flows for the year ended December 31, 2012. These financial statements are the responsibility of Ultralife Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ultralife Corporation at December 31, 2012, and the results of its operations and its cash flows for the year ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP
Troy, Michigan
March 15, 2013

ULTRALIFE CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$16,066	$9,656
Restricted cash	423	422
Trade accounts receivable, net of allowance for doubtful accounts of $288 and $322, respectively	14,238	20,913
Inventories	26,053	30,370
Due from insurance company	430	723
Deferred tax asset - current	91	120
Income taxes receivable	0	28
Prepaid expenses and other current assets	1,357	1,590
Total current assets	58,658	63,822
Property, plant and equipment, net	10,202	12,415
Other assets:		
Goodwill	16,419	16,344
Intangible assets, net	4,646	5,039
Security deposits and other long-term assets	269	98
	21,334	21,481
Total Assets	$90,194	$97,718
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and capital lease obligations	$-	$-
Accounts payable	7,053	11,357
Income taxes payable	94	2
Accrued compensation	1,279	2,049
Accrued vacation	629	603
Deferred revenue	-	1,851
Deferred tax liability - current	9	-
Other current liabilities	2,960	4,030
Total current liabilities	12,024	19,892
Long-term liabilities:		
Debt and capital lease obligations	-	-
Deferred tax liability - long-term	4,242	4,160
Other long-term liabilities	283	210
Total long-term liabilities	4,525	4,370

Commitments and contingencies (Note 6)		
Shareholders' equity:		
Ultralife equity:		
Preferred stock, par value $0.10 per share, authorized 1,000,000 shares; none issued and outstanding	-	-
Common stock, par value $0.10 per share, authorized 40,000,000 shares; issued - 18,851,579 and 18,828,734, respectively	1,888	1,886
Capital in excess of par value	174,932	173,791
Accumulated other comprehensive income (loss)	(614)	(620)
Accumulated deficit	(94,804)	(93,878)
	81,402	81,179
Less --Treasury stock, at cost - 1,372,757 shares outstanding in each year	7,658	7,658
Total Ultralife equity	73,744	73,521
Noncontrolling interest	(99)	(65)
Total shareholders' equity	73,645	73,456
Total Liabilities and Shareholders' Equity	$90,194	$97,718

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ULTRALIFE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In Thousands, Except Per Share Amounts)

	Years Ended December 31, 2013	2012
Revenues	$ 78,835	$ 101,657
Cost of products sold	56,214	72,927
Gross profit	22,621	28,730
Operating expenses:		
Research and development (including $223 and $260 of amortization of intangible assets, respectively)	5,859	7,216
Selling, general, and administrative (including $179 and $237 of amortization of intangible assets, respectively)	17,386	21,628
Total operating expenses	23,245	28,844
Operating loss	(624)	(114)
Other income (expense):		
Interest income	39	4
Interest expense	(238)	(440)
Miscellaneous	(26)	(24)
Loss from continuing operations before income taxes	(849)	(574)
Income tax provision - current	94	539
Income tax provision - deferred	145	15
Total income taxes provision	239	554
Net loss from continuing operations	(1,088)	(1,128)
Discontinued operations:		
Income (loss) from discontinued operations, net of tax	128	(501)
Net loss	(960)	(1,629)
Net loss attributable to noncontrolling interest	34	31
Net loss attributable to Ultralife	$ (926)	$ (1,598)
Other comprehensive income (loss):		
Foreign currency translation adjustments	6	365
Comprehensive income (loss) loss attributable to Ultralife	$ (920)	$ (1,233)
Net income (loss) attributable to Ultralife common shareholders - basic		

Continuing operations	$ (0.06)	$ (0.06)
Discontinued operations	$ 0.01	$ (0.03)
Total	$ (0.05)	$ (0.09)
Net income (loss) attributable to Ultralife common shareholders - diluted		
Continuing operations	$ (0.06)	$ (0.06)
Discontinued operations	$ 0.01	$ (0.03)
Total	$ (0.05)	$ (0.09)
Weighted average shares outstanding - basic	17,465	17,403
Weighted average shares outstanding - diluted	17,465	17,403

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ULTRALIFE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in Thousands, Except Per Share Amounts)

	Common Stock			Accumulated Other Comprehensive Income (Loss)				
	Number of Shares	Amount	Capital in excess of Par Value	Foreign Currency Translation Adjustment	Accumulated Deficit	Treasury Stock	Noncontrolling Interest	
Balance as of December 31, 2011	18,716,921	$1,874	$172,309	$(985)	$(92,280)	$(7,658)	$(34)	$
Net loss					(1,598)		(31)	
Foreign currency translation adjustments				365				
Stock-based compensation related to stock options			1,073			-		
Shares issued to directors	83,813	9	298					
Shares issued under stock option exercises	28,000	3	111					
Balance as of December 31, 2012	18,828,734	$1,886	$173,791	$(620)	$(93,878)	$(7,658)	$(65)	$
Net loss					(926)		(34)	
Foreign currency translation adjustments				6				
Stock-based compensation related to stock options			774			-		
Stock-based compensation related to restricted stock			284					
Shares issued to directors	19,845	2	71					
Shares issued under stock option exercises	3,000	-	12					
Balance as of December 31, 2013	18,851,579	$1,888	$174,932	$(614)	$(94,804)	$(7,658)	$(99)	$

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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

	Years Ended December 31, 2013	2012
OPERATING ACTIVITIES		
Net loss	$ (960)	$ (1,629)
(Income) loss from discontinued operations, net of tax	(128)	501
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:		
Depreciation and amortization of financing fees	3,029	3,467
Amortization of intangible assets	402	497
Loss on long-lived asset disposal and write-offs	56	13
Foreign exchange loss	15	43
Non-cash stock-based compensation	1,131	1,379
Changes in deferred income taxes	113	15
Provision (gain) for the allowance for accounts receivable	29	9
Provision for inventory obsolescence	19	375
Provision for warranty charges	20	370
Changes in operating assets and liabilities:		
Accounts receivable	6,694	1,183
Inventories	4,399	4,122
Due from insurance company	316	1,019
Income taxes receivable	29	194
Prepaid expenses and other current assets	(647)	(75)
Income taxes payable	92	(9)
Accounts payable and other liabilities	(6,714)	(5,611)
Net cash provided by operating activities from continuing operations	7,895	5,863
Net cash used in operating activities from discontinued operations	(998)	(1,095)
Net cash provided by operating activities	6,897	4,768
INVESTING ACTIVITIES		
Purchase of property and equipment	(766)	(2,685)
Change in restricted cash	(2)	(260)
Net cash used in investing activities from continuing operations	(768)	(2,945)
Net cash provided from (used in) investing activities from discontinued operations	499	2,133
Net cash used in investing activities	(269)	(812)
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	12	115
Net cash used in financing activities from continuing operations	12	115
Net cash used in financing activities from discontinued operations	-	-
Net cash used in financing activities	12	115
Effect of exchange rate changes on cash	(230)	265
Change in cash and cash equivalents	6,410	4,336

Cash and cash equivalents at beginning of period	9,656	5,320
Cash and cash equivalents at end of period	$ 16,066	$ 9,656
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 107	$ 237
Cash paid for income taxes	$ 100	$ 357

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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

We offer products and services ranging from portable 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 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.

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 Ultralife Corporation, our wholly-owned subsidiaries, Ultralife Batteries (UK) Ltd. ("Ultralife UK"), ABLE New Energy Co., Limited, and its wholly-owned subsidiary ABLE New Energy Co., Ltd. ("ABLE" collectively), and our majority-owned subsidiary Ultralife Batteries India Private Limited ("India JV"). Intercompany accounts and transactions have been eliminated in consolidation.

Operations of RedBlack Communications, Inc. ("RedBlack"), our divested company and certain components of UK operations are reported as discontinued operations.

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. Key areas affected by estimates include: (a) reserves for deferred tax assets, excess and obsolete inventory, warranties, and bad debts; (b) profitability on development contracts; (c) various expense accruals; (d) stock-based compensation; and, (e) carrying value of goodwill and intangible assets. Our actual results could differ from these estimates.

d. Reclassifications

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

e. Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, we consider all demand deposits with financial institutions and financial instruments with original maturities of three months or less to be cash equivalents. For purposes of the Consolidated Balance Sheet, the carrying value approximates fair value because of the short maturity of these instruments.

Our cash balances may at times exceed federally insured limits. We have not experienced any losses in these accounts and believe we are not exposed to any significant risk with respect to cash and cash equivalents.

f. Accounts Receivable and Allowance for Doubtful Accounts

We extend credit to our customers in the normal course of business. We perform ongoing credit evaluations and generally do not require collateral. Trade accounts receivable are recorded at their invoiced amounts, net of allowance for doubtful accounts. We evaluate the adequacy of our allowance for doubtful accounts quarterly. Accounts outstanding longer than contractual payment terms are considered past due and are reviewed individually for collectability. We maintain reserves for potential credit losses based upon our loss history and specific receivables aging analysis. Receivable balances are written off when collection is deemed unlikely.

