ULTRALIFE BATTERIES INC
Form 10-Q
May 07, 2008

Table of Contents

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

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

For the quarterly period ended March 29, 2008

or

o **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 BATTERIES, INC.

(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 þ No o

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. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o No þ

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 17,392,427 shares of common stock outstanding, net of 728,690 treasury shares, as of May 2, 2008.

ULTRALIFE BATTERIES, INC.
INDEX

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 29, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 734	$ 2,245
Trade accounts receivable (less allowance for doubtful accounts of $508 at March 29, 2008 and $485 at December 31, 2007)	39,396	26,540
Inventories	40,225	35,098
Due from insurance company		152
Deferred tax asset current	302	309
Prepaid expenses and other current assets	2,452	3,949
Total current assets	83,109	68,293
Property, plant and equipment, net	18,855	19,365
Other assets:		
Goodwill	21,141	21,180
Intangible assets, net	12,631	13,113
Security deposits	105	97
	33,877	34,390
Total Assets	$ 135,841	$ 122,048
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of debt and capital lease obligations	$ 14,319	$ 13,423
Accounts payable	21,226	18,326
Other current liabilities	15,859	10,083
Total current liabilities	51,404	41,832
Long-term liabilities:		

Debt and capital lease obligations	5,235	16,224
Other long-term liabilities	855	985
Total long-term liabilities	6,090	17,209
Commitments and contingencies (Note 11)		
Minority interest in equity of subsidiaries	11	
Shareholders 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 - 18,066,317 at March 29, 2008 and 17,208,862 at December 31, 2007	1,798	1,712
Capital in excess of par value	164,746	152,070
Accumulated other comprehensive income (loss)	202	69
Accumulated deficit	(86,009)	(88,443)
	80,737	65,408
Less Treasury stock, at cost 728,690 shares outstanding	2,401	2,401
Total shareholders equity	78,336	63,007
Total Liabilities and Shareholders Equity	$ 135,841	$ 122,048

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

Table of Contents

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

	Three-Month Periods Ended	
	March 29, 2008	March 31, 2007
Revenues	$ 49,587	$ 32,320
Cost of products sold	38,712	24,819
Gross margin	10,875	7,501
Operating expenses:		
Research and development (including $159 and $253 respectively, of amortization of intangible assets)	1,609	1,614
Selling, general, and administrative (including $361 and $278 respectively, of amortization of intangible assets)	6,903	5,296
Total operating expenses	8,512	6,910
Operating income	2,363	591
Other income (expense):		
Interest income	11	14
Interest expense	(329)	(657)
Gain on insurance settlement	39	
Gain on debt conversion	313	
Minority interest in loss of subsidiaries	13	
Miscellaneous	69	16
Income (loss) before income taxes	2,479	(36)
Income tax provision (benefit)-current	54	
Income tax provision (benefit)-deferred	(9)	
Total income taxes	45	
Net income (loss)	$ 2,434	$ (36)
Earnings (loss) per share basic	$ 0.14	$ (0.00)

Earnings (loss) per share diluted	$ 0.14	$ (0.00)
Weighted average shares outstanding basic	17,027	15,078
Weighted average shares outstanding diluted	17,479	15,078

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

Table of Contents

ULTRALIFE BATTERIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(unaudited)

