

ULTRALIFE CORP
Form 10-Q
August 04, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended June 27, 2010
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 000-20852
ULTRALIFE CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

16-1387013

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification No.)

2000 Technology Parkway, Newark, New York 14513

(Address of principal executive offices)

(Zip Code)

(315) 332-7100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, \$.10 par value 17,226,391 shares of common stock outstanding, net of 1,371,900 treasury shares, as of August 1, 2010.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 27, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,111	\$ 6,094
Restricted cash	452	
Trade accounts receivable (less allowance for doubtful accounts of \$598 at June 27, 2010 and \$1,024 at December 31, 2009)	27,895	32,449
Inventories	38,607	35,503
Deferred tax asset - current	288	288
Prepaid expenses and other current assets	1,631	1,624
Total current assets	70,984	75,958
Property, plant and equipment, net	15,361	16,648
Other assets:		
Goodwill	26,175	25,436
Intangible assets, net	12,243	13,064
Security deposits and other long-term assets	322	60
	38,740	38,560
Total Assets	\$ 125,085	\$ 131,166

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:		
Current portion of debt and capital lease obligations	\$ 12,729	\$ 19,082
Accounts payable	18,181	19,177
Income taxes payable	61	28
Other current liabilities	9,552	9,847
Total current liabilities	40,523	48,134

Long-term liabilities:

Debt and capital lease obligations	297	267
Deferred tax liability - long-term	4,223	4,100
Other long-term liabilities	543	551
Total long-term liabilities	5,063	4,918

Commitments and contingencies (Note 11)**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 - 18,598,291 at June 27, 2010 and 18,384,916 at December 31, 2009

Capital in excess of par value	1,861	1,831
Accumulated other comprehensive loss	170,449	169,064
Accumulated deficit	(1,505)	(1,256)
	(83,714)	(84,021)
	87,091	85,618

Less Treasury stock, at cost 1,371,900 and 1,358,507 shares outstanding, respectively

	7,652	7,558
Total Ultralife equity	79,439	78,060
Noncontrolling interest	60	54
Total shareholders' equity	79,499	78,114

Total Liabilities and Shareholders' Equity	\$ 125,085	\$ 131,166
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The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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ULTRALIFE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)
(unaudited)

	Three-Month Periods Ended		Six-Month Periods Ended	
	June 27, 2010	June 28, 2009	June 27, 2010	June 28, 2009
Revenues	\$ 37,024	\$ 39,593	\$ 75,531	\$ 79,396
Cost of products sold	27,604	32,813	56,353	64,835
Gross margin	9,420	6,780	19,178	14,561
Operating expenses:				
Research and development (including \$115, \$148, \$260 and \$258 respectively, of amortization of intangible assets)	1,903	2,514	3,631	4,494
Selling, general, and administrative (including \$263, \$318, \$613 and \$549 respectively, of amortization of intangible assets)	7,106	10,591	14,282	18,649
Total operating expenses	9,009	13,105	17,913	23,143
Operating income (loss)	411	(6,325)	1,265	(8,582)
Other income (expense):				
Interest income	(1)	1	2	4
Interest expense	(222)	(350)	(719)	(532)
Miscellaneous	(120)	(209)	(79)	(198)
Income (loss) before income taxes	68	(6,883)	469	(9,308)
Income tax provision-current	10		34	2
Income tax provision-deferred	41	95	122	184
Total income taxes	51	95	156	186
Net income (loss)	17	(6,978)	313	(9,494)
Net (income) loss attributable to noncontrolling interest	3	14	(6)	18

Net income (loss) attributable to Ultralife	\$	20	\$	(6,964)	\$	307	\$	(9,476)
Net income (loss) attributable to Ultralife common shareholders basic	\$	0.00	\$	(0.41)	\$	0.02	\$	(0.56)
Net income (loss) attributable to Ultralife common shareholders diluted	\$	0.00	\$	(0.41)	\$	0.02	\$	(0.56)
Weighted average shares outstanding basic		17,164		16,894		17,089		17,024
Weighted average shares outstanding diluted		17,169		16,894		17,094		17,024

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

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

	Six-Month Periods Ended	
	June 27, 2010	June 28, 2009
OPERATING ACTIVITIES		
Net income (loss)	\$ 313	\$ (9,494)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization of financing fees	1,940	1,939
Amortization of intangible assets	873	807
Gain on long-lived asset disposal and write-offs	(299)	
Foreign exchange loss	104	191
Non-cash stock-based compensation	557	1,077
Changes in deferred income taxes	122	184
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	4,521	420
Inventories	(3,186)	(8,094)
Prepaid expenses and other current assets	(347)	225
Income taxes payable	33	(567)
Accounts payable and other liabilities	(1,308)	339
Net cash provided from (used in) operating activities	3,323	(12,973)
INVESTING ACTIVITIES		
Purchase of property and equipment	(554)	(1,253)
Proceeds from asset disposal	463	
Change in restricted cash	(452)	
Payments for acquired companies, net of cash acquired	(137)	(6,763)
Net cash used in investing activities	(680)	(8,016)
FINANCING ACTIVITIES		
Net change in revolving credit facilities	(6,240)	23,900
Proceeds from issuance of common stock		310
Proceeds from issuance of debt		751
Principal payments on debt and capital lease obligations	(242)	(1,192)
Purchase of treasury stock		(3,326)
Net cash provided from (used in) financing activities	(6,482)	20,443
Effect of exchange rate changes on cash	(144)	(157)