Changes in our allowance for doubtful accounts during the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Balance at beginning of year	$ 322	$ 683
Amounts charged to expense	29	9
Uncollectible accounts written-off, net of recovery	(63)	(370)
Balance at end of year	$ 288	$ 322

The significant uncollectible accounts written off in 2012 relate to previously recorded bad debts of our now discontinued Energy Services business.

g. Inventories

Inventories are stated at the lower of cost or market with cost determined under the first-in, first-out (FIFO) method. We record provisions for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments or other economic factors.

h. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Estimated useful lives are as follows:

Buildings (years)	10	–	20
Machinery and Equipment (years)	5	–	10
Furniture and Fixtures (years)	3	–	10
Computer Hardware and Software (years)	3	–	5
Leasehold Improvements	Lesser of useful life or 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 disposed, the cost and accumulated depreciation applicable to assets retired are removed from the accounts and the gain or loss on disposition is recognized in operating income (expense).

i. Long-Lived Assets, Goodwill and Intangibles

We regularly assess all of our long-lived assets for impairment when events or circumstances indicate that their carrying amounts may not be recoverable. For property, plant and equipment and amortizable intangible assets, this is accomplished by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. Fair value is estimated either through the assistance of an independent valuation or as the present value of expected discounted future cash flows. The discount rate used by us in our evaluation approximates our weighted average cost of capital. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment is recognized. We did not record any material impairments of long-lived assets in the years ended December 31, 2013 or 2012.

In accordance with the Financial Accounting Standards Board's ("FASB") guidance for goodwill and other intangible assets, we do not amortize goodwill and intangible assets with indefinite lives, but instead measure these assets for impairment at least annually, or when events indicate that impairment exists. We amortize intangible assets that have definite lives so that the economic benefits of the intangible assets are being utilized over their weighted-average estimated useful life.

The impairment analysis of goodwill consists first of a review of various qualitative factors of the identified reporting units to determine whether it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, including goodwill. This review includes, but is not limited to, an evaluation of the macroeconomic, industry or market, and cost factors relevant to the reporting unit as well as financial performance and entity or reporting unit events that may affect the value of the reporting unit. If this review leads to the determination that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, further impairment testing is not required. However, if this review cannot support a conclusion that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, or at our discretion, quantitative impairment steps are performed. Similarly, the analysis for indefinite-lived intangible assets consists of review of various qualitative factors to determine if it is more likely than not that the indefinite-lived intangible asset is not impaired. If a conclusion that it is more likely than not that the indefinite-lived asset is not impaired cannot be supported, or at our discretion, quantitative impairment steps are performed.

The quantitative impairment test for goodwill consists of a comparison of the fair value of the reporting unit with the carrying amount of the reporting unit to which it is assigned. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, a second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any. The impairment test for intangible assets with indefinite lives consists of a comparison of the fair value of the intangible assets with their carrying amounts. If the carrying value of the intangible assets exceeds the fair value, an impairment loss shall be recognized in an amount equal to that excess. We determine the fair value of the reporting unit for goodwill impairment testing based on a discounted cash flow model. We determine the fair value of our intangibles assets with indefinite lives (trademarks) through the royalty relief income valuation approach.

There were no impairments of goodwill and intangible assets with indefinite lives in the years ended December 31, 2013 and 2012.

Based on the final valuations for amortizable intangible assets acquired in the AMTI acquisition during 2009, and the ABLE and McDowell acquisitions during 2006, we project our amortization expense will be approximately $309, $229, $167, $122, and $86 for the fiscal years ending December 31, 2014 through 2018, respectively.

j. Translation of Foreign Currency

The financial statements of our foreign subsidiaries are translated into U.S. dollar equivalents in accordance with FASB's guidance for foreign currency translation, with translation adjustments recorded as a component of accumulated other comprehensive income. Exchange losses relate to foreign currency transactions included in net loss for the years ended December 31, 2013 and 2012 were $15 and $43, respectively.

k. Revenue Recognition

Product Sales – In general, revenues from the sale of products are recognized when products are shipped. When products are shipped with terms that require transfer of title upon delivery at a customer's location, revenues are recognized on the date of delivery. A provision is made at the time the revenue is recognized for warranty costs expected to be incurred. Customers, including distributors, do not have a general right of return on products shipped.

Technology Contracts – We recognize revenue using the proportional effort 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. We allocate costs to all technology contracts based upon actual costs incurred including an allocation of certain research and development costs incurred.

Deferred Revenue – For each source of revenues, we defer recognition if: i) evidence of an agreement does not exist, ii) delivery or service has not occurred, iii) the selling price is not fixed or determinable, or iv) collectability is not reasonably assured.

l. Warranty Reserves

We estimate future costs associated with expected product failure rates, material usage and service costs in the development of our warranty obligations. Warranty reserves, included in other current liabilities and other long-term liabilities as applicable on our Consolidated Balance Sheets, are based on historical experience of warranty claims. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded.

m. Shipping and Handling Costs

Costs incurred by us related to shipping and handling are included in cost of products sold. Amounts charged to customers pertaining to these costs are reflected as revenue.

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 $413 and $538 for the years ended December 31, 2013 and 2012.

o. Research and Development

Research and development expenditures are charged to operations as incurred. The majority of research and development expenses pertain to salaries and benefits, developmental supplies, depreciation and other contracted services.

In 2011, we entered into a collaboration agreement with The New York State Energy Research and Development Authority ("NYSERDA"), to develop and demonstrate a large hybrid grid-connected energy storage system. This agreement was terminated by NYSERDA in the second quarter of 2013, per the terms of the agreement. Pursuant to the terms of the agreement, NYSERDA reimbursed us for certain construction and project research and development costs. During the year ended December 31, 2013, there were no recoveries from NYSERDA for construction costs and project research and development. During the year ended December 31, 2012, recoveries from NYSERDA for construction costs and project research and development costs were $91 and $11, respectively. Construction costs are reflected in the property, plant and equipment, net line on our Consolidated Balance Sheets and project research and development costs are reflected in the research and development line on our Consolidated Statements of Operations and Comprehensive Income (Loss).

We plan to continue this project internally with smaller form batteries which provide greater opportunity and applicability in the markets we serve. However, due to the termination of the NYSERDA agreement and the resulting change in scope of the project, we performed a review of the details of costs capitalized in connection with this project to determine their future use. Those costs without an identifiable future use were written off in the second quarter of 2013 and totaled $56. The remaining capitalized costs were subjected to an impairment test based upon forecasted future cash flows, in accordance with current accounting guidance. No impairment charge was taken on the remaining capitalized costs.

p. Environmental Costs

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate, in accordance with FASB's guidance on 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 asset and liability method, prescribed by FASB's guidance for the 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 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.

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. As of December 31, 2013, we continue to recognize a valuation allowance in the U.S. and U.K. on our net U.S. deferred tax asset to the extent the differences and the U.S. and U.K. NOLs resulting in the deferred tax asset are not able to be offset by future reversing temporary differences, based on a consistent evaluation methodology that was used for 2012. The assessment of the realizability of the U.S. NOL was based on a number of factors including, our history of net operating losses, the volatility of our earnings, our historical operating volatility, our historical inability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate as of the end of 2013. We concluded that these factors represent sufficient negative evidence and have concluded that we should record a full valuation allowance under FASB's guidance on the accounting for income taxes. We also recorded a valuation allowance on our net deferred tax asset for the year ended December 31, 2012.

We have adopted the provisions of FASB's guidance for the Accounting for Uncertainty in Income Taxes. In 2013 and 2012, we had unrecognized tax benefits related to uncertain tax positions which have been recorded as a decrease in our NOL. We have not recorded any interest or penalty in regard to any unrecognized benefit. Interest and penalties would begin to accrue in the period in which the NOL's related to the uncertain tax positions are utilized. Our policy regarding interest and/or penalties related to income tax matters is to recognize such items as a component of income tax expense (benefit).

r. Concentration Related to Customers and Suppliers

During the years ended December 31, 2013 and 2012, we had one major customer, a large defense primary contractor, which comprised 25% and 21% of our revenues, respectively. There were no other customers that comprised greater than 10% of our total revenues during these years.

We have two customers who comprised 26% and 15%, respectively, of our trade accounts receivable as of December 31, 2013. We had two customers who comprised 22% and 12%, respectively, of our trade accounts receivable as of December 31, 2012.

Currently, we do not experience significant seasonal trends in our revenues. Since a significant portion of our revenues are based on purchases from U.S. and allied country defense departments, the timing of our sales could be impacted by delays in the government budget process and the decisions to deploy resources to support military purchases of our products.

We generally do not distribute our 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. While direct and indirect sales to the U.S. Department of Defense have been substantial during 2013 and 2012, we do not consider this customer to be a significant credit risk. We do not normally obtain collateral on trade accounts receivable.

Certain materials and components used in our products are available only from a single or a limited number of suppliers. As such, some materials and components could become in short supply resulting in limited availability and/or increased costs. Additionally, we may elect to develop relationships with a single or limited number of suppliers for materials and components that are otherwise generally available. Although we believe that alternative suppliers are available to supply materials and components that could replace materials and components currently used and that, if necessary, we would be able to redesign our products to make use of such alternatives, any interruption in the supply from any supplier that serves as a sole source could delay product shipments and have a material adverse effect on our business, financial condition and results of operations. We have experienced interruptions of product deliveries by sole source suppliers in the past.

s. Fair Value Measurements and Disclosures

The FASB guidance for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. This accounting standard established a fair value hierarchy, which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or that we corroborate with observable market data for substantially the full term of the related assets or liabilities.

Level 3: Unobservable inputs supported by little or no market activity that are significant to the fair value of the assets or liabilities.

