ULTRALIFE CORP
Form 10-Q
November 05, 2008

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 September 27, 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 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 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 (Do not check if a smaller reporting company)	Smaller reporting company o

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 17,459,629 shares of common stock outstanding, net of 728,690 treasury shares, as of

November 1, 2008.

ULTRALIFE CORPORATION
INDEX

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 27, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,517	$ 2,245
Trade accounts receivable (less allowance for doubtful accounts of $660 at September 27, 2008 and $485 at December 31, 2007)	34,946	26,540
Inventories	42,226	35,098
Due from insurance company		152
Deferred tax asset current	310	309
Prepaid expenses and other current assets	1,941	3,949
Total current assets	84,940	68,293
Property, plant and equipment, net	17,914	19,365
Other assets:		
Goodwill	21,807	21,180
Intangible assets, net	11,609	13,113
Security deposits and other long-term assets	74	97
	33,490	34,390
Total Assets	$ 136,344	$ 122,048
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of debt and capital lease obligations	$ 1,870	$ 13,423
Accounts payable	18,944	18,326
Income taxes payable	469	
Other current liabilities	15,773	10,083
Total current liabilities	37,056	41,832

Long-term liabilities:		
Debt and capital lease obligations	4,470	16,224
Deferred tax liability long-term	3,613	455
Other long-term liabilities	661	530
Total long-term liabilities	8,744	17,209
Commitments and contingencies (Note 11)		
Minority interest in equity of subsidiaries	41	
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 18,187,119 at September 27, 2008 and 17,208,862 at December 31, 2007	1,812	1,712
Capital in excess of par value	166,437	152,070
Accumulated other comprehensive income	(388)	69
Accumulated deficit	(74,957)	(88,443)
	92,904	65,408
Less Treasury stock, at cost 728,690 shares outstanding	2,401	2,401
Total shareholders equity	90,503	63,007
Total Liabilities and Shareholders Equity	$ 136,344	$ 122,048

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

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

	Three-Month Periods Ended		Nine-Month Periods Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Revenues	$ 67,993	$ 33,291	$ 205,478	$ 100,807
Cost of products sold	52,307	26,369	158,289	77,767
Gross margin	15,686	6,922	47,189	23,040
Operating expenses:				
Research and development (including $155, $255, $472 and $764 respectively, of amortization of intangible assets)	2,161	1,547	5,907	4,849
Selling, general, and administrative (including $362, $294, $1,091 and $866 respectively, of amortization of intangible assets)	8,227	5,177	23,684	15,685
Total operating expenses	10,388	6,724	29,591	20,534
Operating income	5,298	198	17,598	2,506
Other income (expense):				
Interest income	5	12	18	44
Interest expense	(248)	(509)	(817)	(1,770)
Gain on insurance settlement			39	
Gain on debt conversion			313	
Minority interest in (income) loss of subsidiaries	(10)		18	
Miscellaneous	(175)	171	(66)	354
Income (loss) before income taxes	4,870	(128)	17,103	1,134
Income tax provision-current	151		469	
Income tax provision-deferred	62		3,148	
Total income taxes	213		3,617	
Net income (loss)	$ 4,657	$ (128)	$ 13,486	$ 1,134

Earnings (loss) per share basic	$ 0.27	$ (0.01)	$ 0.78	$ 0.08
Earnings (loss) per share diluted	$ 0.27	$ (0.01)	$ 0.77	$ 0.07
Weighted average shares outstanding basic	17,366	15,160	17,220	15,120
Weighted average shares outstanding diluted	17,733	15,160	17,768	15,346

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

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

	Nine-Month Periods Ended	
	September 27, 2008	September 29, 2007
OPERATING ACTIVITIES		
Net income	$ 13,486	$ 1,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of financing fees	2,896	2,871
Amortization of intangible assets	1,563	1,630
(Gain) loss on asset disposal	(3)	6
Gain on insurance settlement	(39)	
Foreign exchange (gain) loss	130	(295)
Gain on debt conversion	(313)	
Impairment of long-lived assets	138	
Non-cash stock-based compensation	1,691	1,532
Minority interest in loss of subsidiaries	(18)	
Changes in deferred income taxes	3,148	
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(8,465)	871
Inventories	(7,347)	(2,394)
Prepaid expenses and other current assets	2,455	816
Insurance receivable relating to fires	201	664
Income taxes payable	469	
Accounts payable and other liabilities	6,468	(2,671)
Net cash provided from operating activities	16,460	4,164
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,282)	(1,706)
Payments for acquired companies, net of cash acquired	(368)	(2,457)
Net cash used in investing activities	(2,650)	(4,163)
FINANCING ACTIVITIES		
Net change in revolving credit facilities	(11,204)	1,355
Proceeds from issuance of common stock	2,276	470
Principal payments on debt and capital lease obligations	(1,669)	(1,849)
Net cash used in financing activities	(10,597)	(24)