	Three-Month Periods Ended	
	March 29, 2008	March 31, 2007
OPERATING ACTIVITIES		
Net income (loss)	$ 2,434	$ (36)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of financing fees	998	963
Amortization of intangible assets	520	531
(Gain) loss on asset disposal	(2)	6
Gain on insurance settlement	(39)	
Foreign exchange gain	(52)	(18)
Gain on debt conversion	(313)	
Non-cash stock-based compensation	487	550
Minority interest in loss of subsidiaries	(13)	
Changes in deferred income taxes	9	
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(12,812)	1,183
Inventories	(5,074)	(6,694)
Prepaid expenses and other current assets	1,636	180
Insurance receivable relating to fires	197	(153)
Income taxes payable		13
Accounts payable and other liabilities	8,765	1,524
Net cash used in operating activities	(3,259)	(1,951)
INVESTING ACTIVITIES		
Purchase of property and equipment	(376)	(534)
Payments for acquired companies, net of cash acquired	(21)	(1,500)
Net cash used in investing activities	(397)	(2,034)
FINANCING ACTIVITIES		
Net change in revolving credit facilities	896	4,500
Proceeds from issuance of common stock	1,775	214
Principal payments on debt and capital lease obligations	(555)	(513)
Net cash provided by in financing activities	2,116	4,201
Effect of exchange rate changes on cash	29	16

Change in cash and cash equivalents		(1,511)		232
Cash and cash equivalents at beginning of period		2,245		720
Cash and cash equivalents at end of period	$	734	$	952
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid for income taxes	$		$	2
Cash paid for interest	$	428	$	568
Noncash investing and financing activities:				
Purchase of property and equipment via notes payable	$	66	$	
Conversion of convertible notes into shares of common stock	$	10,500	$	

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

Table of Contents

ULTRALIFE BATTERIES, INC.
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 Batteries, Inc. 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, 2007.

The year-end condensed 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.

Our monthly closing schedule is a weekly-based cycle as opposed to a calendar month-based cycle. 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 Statement of Financial Accounting Standards (SFAS) No. 141, 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.

2008 Activity

Ultralife Batteries India Private Limited

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 will assemble Ultralife power solution products and manage local sales and marketing activities, serving commercial, government and defense customers throughout India. We invested $26 in cash into the India JV, which represented our 51% ownership stake in the India JV.

2007 Activity

RedBlack Communications, Inc. (formerly Innovative Solutions Consulting, Inc.)

On September 28, 2007, we finalized the acquisition of all of the issued and outstanding shares of common stock of Innovative Solutions Consulting, Inc. (ISC), a provider of a full range of engineering and technical services for communication electronic systems to government agencies and prime contractors. In January 2008, we renamed ISC to RedBlack Communications, Inc. (RedBlack).

The initial cash purchase price was $943 (net of $57 in cash acquired), with up to $2,000 in additional cash consideration contingent on the achievement of certain sales milestones. The additional cash consideration is payable in up to three annual payments and subject to possible adjustments as set forth in the stock purchase agreement. The contingent payments will be recorded as an addition to the purchase price when the performance milestones are attained. The initial $943 cash payment was financed through a combination of cash on hand and borrowings through the revolver component of our credit facility with our primary lending banks. We incurred $60 in acquisition related costs, which are included in the initial cost of the investment of $1,003, with a potential total cost of the investment of $3,003 assuming the earn-out of all contingent consideration. During the first quarter of 2008, $19 of additional acquisition costs were incurred, which resulted in an increase to goodwill of $19.

The results of operations of RedBlack and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements from the date of acquisition. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $136 (including $57 in cash) was recorded as goodwill in the amount of $924. We are in the process of completing the valuations of certain tangible and intangible assets acquired with the new business. The final allocation of the excess of the purchase price over the net assets acquired is subject to revision based upon our final review of valuation assumptions. The acquired goodwill has been assigned to the Design and Installation Services segment and is expected to be fully deductible for income tax purposes.

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

ASSETS	
Current assets:	
Cash	$ 57
Trade accounts receivables, net	535
Prepaid expenses and other current assets	175
Total current assets	767
Property, plant and equipment, net	687
Goodwill	924
Intangible Assets:	
Non-compete agreements	180
Total assets acquired	2,558
LIABILITIES	
Current liabilities:	
Current portion of long-term debt	720
Accounts payable	431
Other current liabilities	159
Total current liabilities	1,310
Long-term liabilities:	
Debt	188
Total liabilities assumed	1,498
Total Purchase Price	$ 1,060

Non-compete agreements are being amortized on a straight-line basis over their estimated useful lives of two years.