FASB's guidance for the disclosure regarding 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 FASB's guidance for the disclosure regarding fair value of financial instruments approximated their carrying values at December 31, 2013 and 2012. The fair value of cash, trade accounts receivable, trade accounts payable, accrued liabilities, and our revolving credit facility approximates carrying value due to the short-term nature of these instruments. The estimated fair value of other long-term debt and capital lease obligations approximates carrying value due to the variable nature of the interest rates or the stated interest rates approximating current interest rates that are available for debt with similar terms.

t. Earnings (Loss) Per Share

We have adopted the provisions of FASB's guidance for determining whether instruments granted in share-based payment transactions are participating securities. The guidance requires that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (such as restricted stock awards granted by us) be considered participating securities. Because the restricted stock awards are participating securities, we are required to apply the two-class method of computing basic and diluted earnings per share (the "Two-Class Method").

Basic EPS is determined using the Two-Class Method and is computed by dividing earnings attributable to Ultralife common shareholders by the weighted-average shares outstanding during the period. The Two-Class Method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Diluted EPS includes the dilutive effect of securities, if any, and reflects the more dilutive EPS amount calculated using the treasury stock method or the Two-Class Method. For the years ended December 31, 2013 and 2012, both the Two-Class Method and the treasury stock method calculations for diluted EPS yielded the same result.

The computation of basic and diluted earnings per share is summarized as follows:

	Years Ended December 31, 2013	2012
Net Loss from continuing operations attributable to Ultralife	$(1,054)	$ (1,097)
Net Loss from continuing operations attributable to participating securities (unvested restricted stock awards) (120,000 and -0- shares, respectively)	-	-
Net Loss from continuing operations attributable to Ultralife common shareholders (a)	(1,054)	(1,097)
Net Income (Loss) from discontinued operations attributable to Ultralife common shareholders (c)	$128	$ (501)
Average Common Shares Outstanding – Basic (e)	17,465,000	17,403,000
Effect of Dilutive Securities:		
Stock Options / Warrants	-	-
Average Common Shares Outstanding – Diluted (f)	17,465,000	17,403,000
EPS – Basic (a/e) – continuing operations	$(0.06)	$ (0.06)
EPS – Basic (c/e) – discontinued operations	$0.01	$ (0.03)
EPS – Diluted (b/f) – continuing operations	$(0.06)	$ (0.06)
EPS – Diluted (d/f) – discontinued operations	$0.01	$ (0.03)

There were 2,251,622 outstanding stock options, warrants and restricted stock awards as of December 31, 2013, that were not included in EPS as the effect would have been anti-dilutive. No outstanding stock options, warrants and restricted stock awards were included in the dilution computation for the year ended December 31, 2013. There were 2,211,488 outstanding stock options, warrants and restricted stock awards as of December 31, 2012, that were not included in EPS as the effect would have been anti-dilutive. No outstanding stock options, warrants and restricted stock awards were included in the dilution computation for the year ended December 31, 2012.

u. Stock-Based Compensation

We have various stock-based employee compensation plans, which are described more fully in Note 7. We follow the provisions of FASB's guidance on share-based payments, which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

v. Segment Reporting

We report segment information in accordance with FASB's guidance on Disclosures about Segments of an Enterprise and Related Information. We have two operating segments. The basis for determining our operating segments is the manner in which financial information is used by us in our operations. Management operates and organizes itself according to business units that comprise unique products and services across geographic locations.

On February 15, 2012, we decided to divest our RedBlack Communications business, which previously was reported in the Communications Systems segment. Further, in Q4 of 2012, we elected not to renew the lease for our U.K. manufacturing facility which expired on March 24, 2013. The results of the discontinued UK operations were previously reported in the Battery and Energy Products segment. See Note 2 in these Notes to Consolidated Financial Statements for additional information.

w. Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists." With certain exceptions, ASU 2013-11 requires entities to present an unrecognized tax benefit, or portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. The guidance is effective for interim and annual periods beginning after December 15, 2013 on either a prospective or retrospective basis with early adoption permitted. We do not expect adoption of this guidance to have a material impact on its consolidated results of operations and financial condition.

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." ASU 2013-05 provides that the cumulative translation adjustment is released into net income when a reporting entity ceases to have a controlling interest in a subsidiary that is controlled by a consolidated foreign entity. Further, this update states that the sale of an investment in a foreign entity includes both events that result in the loss of a controlling financial interest in a foreign entity, regardless of any retained investment, and events that result in an acquirer obtaining control through a step acquisition. ASU 2013-05 is effective prospectively for fiscal years beginning after December 15, 2013, with early adoption permitted. We do not believe that adoption of this standard will have a material impact on our consolidated results of operations and financial condition.

In February 2013, the FASB issued ASU 2013-04 "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date." ASU 2013-04 requires an entity to measure such obligations as the sum of the amount that the reporting entity agreed to pay on the basis of its arrangement with co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance is effective for interim and annual periods beginning after December 15, 2013. Retrospective presentation for all comparative periods presented is required with early adoption permitted. We do not expect adoption of this guidance to have a material impact on its consolidated results of operations and financial condition.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income." ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component as well as presentation, either on the face of the financial statement or in the notes, of significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. ASU 2013-02 is effective for fiscal years beginning after December 15, 2012. Adoption of this standard did not have a material impact on our consolidated results of operations and financial condition.

Note 2- Dispositions & Exit Activities

2012 Activity

Ultralife Batteries UK, Ltd.

During the fourth quarter of 2012, we elected not to renew the lease for our U.K. manufacturing facility which expired on March 24, 2013, and to relocate our sales and services operations to a smaller facility. As a result of this decision, we were required to restore the facility back to its original condition per a previous contractual commitment.

The costs associated with the lease exit did not become determinable until late in the fourth quarter of 2012. Accordingly, we recorded a liability as of the end of 2012 for our the estimated costs to return the facility to its original condition as well as other related expenses that resulted in $228 being charged to selling, general, and administrative costs related to operations transferred to our facilities in Newark, NY, and an additional $815 being recorded as discontinued operations for those operations that were not transferred to our facilities in Newark, NY. The termination of the lease led to no employee reductions or other termination costs, with the exception of the aforementioned restoration costs. We paid these costs in full in the first quarter of 2013 and recorded a gain from discontinued operations for the difference between estimated and actual costs.

As a result, the Consolidated Statements of Comprehensive Income (Loss) herein exclude the discontinued Ultralife Batteries UK, Ltd. operations from the results of continuing operations. The following amounts have been reported as discontinued operations for years ended December 31, 2013 and 2012:

	Years Ended December 31,	
	2013	2012
Net sales	$-	$ -
Gain (loss) from discontinued operations	241	(815)
(Provision) benefit for income taxes	-	-
Gain (loss) from discontinued operations, net of tax	$241	$ (815)

RedBlack Communications, Inc.

On February 16, 2012, we announced our intention to divest our RedBlack Communications, Inc. ("RedBlack") business in 2012. RedBlack was a wholly owned subsidiary of ours based in Hollywood, Maryland, that designed, integrated and fielded mobile, modular and fixed site communication and electronic systems. We determined that RedBlack offered limited opportunities to achieve the operating thresholds of our new business model.

On September 28, 2012, we entered into and closed a Stock Purchase Agreement (the "Agreement") to sell 100% of our capital stock in RedBlack to BCF Solutions, Inc. In exchange for the sale of RedBlack, we received $2,533 as a purchase price, comprised of cash at closing in the amount of $2,133, funds held in escrow for up to one year in the amount of $250, as well as $150 to be available for RedBlack employee retention programs. Amounts charged to expense of $125 are due to customary post-closing working capital adjustments that have been recognized over the course of 2013.

The Agreement contains customary representations and warranties that will survive for a period of two or three years. The Agreement also contains customary indemnification for breaches of the representations and warranties identified in the Agreement.

Pursuant to the Agreement, we are prohibited from engaging or participating with any current customer of RedBlack in any business, directly or indirectly, that competes with the business conducted by RedBlack for two years. We are also prohibited from hiring, soliciting, or recruiting any current employee, independent contractor, or consultant of BCF Solutions, Inc. or RedBlack for two years.

Commencing with the first quarter of 2012, the results of the RedBlack operations and related divestiture costs have been reported as a discontinued operation.

As a result, the Consolidated Statements of Operations and Comprehensive Income (Loss) herein exclude the RedBlack operations from the results of continuing operations. The following amounts have been reported as discontinued operations for years ended December 31, 2013 and 2012:

	Years Ended December 31,	
	2013	2012
Net sales	$ -	$ 3,404
Loss from discontinued operations	(125)	(7)
(Provision) benefit for income taxes	-	174
Income (Loss) from discontinued operations, net of tax	$ (125)	$ 167

Prior Activity

As it relates to our operations closed prior to 2012, we reported income of $12 and $147 for the years ended December 31, 2013 and 2012, respectively. Income in both years is due entirely to adjustments to reserves that were established as of the closure of the business as our actual experience has differed from our expectations at that time.

Note 3 - Supplemental Balance Sheet Information

a. Inventory

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

	December 31,	
	2013	2012
Raw materials	$16,239	$15,023
Work in process	2,412	4,863
Finished products	7,402	10,484
	$26,053	$30,370

b. Property, Plant and Equipment

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

	December 31,	
	2013	2012
Land	$123	$123
Buildings and Leasehold Improvements	7,412	7,381
Machinery and Equipment	47,405	46,606
Furniture and Fixtures	1,866	1,810
Computer Hardware and Software	4,247	4,103
Construction in Progress	1,073	1,275
	62,126	61,298
Less: Accumulated Depreciation	51,924	48,883
	$10,202	$12,415

Estimated costs to complete construction in progress as of December 31, 2013 and 2012 were approximately $472 and $1,154, respectively.

