

ULTRALIFE CORP  
Form 10-Q  
May 02, 2019

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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 fiscal quarter ended March 31, 2019**

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**

**16-1387013**

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

**2000 Technology Parkway Newark, New York 14513**

**(315) 332-7100**

(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code:)

**None**

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

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

**Common Stock, \$0.10 par value per share**

**ULBI**

**NASDAQ**

(Title of each class)

(Trading Symbol) (Name of each exchange on which registered)

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 every Interactive Data file required to be submitted 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 such files). Yes No

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

Accelerated filer

Large accelerated filer

Non-accelerated filer Smaller reporting company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:** Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No **Not applicable**

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

**As of April 30, 2019, the registrant had 15,736,668 shares of common stock outstanding.**

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**ULTRALIFE CORPORATION AND SUBSIDIARIES**

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

|                                                                                                       | <b>March<br/>31,<br/><br/>2019</b> | <b>December<br/>31,<br/><br/>2018<br/><i>Adjusted</i><br/>(1)</b> |
|-------------------------------------------------------------------------------------------------------|------------------------------------|-------------------------------------------------------------------|
| <b>ASSETS</b>                                                                                         |                                    |                                                                   |
| Current assets:                                                                                       |                                    |                                                                   |
| Cash                                                                                                  | \$21,240                           | \$ 25,934                                                         |
| Trade Accounts Receivable, Net of Allowance for Doubtful Accounts of \$302 and \$296,<br>Respectively | 13,938                             | 16,015                                                            |
| Inventories, Net                                                                                      | 27,906                             | 22,843                                                            |
| Prepaid Expenses and Other Current Assets                                                             | 2,397                              | 2,368                                                             |
| Total Current Assets                                                                                  | 65,481                             | 67,160                                                            |
| Property, Equipment and Improvements, Net                                                             | 12,398                             | 10,744                                                            |
| Goodwill                                                                                              | 20,251                             | 20,109                                                            |
| Other Intangible Assets, Net                                                                          | 6,484                              | 6,504                                                             |
| Deferred Income Taxes, Net                                                                            | 15,421                             | 15,444                                                            |
| Other Noncurrent Assets                                                                               | 916                                | 887                                                               |
| Total Assets                                                                                          | \$120,951                          | \$ 120,848                                                        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                           |                                    |                                                                   |
| Current Liabilities:                                                                                  |                                    |                                                                   |
| Accounts Payable                                                                                      | \$11,307                           | \$ 9,919                                                          |

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|                                                                                                                                                                                           |           |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Accrued Compensation and Related Benefits                                                                                                                                                 | 1,364     | 1,494     |
| Accrued Expenses and Other Current Liabilities                                                                                                                                            | 3,325     | 3,973     |
| Total Current Liabilities                                                                                                                                                                 | 15,996    | 15,386    |
| Deferred Income Taxes                                                                                                                                                                     | 564       | 591       |
| Other Noncurrent Liabilities                                                                                                                                                              | 468       | 408       |
| Total Liabilities                                                                                                                                                                         | 17,028    | 16,385    |
| Commitments and Contingencies (Note 10)                                                                                                                                                   |           |           |
| Shareholders' Equity:                                                                                                                                                                     |           |           |
| Preferred Stock – Par Value \$.10 Per Share; Authorized 1,000,000 Shares; None Issued                                                                                                     | -         | -         |
| Common Stock – Par Value \$.10 Per Share; Authorized 40,000,000 Shares; Issued – 20,134,596 Shares at March 31, 2019 and 20,053,335 Shares at December 31, 2018; Outstanding – 15,733,414 |           |           |
| Shares at March 31, 2019 and 15,920,585 at December 31, 2018                                                                                                                              | 2,013     | 2,005     |
| Capital in Excess of Par Value                                                                                                                                                            | 183,163   | 182,630   |
| Accumulated Deficit                                                                                                                                                                       | (57,610 ) | (58,035 ) |
| Accumulated Other Comprehensive Loss                                                                                                                                                      | (2,351 )  | (2,786 )  |
| Treasury Stock - At Cost; 4,401,182 at March 31, 2019 and 4,132,750 Shares at December 31, 2018                                                                                           | (21,231 ) | (19,266 ) |
| Total Ultralife Corporation Equity                                                                                                                                                        | 103,984   | 104,548   |
| Non-Controlling Interest                                                                                                                                                                  | (61 )     | (85 )     |
| Total Shareholders' Equity                                                                                                                                                                | 103,923   | 104,463   |
| Total Liabilities and Shareholders' Equity                                                                                                                                                | \$120,951 | \$120,848 |

Effective January 1, 2019, the Company adopted Accounting Standards Codification Topic 842 (ASC 842), (1) *Leases*. Prior period balances have been adjusted for the effects of the new standard. See Note 1 for further information.