Table of Contents

The following table summarizes the unaudited pro forma financial information for the period indicated as if the RedBlack acquisition had occurred at the beginning of the period being presented. The pro forma information contains the actual combined results of RedBlack and us, with the results prior to the acquisition date including pro forma impact of: the amortization of the acquired intangible assets; and the impact on interest expense in connection with funding the cash portion of the acquisition purchase price. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition had occurred as of the beginning of the period presented or that may be obtained in the future.

(in thousands, except per share data)	Three-Month Period Ended March 31, 2007
Revenues	$32,934
Net Loss	$ (40)
Loss per share Basic	$ (0.00)
Loss per share Diluted	$ (0.00)

Stationary Power Services, Inc. and Reserve Power Systems, Inc.

On November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Stationary Power Services, Inc. (SPS), an infrastructure power management services firm specializing in engineering, installation and preventative maintenance of standby power systems, uninterruptible power supply systems, DC power systems and switchgear/control systems for the telecommunications, aerospace, banking and information services industries. Immediately prior to the closing of the SPS acquisition, SPS distributed the real estate assets, along with the corresponding mortgage payable, to the original owner of SPS, as these assets and corresponding liability were not part of our acquisition of SPS. Also on November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Reserve Power Systems, Inc. (RPS), a supplier of lead acid batteries primarily for use by SPS in the design and installation of standby power systems. SPS and RPS were previously affiliated companies due to common ownership interests.

Under the terms of the stock purchase agreement for SPS, the initial purchase price of $10,000 consisted of $5,889 (net of $111 in cash acquired) in cash and a $4,000 subordinated convertible promissory note to be held by the seller. In addition, on the achievement of certain post-acquisition sales milestones, we will issue up to an aggregate amount of 100,000 shares of our common stock. The initial purchase price was subject to a post-closing adjustment based on a final valuation of Net Worth on the date of closing, using a base of $500. The final net value of the Net Worth , under the acquisition agreement, was $339, resulting in a revised initial purchase price of $9,839. As of March 29, 2008, we have accrued $161 for this receivable, which is included in the prepaid expenses and other current assets line on our Consolidated Balance Sheet. As a result of this purchase price adjustment, goodwill was decreased by $161.

The $6,000 cash payment was financed by a portion of the net proceeds from a limited public offering that we completed on November 16, 2007, whereby 1,000,000 shares of our common stock were issued. Total net proceeds from the offering were approximately $12,600, of which $6,000 was used for the SPS cash payment. The $4,000 subordinated convertible promissory note carries a three-

Table of Contents

year term, bears interest at the rate of 5% per year and is convertible at $15.00 per share into 266,667 shares of our common stock, with a forced conversion feature at $17.00 per share. We have evaluated the terms of the conversion feature under applicable accounting literature, including SFAS No. 133 and EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19), and concluded that this feature should not be separately accounted for as a derivative. We incurred $80 in acquisition related costs, which are included in the cost of the SPS investment of $9,919. During the first quarter of 2008, $26 of additional acquisition costs were incurred, which resulted in an increase to goodwill of $26.

Under the terms of the stock purchase agreement for RPS, the initial purchase price consisted of 100,000 shares of our common stock, valued at $1,383. In addition, on the achievement of certain post-acquisition sales milestones, we will pay the sellers, in cash, 5% of sales up to the operating plan, and 10% of sales that exceed the operating plan, for the remainder of the calendar year 2007 and for calendar years 2008, 2009 and 2010. The additional contingent cash consideration is payable in annual installments, and excludes sales made to SPS, which historically have comprised substantially all of RPS s sales. There were no non-SPS sales for the remainder of the calendar year 2007, therefore, no contingent cash consideration was recorded for 2007. As of March 29, 2008, we have accrued $6 for the 2008 portion of the contingent cash consideration, which is included in the other current liabilities line on our Consolidated Balance Sheet. As a result of this accrual, goodwill was increased by $6.