Depreciation expense was $2,957 and $3,306 for the years ended December 31, 2013 and 2012, respectively.

c. Impairment of Goodwill, Intangible Assets and Long-Lived Assets

We applied the provisions of FASB ASC Topics 350-20 and 820 during the annual goodwill impairment analysis performed in October 2013. The first, optional, step of the goodwill analysis is to determine if it is more likely than not that the fair value of the identified reporting units exceeds the respective carrying value. This qualitative analysis includes but is not limited to, an evaluation of the macroeconomic, industry or market, and cost factors relevant to the reporting unit as well as financial performance and entity or reporting unit events that may affect the value of the reporting unit. We elected to forego the qualitative assessment on all three of the identified reporting units. If the conclusion that it is more likely than not that the fair value of the reporting unit exceeds its carrying value cannot be supported, or if the reporting unit is not subjected to the qualitative assessment, the fair value of the reporting unit is determined using a quantitative assessment. The fair value for our reporting units subjected to this quantitative test could not be determined using readily available quoted Level 1 inputs or Level 2 inputs that were observable in active markets. Therefore, we used an income approach, to estimate the fair value of the reporting units, using Level 3 inputs. To estimate the fair value of the reporting unit, we used significant estimates and judgmental factors. The key estimates and factors used in the valuation model included revenue growth rates and profit margins based on internal forecasts, as well as industry and market based terminal growth rates, inputs to the weighted-average cost of capital used to discount future cash flows, and earnings multiples. As a result of the goodwill impairment tests performed during 2013 and 2012, no impairment was indicated.

Similar to goodwill, we applied the provisions of FASB Topics 350-30 and 820, during the annual indefinite-lived intangible asset analysis performed in September and October 2013. The first, optional, step of the analysis is to determine if it is more likely than not that the fair value of the indentified indefinite-lived intangible assets exceeds the respective carrying values. This qualitative analysis includes but is not limited to, an evaluation of the macroeconomic, industry or market, and other factors relevant to the indefinite-lived intangible asset. We elected to forego the qualitative assessment on all four identified indefinite-lived intangible assets. If a conclusion that it is more likely than not that the fair value of the indefinite-lived intangible asset cannot be supported or if this optional step is not applied to the indefinite-lived intangible asset, the fair value of the indefinite-lived intangible asset is determined using a quantitative assessment. The fair value for our indefinite-lived intangible assets subjected to this quantitative test could not be determined using readily available quoted Level 1 inputs or Level 2 inputs that were observable in active markets. Therefore, we used a royalty relief approach, to estimate the fair value of the indefinite-lived intangible assets, using Level 3 inputs. To estimate the fair value of the indefinite-lived intangible asset, we used significant estimates and judgmental factors. The key estimates and factors used in the valuation model included revenue growth rates, as well as industry and market based terminal growth rates, inputs to the weighted-average cost of capital used to discount future cash flows, and determined royalty rates. As a result of the impairment tests performed during 2013 and 2012, no impairment was indicated.

During 2013 and 2012, we also evaluated certain fixed assets for impairment utilizing valuation methods that are classified as Level 3 inputs. Based upon the results of this evaluation, no material impairment was indicated.

d. Goodwill

The following table summarizes the goodwill activity by segment for the years ended December 31, 2013 and 2012:

	Battery & Energy Products	Communications Systems	Discontinued Operations	Total
Balance at December 31, 2011	$ 4,838	$ 11,493	$ 2,025	$18,356
Sale of RedBlack Communications			(2,025)	(2,025)
Effect of foreign currency translations	13	-	-	13
Balance at December 31, 2012	$ 4,851	$ 11,493	$ -	$16,344

Effect of foreign currency translations		75		-		-	75
Balance at December 31, 2013	$	4,926	$	11,493	$	-	$16,419

e. Other Intangible Assets

The composition of intangible assets was:

	December 31, 2013		
	Gross Assets	Accumulated Amortization	Net
Trademarks	$3,568	$ -	$3,568
Patents and technology	4,511	3,941	570
Customer relationships	4,033	3,562	471
Distributor relationships	393	356	37
Non-compete agreements	218	218	-
Total intangible assets	$12,723	$ 8,077	$4,646

	December 31, 2012		
	Gross Assets	Accumulated Amortization	Net
Trademarks	$3,564	$ -	$3,564
Patents and technology	4,495	3,702	793
Customer relationships	3,998	3,366	632
Distributor relationships	380	330	50
Non-compete agreements	217	217	-
Total intangible assets	$12,654	$ 7,615	$5,039

Amortization expense for intangible assets was $402 and $497 for the years ended December 31, 2013 and 2012, respectively.

The change in the cost value of total intangible assets is a result of the effect of foreign currency exchange rate fluctuations.

Note 4 - Operating Leases

We lease various buildings, machinery, land, automobiles and office equipment. Rental expenses for all operating leases were approximately $1,029 and $1,011 for the years ended December 31, 2013 and 2012, respectively. Future minimum lease payments under non-cancelable operating leases as of December 31, 2013 are as follows:

2014	2015	2016	2017	2018 and beyond
$ 707	$ 394	$ 201	$ 71	$ 4

Note 5 - Debt

Credit Facilities

On May 24, 2013, we entered into a Revolving Credit, Guaranty and Security Agreement (the “Credit Agreement”) and related security agreements with PNC Bank, National Association (“PNC”) to establish a $20 million secured asset-based revolving credit facility that includes a $1 million letter of credit subfacility (the "Credit Facility"). The Credit Agreement provides that the Credit Facility may be increased with the PNC's concurrence to $35 million prior to the last six months of the term and expires on May 24, 2017. The Credit Facility replaces the prior credit facility with RBS Business Capital, a division of RBS Asset Finance, Inc., which expired in accordance with its terms on May 15, 2013, with no debt outstanding.

Our available borrowing limit under the Credit Facility fluctuates from time to time based on a borrowing base formula equal to the sum of up to 85% of eligible accounts receivable plus the least of (a) up to 65% of the eligible inventory and eligible foreign in-transit inventory, (b) up to 85% of the appraised net orderly liquidation value of eligible inventory and eligible foreign in-transit inventory, and (c) $7.5 million, in each case subject to the definitions in the Credit Agreement and reserves required by PNC.

Interest is payable quarterly and will accrue on outstanding indebtedness under the Credit Agreement at the alternate base rate, as defined in the Credit Agreement, plus the applicable margin or at the one, two or three month LIBOR rate plus the applicable margin as selected by us from time to time and listed below.

Quarterly Average Undrawn Borrowing Availability	Applicable Margin for Alternate Base Rate Loans	Applicable Margin for LIBOR Rate Loans
Greater than $8,000,000	1.00 %	2.00 %
$5,000,000 up to $8,000,000	1.25 %	2.25 %
Less than $5,000,000	1.50 %	2.50 %

We must pay a fee on the Credit Facility's unused availability of 0.375% per annum and customary letter of credit fees in addition to various collateral monitoring and related fees and expenses.

In addition to customary affirmative and negative covenants, we must maintain a fixed charge coverage ratio as defined in the Credit Agreement of 1:15 to 1:00 tested quarterly for the four-quarters then ended. As of December 31, 2013 we were in compliance with all covenants. The Credit Facility is secured by substantially all our assets.

Any outstanding advances must be repaid upon expiration of the term of the Credit Facility. Payments must be made during the term to the extent outstanding advances exceed the maximum amount then permitted to be drawn as advances under the Credit Facility and from the proceeds of certain transactions. Upon the occurrence of an event of default, the outstanding obligations may be accelerated and PNC will have other customary remedies.

As of December 31, 2013, we had $-0- outstanding under the Credit Facility, an applicable interest rate of 2.17%, approximately $12,969 of borrowing capacity in addition to our unrestricted cash on hand of $16,066, and no outstanding letters of credit related to the Credit Facility.

Note 6 - Commitments and Contingencies

a. Indemnity

Our organizational documents provide that our directors or officers will be reimbursed for all expenses, to the fullest extent permitted by law arising out of their performance.

b. Purchase Commitments

As of December 31, 2013, we have made commitments to purchase approximately $221 of production machinery and equipment.

c. Royalty Agreements

Technology underlying certain of our products is based in part on non-exclusive transfer agreements. In 2003, we entered into an agreement with Saft Groupe S.A., to license certain tooling for battery cases. The licensing fee associated with this agreement is based on a percentage of the sales price of the individual battery case, up to a maximum of one dollar per battery case. The total royalty expense reflected in 2013 and 2012 was $1 in each year. This agreement expires in the year 2017.

d. Government Grants/Loans

In conjunction with the City of West Point, Mississippi, we applied for a Community Development Block Grant (“CDBG”) from the State of Mississippi for infrastructure improvements to our leased facility that is owned by the City of West Point, Mississippi. The CDBG was awarded and as of December 31, 2011, approximately $480 has been distributed under the grant. Under an agreement with the City of West Point, we agreed to employ at least 30 full-time employees at the facility, of which 51% of the jobs had to be filled or made available to low or moderate income families, within three years of completion of the CDBG improvement activities. In addition, we agreed to invest at least $1,000 in equipment and working capital into the facility within the first three years of operation of the facility. While we have yet to receive formal notice from the applicable government agency confirming the closure of the grant, we believe that both of these commitments were satisfied as of March 2011 and, therefore, have not recorded an accrual with respect to any potential liability for the grant amounts received under the CDBG.