Effect of exchange rate changes on cash		59		230
Change in cash and cash equivalents		3,272		207
Cash and cash equivalents at beginning of period		2,245		720
Cash and cash equivalents at end of period	$	5,517	$	927
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid for income taxes	$		$	
Cash paid for interest	$	787	$	1,683
Noncash investing and financing activities:				
Purchase of property and equipment via notes payable	$	66	$	410
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.

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, 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.

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

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 assembles Ultralife power solution products and manages local sales and marketing activities, serving commercial, government and defense customers throughout India. We have invested $61 in cash into the India JV, as consideration for 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 if and 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. During the second quarter of 2008, we made an election under Section 338(h)(10) of the Internal Revenue Code in relation to RedBlack, and in accordance with the provisions of the purchase agreement, we have made payments of $54 to the sellers of RedBlack to make them substantially whole from a tax perspective. These additional payments are part of the total purchase price, and as such, this adjustment to the purchase price resulted in an increase to goodwill. During the third quarter of 2008, $4 of additional tax payments were recognized, which resulted in an increase to goodwill of $4. During the third quarter of 2008, we accrued $182 for the first annual payment of the contingent cash consideration, which is included in the other current liabilities line on our Consolidated Balance Sheet, and resulted in an increase to goodwill of $182. During the third quarter of 2008, $25 of additional acquisition costs were incurred, which resulted in an increase to goodwill of $25. Through September 27, 2008, we have incurred $87 in acquisition related costs, which are included in the revised cost of the investment of $1,266 (net of $57 in cash acquired), with a potential total cost of the investment of $3,084 assuming the earn-out of all contingent consideration.

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 $1,187. 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 final 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	1,187
Intangible Assets:	
Non-compete agreements	180
Total assets acquired	2,821
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	$ 1,323

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

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 September 29, 2007	Nine-Month Period Ended September 29, 2007
Revenues	$34,271	$102,909
Net income (loss)	$ (107)	$ 784
Earnings (loss) per share Basic	$ (0.01)	$ 0.05
Earnings (loss) per share Diluted	$ (0.01)	$ 0.05

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., a supplier of lead acid batteries primarily for use by SPS in the design and installation of standby power systems. In June 2008, we renamed Reserve Power Systems, Inc. to RPS Power Systems, Inc. (RPS). 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 stock purchase agreement, was $339, resulting in a revised initial purchase price of $9,839. As of September 27, 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. In July 2008, William Maher, former owner of SPS, delivered his promissory note to us in connection with the Net Worth adjustment for $161. The promissory note bears interest at the rate of 5% per year and is payable in full, including any unpaid interest thereon, no later than December 31, 2008.

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-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. During the third quarter of 2008, we made an election under Section 338(h)(10) of the Internal Revenue Code in relation to SPS, and in accordance with the provisions of the purchase agreement, we made payments of $19 and have accrued for a payment of $35, totaling $54, to the sellers of SPS to make them substantially whole from a tax perspective. These additional payments are part of the total purchase price, and as such, this adjustment to the purchase price resulted in an increase to goodwill of $54. The accrued payment of $35 is included in the other current liabilities line on our Consolidated Balance Sheet. We incurred $112 in acquisition related costs, which are included in the cost of the SPS investment of $10,005. During the third quarter of 2008, $31 of additional acquisition costs were incurred, which resulted in an increase to goodwill of $31.

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. Through September 27, 2008, we have accrued $30 for the 2008 portion of the contingent cash consideration, which is included in the other current liabilities line on our Consolidated Balance Sheet. During the third quarter of 2008, this accrual was increased by $10, which resulted in an increase to goodwill of $10.

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 $5,478. 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	5,478
Intangible Assets:	
Trademarks	1,300
Patents and Technology	440
Customer Relationships	4,600
Other Assets:	
Security deposits	12
Total assets acquired	15,598
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	$ 11,418