The results of operations of SPS and RPS and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements from the date of acquisition. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $5,940 (including $111 of cash) was recorded as goodwill in the amount of $5,368. We are in the process of completing the valuations of certain tangible and intangible assets acquired with the new businesses. The final allocation of the excess of the purchase price over the net assets acquired is subject to revision based upon our final review of valuation assumptions. The acquired goodwill has been assigned to the Design and Installation Services and the Rechargeable Products segments and is expected to be fully deductible for income tax purposes.

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

ASSETS	
Current assets:	
Cash	$ 111
Trade accounts receivables, net	1,594
Inventories	1,687
Prepaid expenses and other current assets	52
Total current assets	3,444
Property, plant and equipment, net	324
Goodwill	5,368
Intangible Assets:	
Trademarks	1,300
Patents and Technology	440
Customer Relationships	4,600
Other Assets:	
Security deposits	12
Total assets acquired	15,488

Table of Contents

LIABILITIES	
Current liabilities:	
Current portion of long-term debt	1,277
Accounts payable	1,958
Other current liabilities	788
Total current liabilities	4,023
Long-term liabilities:	
Debt	137
Other long-term liabilities	20
Total liabilities assumed	4,180
Total Purchase Price	$ 11,308

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 nineteen years.

In connection with the SPS acquisition, we entered into an operating lease agreement for real property in Clearwater, Florida with a company partially owned by William Maher, former owner of SPS, who joined the company as an employee following the completion of the SPS acquisition. The lease term is for three years and expires on November 15, 2010. The lease has a base annual rent of approximately $144, payable in monthly installments. In addition to the base annual rent, we are obligated to pay the real estate and personal property taxes associated with the facility. Under the terms of the lease, we have the right to extend the lease for one additional three-year term, with the base annual rent, applicable to the extension, of approximately $147.

The following table summarizes the unaudited pro forma financial information for the period indicated as if the SPS and RPS acquisitions had occurred at the beginning of the period being presented. Because SPS and RPS were under common control as of the date of these acquisitions, the pro forma information contains the actual combined results of SPS and RPS and us, with the results prior to the acquisition date including pro forma impact of: the amortization of the acquired intangible assets; the interest expense incurred relating to the convertible note payable issued in connection with the acquisition purchase price; interest expense that would not have been incurred for the mortgage payable that was not assumed by us in the SPS acquisition; the elimination of the sales and purchases between SPS and RPS and us; and rent expense that would have been incurred for the building that was not acquired by us in the SPS acquisition, net of the reduction in depreciation expense for the building. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition had occurred as of the beginning of the period presented or that may be obtained in the future.

(in thousands, except per share data)	Three-Month Period Ended March 31, 2007
Revenues	$33,972
Net Loss	$ (59)
Loss per share Basic	$ (0.00)
Loss per share Diluted	$ (0.00)

Table of Contents

3. GOODWILL AND OTHER INTANGIBLE ASSETS

a. Goodwill

The following table summarizes the goodwill activity by segment for the three-month periods ended March 29, 2008 and March 31, 2007:

	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Total
Balance at December 31, 2006	$1,239	$ 2,421	$ 9,684	$	$13,344
Adjustments to purchase price allocation	77	53	211		341
Effect of foreign currency translations	(13)				(13)
Balance at March 31, 2007	1,303	2,474	9,895		13,672
Acquisition of RedBlack				905	905
Acquisition of SPS				3,825	3,825
Acquisition of RPS		1,672			1,672
Adjustments to purchase price allocation	251	141	565		957
Effect of foreign currency translations	149				149
Balance at December 31, 2007	1,703	4,287	10,460	4,730	21,180
Adjustments to purchase price allocation		6		(116)	