In conjunction with Clay County, Mississippi, we applied for a Mississippi Rural Impact Fund Grant ("RIFG") from the State of Mississippi for infrastructure improvements to our leased facility that is owned by the City of West Point, Mississippi. The RIFG was awarded and as of December 31, 2011, approximately $150 has been distributed under the grant. Under an agreement with Clay County, we agreed to employ at least 30 full-time employees at the facility, of which 51% of the jobs had to be filled or made available to low or moderate income families, within two years of completion of the RIFG improvement activities. In September 2010, we received an extension for this commitment to March 31, 2011. In addition, we agreed to invest at least $1,000 in equipment and working capital into the facility within the first three years of operation of the facility. While we have yet to receive formal notice from the applicable government agency confirming the closure of the grant, we believe that both of these commitments were satisfied as of March 2011 and, therefore, have not recorded an accrual with respect to any potential liability for the grant amounts received under the RIFG.

e. China

Our operating facility in China presents risks including, but not limited to, changes in local regulatory requirements, including changes in labor laws, local wage laws, environmental regulations, taxes and operating licenses, compliance with U.S. regulatory requirements, including the Foreign Corrupt Practices Act, uncertainties as to application and interpretation of local laws and enforcement of contract and intellectual property rights, eminent domain claims, labor disputes, rapid changes in government, economic and political policies, and other various contingencies that are outside of our control. Any such event could depress our earnings and have other material adverse effects on our business, financial condition and results of operations.

f. Employment Contracts

We have an employment contract with Michael D. Popielec, our President and Chief Executive Officer, which stays in effect until terminated by either party. This agreement provides for a base salary, as adjusted for increases at the discretion of our Board of Directors, and includes incentive bonuses based upon attainment of specified quantitative and qualitative performance goals. This agreement also provides for severance payments in the event of specified events of termination of employment. In addition, this agreement provides for a lump sum payment in the event of termination of employment in connection with a change in control.

As part of our employment commencement process, employees are required to enter into agreements providing for confidentiality of certain information and the assignment of rights to inventions made by them while employed by us. These agreements also contain certain noncompetition and nonsolicitation provisions effective during the employment term and for varying periods thereafter depending on position and location. There can be no assurance that we will be able to enforce these agreements. All of our employees agree to abide by the terms of a Code of Ethics policy that provides for the confidentiality of certain information received during the course of their employment.

g. 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 years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Balance at beginning of year	$607	$839
Accruals for warranties issued	20	370

Settlements made	(114)	(602)
Balance at end of year	$513	$607

h. Post Audits of Government Contracts

We had certain "exigent", non-bid contracts with the U.S. government, which were subject to audit and final price adjustment, which resulted in decreased margins compared with the original terms of the contracts. As of December 31, 2012, there were no outstanding exigent contracts with the U.S. government. As part of its due diligence, the U.S. government has conducted post-audits of the completed exigent contracts to ensure that information used in supporting the pricing of exigent contracts did not differ materially from actual results. In September 2005, the Defense Contracting Audit Agency ("DCAA") presented its findings related to the audits of three of the exigent contracts, suggesting a potential pricing adjustment of approximately $1,400 related to reductions in the cost of materials that occurred prior to the final negotiation of these contracts. In addition, in June 2007, we received a request from the Office of Inspector General of the Department of Defense ("DoD IG") seeking certain information and documents relating to our business with the Department of Defense. We cooperated with the DCAA audit and DoD IG inquiry by making available to government auditors and investigators our personnel and furnishing the requested information and documents. The DCAA Audit and DoD IG inquiry were consolidated and the US Attorney's Office represented the government in connection with these matters. Under applicable federal law, we may have been subject up to treble damages and penalties associated with the potential pricing adjustment. In light of the uncertainty, we decided to enter into discussions with the U.S. Attorney's Office in April 2011 to negotiate a settlement that would be in the best interests of our customers, employees and shareholders. On April 21, 2011, we were advised by the government that there was a $2,730 settlement-in-principle to resolve all claims related to the contracts, subject to final approval by the Department of Justice. As a result, we recorded a $2,730 charge as a reduction in revenues for the first quarter of 2011. On June 1, 2011, we entered into a Settlement Agreement with the United States of America, acting through the United States Department of Justice and on behalf of the Department of Defense that required us to pay a total of $2,700 plus accrued interest thereon at the rate of 2.625% per annum. Under the Settlement Agreement, we were required to make principal payments of $1,000, $567, $567 and $566 being due on June 8, 2011, December 1, 2011, June 1, 2012 and December 1, 2012, respectively. Each principal payment was accompanied by a payment of accrued interest. As of December 31, 2012, we had made all required payments.

i. Legal Matters

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

Arista Power Litigation

On September 23, 2011, we initiated an action against Arista Power, Inc. ("Arista") and our former senior sales and engineering employee, David Modeen ("Modeen") in the State of New York Supreme Court, County of Wayne (Index No. 73379). In our Complaint, we allege that Arista recruited all but one of the members of its executive team from us, subsequently changed and redirected its business to compete directly with us by using our confidential information, and during the summer of 2011, recruited Modeen to become an Arista employee. We allege that, as a result of actions by Arista and Modeen: (i) Modeen has breached the terms of his Employee Confidentiality, Non-Disclosure, Non-Compete, Non-Disparagement and Assignment Agreement with us; (ii) Modeen has breached certain agreements, duties and obligations he owed us, including to protect and refrain from disclosing our trade secrets and confidential and proprietary information; (iii) Arista's employment of Modeen will inevitably lead to the disclosure and use of our trade secrets by Arista, in violation of Modeen's duties and obligations to us; (iv) Arista unlawfully induced Modeen to breach his agreements with and duties and obligations to us; and (v) Arista's recruitment and employment of Modeen has breached a subcontract between Arista and us. We seek damages as determined at trial and preliminary and permanent injunctive relief. The defendants have answered the allegations set forth in the Complaint, without asserting any counterclaims.

On December 5, 2011, Arista served us with a Complaint it filed on November 29, 2011 in the State of New York Supreme Court, County of Monroe (Index No. 11-13896) against us, our officers, several of our directors, and an employee. In its Complaint, Arista alleges that we and our named defendants have violated the terms of a Confidentiality Agreement with Arista and have unfairly competed against Arista by unlawfully appropriating Arista's trade secrets and that as a result of such activity, Arista has incurred damages in excess of $60,000. Arista seeks damages, an accounting, and preliminary and permanent injunctive relief.

On December 21, 2011, we and our officers, directors and employee named in Arista's Complaint filed a motion to dismiss Arista's Complaint against our officers, directors and employee as Arista's Complaint fails to state any cause of action against any of them and to dismiss the claim of fraud against our officers, directors and employee. Subsequently, Arista filed an Amended Complaint alleging essentially the same causes of action but adding additional factual allegations against us and our officers, directors and employee. In addition, Arista filed a motion to disqualify our outside legal counsel representing us and our officers, directors and employee in both Arista's Complaint and our Complaint against Arista. In response, we and our officers, directors and employee filed a new motion to dismiss Arista's Complaint against us in its entirety and seeking dismissal of the fraud claim against us. Arista's motion to disqualify our outside legal counsel was denied on February 10, 2012. On March 9, 2012, the Court issued its decision on our motion to dismiss, granting the motion to the extent of dismissing some claims against us, but denying the motion to dismiss the individuals from the lawsuit at this preliminary stage. On April 19, 2012, an Answer was filed on behalf of us, our officers, directors and employee. On September 10, 2013, Arista filed a Second Amended Complaint deleting all individual defendants except our named employee, to which an Answer was filed on our behalf on September 30, 2013. Discovery has commenced with respect to the Arista litigation and is ongoing.

We initiated the September 23, 2011 Complaint against Arista Power to protect our customers, employees and shareholders from the unauthorized use and theft of our investments in intellectual property, trade secrets and confidential information by Arista and its employees. Protecting our collective intellectual property and know-how, developed at great cost to us to form our competitive position in the marketplace and create value for our shareholders, is a fundamental responsibility of all our employees.

We believe the November 29, 2011 Arista Complaint is retaliatory and without merit. Our development of the foundation for the new product concept for which Arista claims we allegedly used its trade secrets commenced in 2008, long prior to the departure of those individuals who now constitute the executive team of Arista. Furthermore, we believe the purported damage of $60,000 being claimed by Arista is based solely on the reduction in its market capitalization between November 2009 and the filing date of the Complaint. This market value loss is totally unrelated to any actions on account of us, and claims for recovery of this or any other amount are legally and factually baseless.

Accordingly, we will vigorously pursue our complaint against Arista and defend what we believe to be a meritless action on the part of Arista Power.

9-Volt Battery Litigation

In July 2010, we were served with a summons and complaint filed in Japan by one of our 9-volt battery customers. The complaint alleged damages associated with claims of breach of warranty in an amount of approximately $1,100. A trial was held on May 25, 2012, in Japan before a panel of three judges, after which the parties agreed to settle the matter for approximately $125, which has been reflected in our cost of products sold in 2012. The terms of the settlement agreement include no legal liability on our part and the plaintiff abandoning all other claims against us.

Note 7 - Shareholders' Equity

a. Preferred Stock

We have authorized 1,000,000 shares of preferred stock, with a par value of $0.10 per share. At December 31, 2013, no preferred shares were issued or outstanding.

b. Common Stock

We have authorized 40,000,000 shares of common stock, with a par value of $0.10 per share.

In August 2013, we issued 15,272 shares of common stock to our non-employee directors, valued at $57. In November 2013, we issued 4,573 shares of our common stock to our non-employee directors, valued at $16.