Change in cash and cash equivalents	(3,983)	(703)
Cash and cash equivalents at beginning of period	6,094	1,878
Cash and cash equivalents at end of period	\$ 2,111	\$ 1,175
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$	\$ 605
Cash paid for interest	\$ 437	\$ 449
Noncash investing and financing activities:		
Issuance of common stock for purchase of acquired companies	\$ 858	\$
Purchase of property and equipment via notes payable	\$ 159	\$ 102

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

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ULTRALIFE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar Amounts in Thousands Except Share and Per Share Amounts)
(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements of Ultralife Corporation and our subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the Consolidated Financial Statements contained in our Form 10-K for the twelve-month period ended December 31, 2009.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Certain items previously reported in specific financial statement captions have been reclassified to conform to the current presentation.

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

2. ACQUISITIONS AND JOINT VENTURES

We accounted for the following acquisitions in accordance with the purchase method of accounting provisions of the revised Financial Accounting Standards Board (FASB) guidance for business combinations, whereby the purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value.

AMTI™ Brand

On March 20, 2009, we acquired substantially all of the assets and assumed substantially all of the liabilities of the tactical communications products business of Science Applications International Corporation. The tactical communications products business (AMTI), located in Virginia Beach, Virginia, designs, develops and manufactures tactical communications products including amplifiers, man-portable systems, cables, power solutions and ancillary communications equipment that are sold by Ultralife Corporation under the brand name of AMTI.

Under the terms of the asset purchase agreement for AMTI, the purchase price consisted of \$5,717 in cash.

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The results of operations of AMTI and the estimated fair value of assets acquired and liabilities assumed are included in our Condensed Consolidated Financial Statements beginning on the acquisition date. For the three- and six-month periods ended June 27, 2010, AMTI contributed net sales of \$3,204 and \$6,043, respectively, and net income of \$567 and \$1,162, respectively. For the three-month period ended and from the date of acquisition through June 28, 2009, AMTI contributed net sales of \$3,177 and \$3,265, respectively, and net income of \$120 and \$71, respectively. Pro forma information has not been presented, as it would not be materially different from amounts reported. The estimated excess of the purchase price over the net tangible and intangible assets acquired of \$4,684 was recorded as goodwill in the amount of \$1,033. The acquired goodwill has been assigned to the Communications Systems segment and is expected to be fully deductible for income tax purposes.

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

ASSETS

Current assets:

Cash	\$	
Trade accounts receivable, net		693
Inventories		2,534
Total current assets		3,227
Property, plant and equipment, net		339
Goodwill		1,033
Intangible Assets:		
Trademarks		450
Patents and Technology		800
Customer Relationships		970
Total assets acquired		6,819

LIABILITIES

Current liabilities:

Accounts payable		801
Other current liabilities		301
Total current liabilities		1,102
Long-term liabilities:		
Other long-term liabilities		
Total liabilities assumed		1,102

Total Purchase Price	\$	5,717
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Trademarks have an indefinite life and are not being amortized. The intangible assets related to patents and technology and customer relationships are being amortized as the economic benefits of the intangible assets are being utilized over their weighted-average estimated useful life of thirteen years.

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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:

	June 27, 2010	December 31, 2009
Raw materials	\$ 20,713	\$ 19,743
Work in process	5,993	6,044
Finished goods	11,901	9,716
	\$ 38,607	\$ 35,503

4. PROPERTY, PLANT AND EQUIPMENT

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

	June 27, 2010	December 31, 2009
Land	\$ 123	\$ 123
Buildings and leasehold improvements	6,187	6,127
Machinery and equipment	43,827	43,996
Furniture and fixtures	1,846	1,829
Computer hardware and software	3,377	3,397
Construction in progress	1,218	1,324
	56,578	56,796
Less: Accumulated depreciation	41,217	40,148
	\$ 15,361	\$ 16,648

Depreciation expense for property, plant and equipment was \$898 and \$1,863 for the three- and six-month periods ended June 27, 2010, respectively, and \$973 and \$1,894 for the three- and six-month periods ended June 28, 2009, respectively.

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5. GOODWILL AND INTANGIBLE ASSETS

a. Goodwill

The following table summarizes the goodwill activity by segment for the six-month periods ended June 27, 2010 and June 28, 2009:

	Battery & Energy Products	Communications Systems	Energy Services	Total
Balance at December 31, 2008	\$ 2,072	\$ 14,262	\$ 6,609	\$ 22,943
Adjustments to purchase price allocation		838	322	1,160
Acquisition of AMTI		1,261		1,261
Effect of foreign currency translations	(3)			(3)
Balance at June 28, 2009	2,069	16,361	6,931	25,361
Adjustments to purchase price allocation		(45)	117	72
Effect of foreign currency translations	3			3
Balance at December 31, 2009	2,072	16,316	7,048	25,436
Adjustments to purchase price allocation		(183)	912	729