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

**ULTRALIFE  
CORPORATION  
AND  
SUBSIDIARIES**

**CONSOLIDATED  
STATEMENTS OF  
INCOME AND  
COMPREHENSIVE  
INCOME**

**(In Thousands except  
per share amounts)**

**(Unaudited)**

|                                                         | <b>Three Month<br/>Periods Ended</b> |                          |
|---------------------------------------------------------|--------------------------------------|--------------------------|
|                                                         | <b>March<br/>31,<br/>2019</b>        | <b>April 1,<br/>2018</b> |
| <b>Revenues</b>                                         | \$18,882                             | \$23,069                 |
| <b>Cost of Products Sold</b>                            | 13,798                               | 15,787                   |
| <b>Gross Profit</b>                                     | 5,084                                | 7,282                    |
| <b>Operating Expenses:</b>                              |                                      |                          |
| Research and Development                                | 1,036                                | 1,101                    |
| Selling, General and Administrative                     | 3,500                                | 3,825                    |
| Total Operating Expenses                                | 4,536                                | 4,926                    |
| <b>Operating Income</b>                                 | 548                                  | 2,356                    |
| <b>Other Expenses:</b>                                  |                                      |                          |
| Interest and Financing Expense                          | (5 )                                 | (33 )                    |
| Miscellaneous                                           | (53 )                                | (100 )                   |
| Total Other Expenses                                    | (58 )                                | (133 )                   |
| <b>Income Before Income Tax Provision</b>               | 490                                  | 2,223                    |
| Income Tax Provision                                    | (41 )                                | (55 )                    |
| <b>Net Income</b>                                       | 449                                  | 2,168                    |
| Net Income Attributable to Non-Controlling Interest     | (24 )                                | (17 )                    |
| <b>Net Income Attributable to Ultralife Corporation</b> | 425                                  | 2,151                    |

|                                                                                     |               |                |
|-------------------------------------------------------------------------------------|---------------|----------------|
| <b>Other Comprehensive Income:</b>                                                  |               |                |
| Foreign Currency Translation Adjustments                                            | 435           | 752            |
| <b>Comprehensive Income Attributable to Ultralife Corporation</b>                   | <b>\$860</b>  | <b>\$2,903</b> |
| <b>Net Income Per Share Attributable to Ultralife Common Shareholders – Basic</b>   | <b>\$.03</b>  | <b>\$.14</b>   |
| <b>Net Income Per Share Attributable to Ultralife Common Shareholders – Diluted</b> | <b>\$.03</b>  | <b>\$.13</b>   |
| <b>Weighted Average Shares Outstanding – Basic</b>                                  | <b>15,740</b> | <b>15,704</b>  |
| Potential Common Shares                                                             | 485           | 498            |
| <b>Weighted Average Shares Outstanding – Diluted</b>                                | <b>16,225</b> | <b>16,202</b>  |

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



**ULTRALIFE  
CORPORATION  
AND  
SUBSIDIARIES**

**CONSOLIDATED  
STATEMENTS  
OF CASH  
FLOWS**

(In Thousands)

(Unaudited)

|                                                                                             | <b>Three Month<br/>Periods Ended</b> |                          |
|---------------------------------------------------------------------------------------------|--------------------------------------|--------------------------|
|                                                                                             | <b>March<br/>31,<br/>2019</b>        | <b>April 1,<br/>2018</b> |
| <b>OPERATING ACTIVITIES:</b>                                                                |                                      |                          |
| Net Income                                                                                  | \$449                                | \$2,168                  |
| Adjustments to Reconcile Net Income to Net Cash (Used In) Provided By Operating Activities: |                                      |                          |
| Depreciation                                                                                | 447                                  | 484                      |
| Amortization of Intangible Assets                                                           | 92                                   | 102                      |
| Amortization of Financing Fees                                                              | 9                                    | 9                        |
| Stock-Based Compensation                                                                    | 185                                  | 139                      |
| Deferred Income Taxes                                                                       | (5 )                                 | (1 )                     |
| Changes in Operating Assets and Liabilities:                                                |                                      |                          |
| Accounts Receivable                                                                         | 2,076                                | (939 )                   |
| Inventories                                                                                 | (4,963 )                             | (502 )                   |
| Prepaid Expenses and Other Assets                                                           | (1 )                                 | (86 )                    |
| Accounts Payable and Other Liabilities                                                      | 1,166                                | (2,295 )                 |
| Net Cash Used In Operating Activities                                                       | (545 )                               | (921 )                   |
| <b>INVESTING ACTIVITIES:</b>                                                                |                                      |                          |
| Purchases of Property, Equipment and Improvements                                           | (2,581 )                             | (172 )                   |
| Net Cash Used In Investing Activities                                                       | (2,581 )                             | (172 )                   |
| <b>FINANCING ACTIVITIES:</b>                                                                |                                      |                          |
| Cash Paid to Repurchase Common Stock                                                        | (1,957 )                             | -                        |
| Proceeds from Exercise of Stock Option                                                      | 356                                  | 939                      |
| Tax Withholdings on Stock-Based Awards                                                      | (8 )                                 | -                        |
| Net Cash (Used In) Provided By Financing Activities                                         | (1,609 )                             | 939                      |
| Effect of Exchange Rate Changes on Cash                                                     | 41                                   | 154                      |