In February 2012, we issued 16,271 shares of our common stock to our non-employee directors, valued at $77. In May 2012, we issued 17,473 shares of our common stock to our non-employee directors, valued at $77. In August 2012, we issued 24,311 shares of our common stock to our non-employee directors, valued at $77. In November 2012, we issued 25,758 shares of our common stock to our non-employee directors, valued at $77.

c. Treasury Stock

At December 31, 2013 and 2012, we had 1,372,757 shares of treasury stock outstanding, valued at $7,658.

d. Stock Options

We have various stock-based employee compensation plans, for which we follow the provisions of FASB's guidance on share-based payments, which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

Our shareholders have approved various equity-based plans that permit the grant of stock options, restricted stock and other equity-based awards. In addition, our shareholders have approved the grant of stock options outside of these plans.

In June 2004, shareholders adopted the 2004 Long-Term Incentive Plan ("LTIP") pursuant to which we were authorized to issue up to 750,000 shares of common stock and grant stock options, restricted stock awards, stock appreciation rights and other stock-based awards. Through shareholder approved amendments to the LTIP in 2006, 2008, 2011, and 2013, the total number of authorized under the LTIP increased to 2,900,000.

Stock options granted under the LTIP are either Incentive Stock Options ("ISOs") or Non-Qualified Stock Options ("NQSOs"). Key employees are eligible to receive ISOs and NQSOs; however, directors and consultants are eligible to receive only NQSOs. Most ISOs vest over a three- or five-year period and expire on the sixth or seventh anniversary of the grant date. All NQSOs issued to non-employee directors vest immediately and expire on either the sixth or seventh anniversary of the grant date. Some NQSOs issued to non-employees vest immediately and expire within three years; others have the same vesting characteristics as options given to employees. As of December 31, 2013, there were 2,035,688 stock options outstanding under the LTIP.

On December 19, 2005, we granted our former President and Chief Executive Officer, John, D. Kavazanjian, an option to purchase 48,000 shares of common stock at $12.96 per share outside of any of our equity-based compensation plans, subject to shareholder approval. Shareholder approval was obtained on June 8, 2006. The stock option was fully vested and expired on June 8, 2013.

On March 7, 2008, in connection with his becoming employed by us, we granted our Chief Financial Officer and Treasurer, Philip A. Fain, an option to purchase 50,000 shares of common stock at $12.74 per share outside of any of our equity-based compensation plans. The option is fully vested and expires on March 7, 2015.

On December 30, 2010, pursuant to the terms of his employment agreement, we granted our President and Chief Executive Officer, Michael D. Popielec, options to purchase shares of common stock under the LTIP as follows: (i) 50,000 shares at $6.42, vesting in annual increments of 12,500 shares over a four-year period commencing December 30, 2011; (ii) 250,000 shares at $6.42, vesting in annual increments of 62,500 shares over a four-year period commencing December 30, 2011; (iii) 200,000 shares at $10.00, with vesting to begin on the date the stock reaches a closing price of $10.00 per share for 15 trading days within a 30-day trading period, with such vesting in annual increments of 50,000 shares over the four anniversary dates of that date; and (iv) 200,000 shares at $15.00, with vesting to begin on the date the stock reaches a closing price of $15.00 per share for 15 trading days within a 30-day trading period, with such vesting in annual increments of 50,000 shares over the four anniversary dates of that date. All such options in items (i) and (ii) shall expire on December 30, 2017. All such options in items (iii) and (iv) shall expire as of the later of December 30, 2017 and five years after the initial vesting commences, but in no event later than December 30, 2020. The options set forth in items (ii), (iii) and (iv) were subject to shareholder approval of an amendment to the LTIP, which approval was obtained on June 7, 2011.

On January 3, 2011, pursuant to the terms of his employment agreement, we granted our President and Chief Executive Officer, Michael D. Popielec, an option to purchase 50,000 shares of common stock at $6.58 under the

LTIP. The option vests in annual increments of 12,500 shares over a four-year period commencing December 30, 2011. The option expires on December 30, 2017.

In conjunction with FASB's guidance for share-based payments, we recorded compensation cost related to stock options of $774 and $1,073 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013, there was $669 of total unrecognized compensation costs related to outstanding stock options, which is expected to be recognized over a weighted average period of 1.41 years.

We use the Black-Scholes option-pricing model to estimate fair value of stock-based awards. The following weighted average assumptions were used to value options granted during the years ended December 31, 2013 and 2012:

	Years Ended December 31, 2013		2012	
Risk-free interest rate	0.78	%	0.56	%
Volatility factor	61.94	%	63.53	%
Dividends	0.00	%	0.00	%
Weighted average expected life (years)	4.06		3.91	
Forfeiture rate	12.33	%	15.00	%

We use a Monte Carlo simulation option-pricing model to estimate the fair value of market performance stock-based awards, of which there were no new awards in the years ended December 31, 2013 or 2012.

We calculate expected volatility for stock options by taking an average of historical volatility over the past five years and a computation of implied volatility. The computation of expected term was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield in effect at the time of grant. Forfeiture rates are calculated by dividing unvested shares forfeited by beginning shares outstanding. The pre-vesting forfeiture rate is calculated yearly and is determined using a historical twelve-quarter rolling average of the forfeiture rates.

The following tables summarize data for the stock options issued by us:

	Year Ended December 31, 2013			
	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option at beginning of year	2,211,488	$ 7.47		
Options granted	228,000	3.60		
Options exercised	(3,000)	3.91		
Options cancelled	(304,866)	7.94		
Shares under option at end of year	2,131,622	$ 6.99	4.32	$ 35
Vested and expected to vest at end of year	1,961,179	$ 7.18	4.26	$ 29
Options exercisable at end of year	1,107,116	$ 6.32	3.44	$ 12

	Year Ended December 31, 2012	
	Number of Shares	Weighted Average Exercise Price Per Share
Shares under option at beginning of year	2,356,228	$ 8.34
Options granted	303,150	3.63
Options exercised	(28,000)	4.09
Options cancelled	(419,890)	9.88
Shares under option at end of year	2,211,488	$ 7.47
Options exercisable at end of year	1,013,098	$ 7.64

The following table represents additional information about stock options outstanding at December 31, 2013:

			Options Outstanding			Options Exercisable	
Range of Exercise Prices			Number of Outstanding at December 31, 2013	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2013	Weighted-Average Exercise Price
$3.22	-	$3.79	197,834	5.75	$ 3.43	42,191	$ 3.22
$3.80	-	$3.91	241,000	4.10	$ 3.88	166,000	$ 3.91
$3.92	-	$4.41	254,750	4.19	$ 4.17	150,752	$ 4.27
$4.42	-	$4.69	293,000	4.99	$ 4.42	195,334	$ 4.42
$4.70	-	$5.46	85,800	3.70	$ 5.19	68,601	$ 5.12
$5.47	-	$6.42	300,000	4.05	$ 6.42	150,000	$ 6.42
$6.43	-	$10.55	412,166	3.88	$ 8.93	187,166	$ 8.10
$10.56	-	$12.74	91,572	1.47	$ 12.40	91,572	$ 12.40
$12.75	-	$13.22	21,000	1.48	$ 13.22	21,000	$ 13.22
$13.23	-	$15.00	234,500	5.30	$ 14.77	34,500	$ 13.43
$3.22	-	$15.00	2,131,622	4.32	$ 7.18	1,107,116	$ 6.32

The weighted average fair value of options granted during the years ended December 31, 2013 and 2012 was $1.70 and $1.67, respectively. The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the years ended December 31, 2013 and 2012 was $1 and $29, respectively.

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 options in excess of the deferred tax asset attributable to stock compensation costs for such options. We did not record any excess tax benefits in 2013 or 2012. Cash received from option exercises under our stock-based compensation plans for the years ended December 31, 2013 and 2012 was $12 and $114, respectively.

e. Restricted Stock Awards

On January 29, 2013, we granted 120,000 contingent restricted stock units to our President and Chief Executive Officer, Michael D. Popielec, subject to shareholder approval, which was obtained on June 4, 2013, which vest as follows: (i) 30,000 shares of our common stock will vest on the later of January 1, 2014 or the date when our common stock first reaches a closing price of $4.00 per share for 15 trading days in a 30 trading day period; (ii) 30,000 shares of our common stock will vest on the later of January 1, 2014 or the date when our common stock first reaches a closing price of $5.00 per share for 15 trading days in a 30 trading day period; (iii) 30,000 shares of our common stock will vest on the later of January 1, 2015 or the date when our common stock first reaches a closing price of $4.00 per share for 15 trading days in a 30 trading day period; and (iv) 30,000 shares of our common stock will vest on the later of January 1, 2015 or the date when our common stock first reaches a closing price of $5.00 per share for 15 trading days in a 30 trading day period.

The restricted stock units described in (i) and (iii) had achieved their closing price condition prior to shareholder approval and were valued at the closing price on the date of grant. The restricted stock units described in (ii) and (iv) had not yet achieved their closing price conditions and were valued utilizing a Monte Carlo simulation to determine fair value and the derived service period. The weighted average inputs utilized were:

	Year Ended December 31, 2013	
Risk-free interest rate	0.21	%
Volatility factor	59.08	%
Dividends	0.00	%

The restricted stock units had the following values:

		Year Ended December 31, 2013
Number of shares award		120,000
Weighted average fair value per share	$	3.62
Aggregate total value	$	434

No restricted stock was awarded during the years ended December 31, 2012.

The activity of restricted stock grants of common stock for the years ended December 31, 2013 and 2012 is summarized as follows:

	Number of Shares		Weighted Average Grant Date Fair Value
Unvested at December 31, 2011	1,218	$	11.33
Granted	-		0.00
Vested	(1,218)		11.33
Forfeited	-		0.00
Unvested at December 31, 2012	-	$	0.00
Granted	120,000	$	3.62
Vested	-		0.00
Forfeited	-		0.00
Unvested at December 31, 2013	120,000	$	3.62

We recorded compensation cost related to restricted stock grants of $284 and $8 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013, we had $150 of total unrecognized compensation expense related to restricted stock grants. The total fair value of these grants that vested during the years ended December 31, 2013 and 2012 was $0 and $5, respectively.

f. Reserved Shares

We have reserved 2,860,723 and 2,911,723 shares of common stock under the various stock option plans, warrants and restricted stock awards as of December 31, 2013 and 2012, respectively.

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Note 8 - Income Taxes

The provision for income taxes expense (benefit) consists of:

	Years Ended December 31, 2013	2012
Current – Continuing Operations:		
Federal	$ -	$ -
State	-	-
Foreign	94	539
	94	539
Current – Discontinued Operations:		
Federal	$ -	$ -
State	-	-
	-	-
Deferred – Continuing Operations:		
Federal	220	220
State	-	-
Foreign	(75)	(205)
	145	15
Deferred – Discontinued Operations:		
Federal	-	(174)
State	-	-
	-	(174)
Total	$ 239	$ 380

We reflected a tax expense of $239 for the year ended December 31, 2013. The 2013 tax provision is principally a result of the increase in the net deferred tax liability related to deferred tax liabilities generated from goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carryforward periods. In addition, we incurred foreign income taxes in 2013.

We reflected a tax expense of $380 for the year ended December 31, 2012. The 2012 tax provision is principally a result of the increase in the net deferred tax liability related to liabilities generated from goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carryforward periods. In addition, we incurred foreign income taxes in 2012.

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. Significant components of our deferred tax liabilities and assets are as follows:

	Years Ended December 31, 2013	2012
Deferred tax liabilities:		
Property, plant and equipment	$ 232	$ 450
Intangible assets and other	4,242	4,272
Other	94	-
Total deferred tax liabilities	4,568	4,722
Deferred tax assets:		
Net operating loss carryforwards	18,901	18,505
Intangible assets	4,265	4,664
Accrued expenses, reserves and other	3,373	3,764
Total deferred tax assets	26,539	26,933
Valuation allowance for deferred tax assets	(26,131)	(26,251)
Net deferred tax assets	408	682
Net deferred tax liability	$ (4,160)	$ (4,040)

The $4,160 net deferred tax liability for the year ended December 31, 2013 is comprised of a current deferred tax liability of $9 and a long-term deferred tax liability of $4,242, offset partially by current deferred tax asset of $91. The $4,040 net deferred tax liability for the year ended December 31, 2012 is comprised of a long-term deferred tax liability of $4,160, offset partially by current deferred tax asset of $120.

In 2013 and 2012, in the U.S. and the U.K., we continue to report a valuation allowance for our deferred tax assets that cannot be offset by reversing temporary differences. This results from the conclusion that it is more likely than not that we would not utilize our U.S. and U.K. NOL's that had accumulated over time. The recognition of a valuation allowance on our deferred tax assets resulted from our evaluation of all available evidence, both positive and negative. The assessment of the realizability of the NOL's was based on a number of factors including, our history of net operating losses, the volatility of our earnings, our historical operating volatility, our historical inability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate as of the end of 2013. We concluded that these factors represent sufficient negative evidence and have concluded that we should record a full valuation allowance under FASB's guidance on the accounting for income taxes. In 2013 and 2012, we did not record a valuation allowance for the Chinese deferred tax assets as we determined that it was more likely than not that they would be realized. We continually assess the carrying value of this asset based on relevant accounting standards.

As of December 31, 2013, we have foreign and domestic NOL's totaling approximately $62,152 available to reduce future taxable income. Foreign loss carryforwards of approximately $12,390 can be carried forward indefinitely. The domestic NOL carryforward of $49,762 expires from 2019 through 2033. The domestic NOL carryforward includes approximately $2,949 for which a benefit will be recorded in capital in excess of par value when realized.

For financial reporting purposes, income (loss) from continuing operations before income taxes is as follows:

	Years Ended December 31, 2013	2012
United States	$ (875)	$ 829
Foreign	26	(1,403)

Total	$ (849)	$ (574)

There are no undistributed earnings of our foreign subsidiaries, at December 31, 2013 or 2012.

As of December 31, 2011, the tax holiday for our Chinese operations expired and the full corporate rate of 25% became effective. In 2013, our tax rate in China was reduced to 15% due to the successful application for certain tax designations.

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to income (loss) from continuing operations before income taxes as follows:

	Years Ended December 31, 2013		Years Ended December 31, 2012	
Provision/(benefit) computed using the statutory rate	(34.0	%)	(34.0	%)
Increase (reduction) in taxes resulting from:				
Foreign	1.2		127.6	
Valuation allowance	20.3		(119.3	)
Equity compensation	38.6		55.4	
Expiration of capital loss carryforward	-		59.6	
Other	2.1		7.2	
Provision (benefit) for income taxes	28.2	%	96.5	%

In 2013 and 2012, the provision for income taxes was higher than what would be expected if the statutory rate were applied to pretax income. This is due to the continuation of reflecting a full valuation allowance for our U.S. and U.K. deferred tax assets, certain non-deductible expenses for tax purposes, and foreign earnings.

Accounting for Uncertainty in Income Taxes

Our unrecognized tax benefits related to uncertain tax positions at December 31, 2013 relate to Federal and various state jurisdictions. The following table summarizes the activity related to our unrecognized tax benefits:

	Years ended December 31, 2013		Years ended December 31, 2012
Balance at beginning of the year	$ 7,508		$ 6,779
Increases related to the current year tax positions	-		729
Increases related to prior year tax positions	-		-
Decreases related to prior year tax positions	(212	)	-
Expiration of statute of limitations for assessment of taxes	-		-
Settlements	-		-
Balance at the end of the year	-		-
	$ 7,296		$ 7,508

The total unrecognized tax benefit balances at December 31, 2013 and 2012 are comprised of tax benefits that, if recognized, would result in a deferred tax asset and a corresponding increase in our valuation allowance. As a result, because the benefit would be offset by an increase in the valuation allowance, there would be no effect on our effective tax rate.

We are not required to accrue interest and penalties as the unrecognized tax benefits have been recorded as a decrease in our NOL. Interest and penalties would begin to accrue in the period in which the NOL's related to the uncertain tax positions are utilized. We do not expect our unrecognized tax benefits to change significantly over the next twelve months.

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 2013 remain subject to examination by the Internal Revenue Service ("IRS") due to our NOL carryforwards. Our U.S. tax matters for the years 2001 through 2013 remain subject to examination by various state and local tax jurisdictions due to our NOL carryforwards. Our tax matters for the years 2007 through 2013 remain subject to examination by the respective foreign tax jurisdiction authorities. The IRS has completed the examination of our 2009 US Federal income tax return, with no resulting material effect to our financial position or results of operations. The IRS has informed us that the 2011 US Federal income tax year will be examined commencing in early 2014

Note 9 - 401(k) Retirement Benefit Plan

We maintain 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, we may, at the discretion of our Board of Directors, authorize an employer contribution based on a portion of the employees' contributions. Since January 2010, we have matched 50% on the first 4% contributed by an employee, or a maximum of 2% of the employee's income. For 2013 and 2012, we contributed $99 and $243, respectively, to the 401(k) plan.

Note 10 - Business Segment Information

On February 15, 2012, we decided to divest our RedBlack Communications business, which previously was reported in the Communications Systems segment. These results have been classified as discontinued since the first quarter of 2012. See Note 2 in these Notes to Consolidated Financial Statements for additional information.

During the fourth quarter of 2012, we elected not to renew the lease for our U.K. manufacturing facility which expired on March 24, 2013, and to relocate our sales and services operations to a smaller facility. As a result of this decision, we are required to restore the facility back to its original condition per a previous contractual commitment. This facility previously served our Battery and Energy Segments business. A portion of these costs were classified as a discontinued operation in the fourth quarter of 2012. See Note 2 in these Notes to Consolidated Financial Statements for additional information.

Segment information previously reported has been reclassified to conform to the current year presentation.

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 various other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories. The Communications Systems segment includes: RF amplifiers, power supplies, cable and connector assemblies, amplified speakers, equipment mounts, case equipment, integrated communication system kits 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.

2013

	Battery & Energy Products	Communications Systems	Discontinued Operations	Corporate	Total
Revenues	$ 57,077	$ 21,758	$ -	$ -	$ 78,835
Segment contribution	$ 14,338	$ 8,283	-	(23,245)	(624)
Interest expense, net				(199)	(199)
Miscellaneous				(26)	(26)
Income taxes-current				(19)	(19)
Income taxes-deferred				(220)	(220)
Income from discontinued operations			128		128
Noncontrolling interest				34	34
Net income attributable to Ultralife					(926)
Total assets	40,851	30,068	-	19,275	90,194
Capital expenditures	635	131	-	-	766

Depreciation and amortization	2,076	127	-	1,156	3,359
Stock-based compensation	20	12	(7)	1,106	1,131

2012

	Battery & Energy Products	Communications Systems	Discontinued Operations	Corporate	Total
Revenues	$ 71,084	$ 30,573	$ -	$ -	$ 101,657
Segment contribution	$ 17,562	$ 11,168	-	(28,844)	(114)
Interest expense, net				(436)	(436)
Miscellaneous				(24)	(24)
Income taxes-current				(539)	(539)
Income taxes-deferred				(15)	(15)
Loss from discontinued operations			(501)		(501)
Noncontrolling interest				31	31
Net income attributable to Ultralife					(1,598)
Total assets	54,605	29,586	-	13,527	97,718
Capital expenditures	2,812	320	-	-	3,132
Depreciation and amortization	2,471	363	20	1,132	3,986
Stock-based compensation	22	13	(8)	1,352	1,379

Geographical Information

	Revenues		Long-Lived Assets	
	2013	2012	2013	2012
United Kingdom	$ 5,588	$ 11,855	$ -	$ 71
China	2,509	4,206	2,201	2,243
Hong Kong	847	1,499	-	-
India	430	351	40	49
Europe, excluding United Kingdom	8,889	9,419	-	-
Japan	1,150	1,011	-	-
Singapore	162	89	-	-
Canada	867	776	-	-
Australia	6,536	10,567	-	-
Other	2,337	2,398	-	-
Total Non-U.S.	29,315	42,171	2,241	2,363
United States	49,520	59,486	7,961	10,052
Total	$ 78,835	$ 101,657	$ 10,202	$ 12,415

Long-lived assets represent the sum of the net book value of property, plant and equipment.