**DECREASE IN CASH**

(4,694 ) -

Cash, Beginning of Period

25,934 18,330

Cash, End of Period

\$21,240 \$18,330

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

**ULTRALIFE  
CORPORATION  
AND  
SUBSIDIARIES  
CONSOLIDATED  
STATEMENTS OF  
CHANGES IN  
SHAREHOLDERS'  
EQUITY  
(Dollars in  
Thousands)**

**(Unaudited)**

|                                                  | <b>Common Stock<br/>Number of<br/>Shares</b> | <b>Common Stock<br/>Amount</b> | <b>Capital<br/>in Excess<br/>of Par<br/>Value</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income<br/>(Loss)</b> | <b>Accumulated<br/>Deficit</b> | <b>Treasury<br/>Stock</b> | <b>Non-<br/>Controlling<br/>Interest</b> | <b>Total</b> |
|--------------------------------------------------|----------------------------------------------|--------------------------------|---------------------------------------------------|----------------------------------------------------------------------|--------------------------------|---------------------------|------------------------------------------|--------------|
| <b>Balance – December<br/>31, 2017</b>           | 19,670,928                                   | \$ 1,966                       | \$ 180,211                                        | \$ (1,611 )                                                          | \$ (82,894 )                   | \$ (18,469 )              | \$ (154 )                                | \$ 79,049    |
| Cumulative Effect<br>Adjustment (1)              |                                              |                                |                                                   |                                                                      | (71 )                          |                           |                                          | (71 )        |
| Net Income                                       |                                              |                                |                                                   |                                                                      | 2,151                          |                           | 17                                       | 2,168        |
| Stock Option<br>Exercises                        | 221,009                                      | 23                             | 995                                               |                                                                      |                                |                           |                                          | 1,018        |
| Stock-Based<br>Compensation -Stock<br>Options    |                                              |                                | 123                                               |                                                                      |                                |                           |                                          | 123          |
| Stock-Based<br>Compensation<br>-Restricted Stock |                                              |                                | 16                                                |                                                                      |                                |                           |                                          | 16           |
| Foreign Currency<br>Translation<br>Adjustments   |                                              |                                |                                                   | 752                                                                  |                                |                           |                                          | 752          |
| Cash settlement of<br>outstanding options        |                                              |                                | (33 )                                             |                                                                      |                                |                           |                                          | (33 )        |
| <b>Balance – April 1,<br/>2018 (1)</b>           | 19,891,937                                   | \$ 1,989                       | \$ 181,312                                        | \$ (859 )                                                            | \$ (80,814 )                   | \$ (18,469 )              | \$ (137 )                                | \$ 83,022    |
| <b>Balance – December<br/>31, 2018 (1)</b>       | 20,053,335                                   | \$ 2,005                       | \$ 182,630                                        | \$ (2,786 )                                                          | \$ (58,035 )                   | \$ (19,266 )              | \$ (85 )                                 | \$ 104,463   |
| Net Income                                       |                                              |                                |                                                   |                                                                      | 425                            |                           | 24                                       | 449          |
| Share Repurchases                                | 75,427                                       | 8                              | 348                                               |                                                                      |                                | (1,957 )                  |                                          | (1,957 )     |
|                                                  |                                              |                                |                                                   |                                                                      |                                |                           |                                          | 356          |

|                                            |            |         |           |           |   |           |   |            |             |
|--------------------------------------------|------------|---------|-----------|-----------|---|-----------|---|------------|-------------|
| Stock Option Exercises                     |            |         |           |           |   |           |   |            |             |
| Stock-Based Compensation -Stock Options    |            |         | 174       |           |   |           |   |            | 174         |
| Stock-Based Compensation -Restricted Stock | 5,834      |         | 11        |           |   |           |   |            | 11          |
| Tax Withholdings on Restricted Stock       |            |         |           |           |   | (8        | ) |            | (8          |
| Foreign Currency Translation Adjustments   |            |         |           | 435       |   |           |   |            | 435         |
| <b>Balance – March 31, 2019</b>            | 20,134,596 | \$2,013 | \$183,163 | \$ (2,351 | ) | \$(57,610 | ) | \$(21,231) | \$(61       |
|                                            |            |         |           |           |   |           |   |            | ) \$103,923 |

Effective January 1, 2019, the Company adopted Accounting Standards Codification Topic 842 (ASC 842), (1)Leases. Prior period balances have been adjusted for the effects of the new standard. See Note 1 for further information.