Note 11 - Fire at Manufacturing Facility

In June 2011, we experienced a fire that damaged certain inventory and machinery and equipment at our facility in China. The fire occurred after business hours and was fully extinguished quickly with no injuries, and the plant was back in full operation shortly thereafter with no significant disruption in supply or service to customers. We maintain adequate insurance coverage for this operation.

The total amount of the loss pertaining to assets and the related expenses was approximately $1,589. The majority of our insurance claim is related to the recovery of damaged inventory. Through payments received in June 2012 and April 2013, we have received approximately $1,286 as a partial payment on our insurance claim, which resulted in no gain or loss being recognized. As of December 31, 2013, we reflect a receivable from the insurance company relating to this claim of $185, which is net of our deductible of approximately $132, and represents additional proceeds to be received. The deductible charge was expensed in the second quarter of 2011 and reflected as a component of cost of products sold in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Note 12 - Subsequent Events

Subsequent to the end of the year, we received an informal notice from the landlord of our China facility that we may not be able to extend our lease past its expiration in October 2014 due to possible zoning changes in the village. We, have not received formal notice from the village regarding these changes. However, we are evaluating our options regarding relocation and possible impacts upon our manufacturing operations. We do not have an estimate at this time regarding any costs to move or possible impact to our production, if any.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Rule 13a-15(e)) as of the end of the period covered by this annual 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 Controls 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 fourth quarter of the fiscal year covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting – Our management team is responsible for establishing and maintaining adequate internal control over our financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of the inherent limitations of internal control systems, our internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Based on our assessment, we concluded that, as of December 31, 2013, our internal control over financial reporting was effective based on those criteria.

ITEM 9B. OTHER INFORMATION

None.

PART III

The information required by Part III, other than as set forth in Item 12, and each of the following items is omitted from this report and will be presented in our definitive proxy statement ("Proxy Statement") to be filed pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report, in connection with our 2014 Annual Meeting of Shareholders, which information included therein is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The sections entitled "Election of Directors", "Executive Officers", "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance" in the Proxy Statement are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The sections entitled "Executive Compensation", "Directors Compensation", "Employment Arrangements" and "Compensation and Management Committee " in the Proxy Statement are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The section entitled "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" in the Proxy Statement is incorporated herein by reference.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,081,622	$ 6.85	255,678
Equity compensation plans not approved by security holders	50,000	12.74	-
Total	2,131,622	$ 6.99	255,678

See Note 7 in Notes to Consolidated Financial Statements for additional information.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The section entitled "Corporate Governance - General" in the Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The section entitled "Proposal to Ratify the Selection of Independent Registered Accounting Firm - Principal Accountant Fees and Services" in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(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.

(b) Exhibits. The following exhibits are filed as a part of this report:

Exhibit Index	Description of Document	Incorporated By Reference from:
2.1	Stock Purchase Agreement by and between BCF Solutions, Inc. and Ultralife Corporation	Exhibit 2.1 of the Form 10-Q for the quarter ended September 30, 2012, filed November 8, 2012
3.1	Restated Certificate of Incorporation	Exhibit 3.1 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009
3.2	Amended and Restated By-laws	Exhibit 3.2 of the Form 8-K filed December 9, 2011
4.1	Specimen Stock Certificate	Exhibit 4.1 of the Form 10-K for the year ended December 31, 2008, filed March 13, 2009
10.1*	Technology Transfer Agreement relating to Lithium Batteries	Exhibit 10.19 of our Registration Statement on Form S-1 filed on October 7, 1994, File No. 33-84888 (the “1994 Registration Statement”)
10.2*	Technology Transfer Agreement relating to Lithium Batteries	Exhibit 10.20 of the 1994 Registration Statement
10.3*	Amendment to the Agreement relating to rechargeable batteries	Exhibit 10.24 of our Form 10-K for the fiscal year ended June 30, 1996 (this Exhibit may be found in SEC File No. 0-20852)
10.4†	Ultralife Batteries, Inc. 2000 Stock Option Plan	Exhibit 99.1 of our Registration Statement on Form S-8 filed on May 15, 2001, File No. 333-60984 (the “2001 Registration Statement”)
10.5†	Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan	Exhibit 99.2 of our Registration Statement on Form S-8 filed on July 26, 2004, File No. 333-117662
10.6†	Amendment No. 1 to Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan	Exhibit 99.3 of our Registration Statement on Form S-8 filed August 18, 2006, File No. 333-136737
10.7†	Amendment No. 2 to Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan	Exhibit 99.4 of our Registration Statement on Form S-8 filed November 13, 2008, File No. 333-155349
10.8†		

	Amendment No. 3 to Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan	Exhibit 99.5 of our Registration Statement on Form S-8 filed November 13, 2008, File No. 333-155349
10.9†	Employment Agreement between the Registrant and Peter F. Comerford	Exhibit 10.30 of the Form 10-K for the year ended December 31, 2009, filed March 16, 2010
10.10†	Employment Agreement between the Registrant and Michael D. Popielec dated December 6, 2010	Exhibit 10.40 of the Form 10-K for the year ended December 31, 2010, filed March 15, 2011

10.11†	Revised definition of “Change in Control” for Ultralife Corporation Amended and Restated 2004 Long-Term Incentive Plan	Exhibit 10.1 of the Form 8-K filed on May 26, 2011
10.12	Settlement Agreement between the Registrant and the United States of America dated June 1, 2011	Exhibit 10.1 of the Form 8-K filed on June 2, 2011
10.13†	Amendment No. 4 to Ultralife Corporation Amended and Restated Long-Term Incentive Plan	Exhibit 4.5 of the Registration Statement on Form S-8 filed on January 30, 2012, File No. 333-179235
10.14†	Amendment No. 5 to Ultralife Corporation Amended and Restated Long-Term Incentive Plan	Exhibit 10.1 of the Form 8-K filed on May 26, 2011
10.15	Revolving Credit, Guaranty, and Security Agreement between Ultralife Corporation and PNC Bank, National Association, dated May 24, 2013	Exhibit 10.1 of the Form 10-Q for the quarter ended June 30, 2013, filed August 9, 2013
10.16†	Retirement and Consulting Agreement, Release and Waiver of All Claims, between Ultralife Corporation and Peter F. Comerford, dated May 28,2013	Exhibit 10.1 of the Form 10-Q for the quarter ended June 30, 2013, filed August 9, 2013
10.17†	Restricted Stock Unit Agreement between Ultralife Corporation and Michael D. Popielec. Dated June 4, 2013	Exhibit 10.1 of the Form 10-Q for the quarter ended June 30, 2013, filed August 9, 2013
10.18†	Amended No. 6. to Ultralife Corporation Amended and Restated Long-Term Incentive Plan	Appendix A of Form DEF 14A filed on April 22, 2013
21	Subsidiaries	Filed herewith
23.1	Consent of Bonadio & Co.,LLP	Filed herewith
23.2	Consent of BDO USA, LLP	Filed herewith
31.1	CEO 302 Certifications	Filed herewith
31.2	CFO 302 Certifications	Filed herewith
32	906 Certifications	Filed herewith
100.INS	XBRL Instance Document	Filed herewith
100.SCH	XBRL Taxonomoy Extension Schema Document	Filed herewith
100.CAL	XBRL Taxonomoy Calculation Linkbase Document	Filed herewith
100.LAB	XBRL Taxonomoy Label Linkbase Document	Filed herewith
100.PRE	XBRL Taxonomoy Presentation Linkbase Document	Filed herewith
100.DEF	XBRL Taxonomoy Definition Document	Filed herewith

* Confidential treatment has been granted as to certain portions of this exhibit.

† Management contract or compensatory plan or arrangement.

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 CORPORATION

Date: March 14, 2014	By: /s/ Michael D. Popielec Michael D. Popielec President and Chief 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: March 14, 2014	/s/ Michael D. Popielec Michael D. Popielec President, Chief Executive Officer and Director (Principal Executive Officer)
Date: March 14, 2014	/s/ Philip A. Fain Philip A. Fain Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
Date: March 14, 2014	/s/Steven M. Anderson Steven M. Anderson (Director)
Date: March 14, 2014	/s/ Thomas L. Saeli Thomas L. Saeli (Director)
Date: March 14, 2014	/s/ Robert W. Shaw II Robert W. Shaw II (Director)
Date: March 14, 2014	/s/ Ranjit C. Singh Ranjit C. Singh (Director)
Date: March 14, 2014	/s/ Bradford T. Whitmore Bradford T. Whitmore (Director)

Index to Exhibits

21	Subsidiaries
23.1	Consent of Bonadio & Co., LLP
23.2	Consent of BDO USA, LLP
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.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