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

**ULTRALIFE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Dollar amounts in thousands – except share and per share amounts)

(Unaudited)

**1. BASIS OF PRESENTATION**

The accompanying unaudited Consolidated Financial Statements of Ultralife Corporation (the “Company”) and its subsidiaries have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the Consolidated Financial Statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the Consolidated Financial Statements and related notes thereto contained in our Form 10-K for the year ended December 31, 2018.

The December 31, 2018 consolidated balance sheet data referenced herein was derived from audited financial statements, but does not include all disclosures required by GAAP.

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

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

***Recently Adopted Accounting Guidance***

*Leases*

Effective January 1, 2019, the Company adopted Accounting Standards Update 2016-02 – *Leases* (Topic 842). Adoption of the new standard did not materially impact the prior year consolidated statements of operations and cash flows. The prior year consolidated balance sheet has been revised for the effects of the new standard. The effects to our consolidated balance sheet as of December 31, 2018 are presented below.

The Company adopted the new standard applying the modified retrospective approach. The Company measured and recognized leases upon adoption which had commenced as of the beginning or during the prior year. The package of practical expedients permitted under the transition guidance of the new standard was elected which allowed us to carry forward the historical lease classification and determination of whether an arrangement is or contains a lease on existing leases. The use-of-hindsight transition practical expedient was applied to determine the lease term for existing leases, which resulted in the lengthening of the lease term at commencement for one of our operating facilities.

At contract inception, the Company determines whether the arrangement is or contains a lease and determines the lease classification. The lease term is determined based on the noncancellable term of the lease adjusted to the extent optional renewal terms and termination rights are reasonably certain. Lease expense is recognized evenly over the lease term. Variable lease payments are recognized as period costs. The present value of remaining lease payments are recognized as a liability on the balance sheet with a corresponding right-of-use asset adjusted for prepaid or accrued lease payments. The Company uses its incremental borrowing rate for the discount rate, unless the interest rate implicit in the lease contract is readily determinable. The Company has adopted the practical expedients to not separate non-lease components from lease components and to not present short-term leases on the balance sheet.

The impact on the consolidated balance sheet as of December 31, 2018 is shown below.

**Impact to Previously Reported Results**

Consolidated Balance Sheet as of December 31, 2018:

|                                                | <b>As</b>         | <b>Lease</b>      |                 |
|------------------------------------------------|-------------------|-------------------|-----------------|
|                                                | <b>Previously</b> | <b>Standard</b>   | <b>As</b>       |
|                                                | <b>Reported</b>   | <b>Adjustment</b> | <b>Adjusted</b> |
| Other noncurrent assets                        | \$ 82             | \$ 805            | \$ 887          |
| Prepaid expenses and other current assets      | 2,429             | (61 )             | 2,368           |
| Accrued expenses and other current liabilities | 3,534             | 439               | 3,973           |
| Other noncurrent liabilities                   | 32                | 376               | 408             |
| Accumulated deficit                            | (57,964 )         | (71 )             | (58,035 )       |

See Note 9 for further disclosure regarding lease accounting.

**Recent Accounting Guidance Not Yet Adopted**

There have been no developments to recently issued accounting standards, including the expected dates of adoption and anticipated effects on the Company’s consolidated financial statements, from those disclosed in the Company’s 2018 Annual Report on Form 10-K.

**2. SUBSEQUENT EVENTS**

*Acquisition of Southwest Electronic Energy Corporation*

On May 1, 2019, Ultralife Corporation completed the acquisition of 100% of the issued and outstanding shares of Southwest Electronic Energy Corporation (“SWE”) for an aggregate purchase price of \$25.0 million in cash, net of cash acquired and subject to customary post-closing working capital adjustments.

SWE is a leading independent designer and manufacturer of high-performance smart battery systems and battery packs to customer specifications using lithium cells. SWE serves a variety of industrial markets, including oil & gas, remote monitoring, process control and marine, which demand uncompromised safety, service, reliability and quality. The Company acquired SWE as a bolt-on acquisition to further support our strategy of commercial revenue diversification by providing entry to the oil and gas exploration and production, and subsea electrification markets, which are currently unserved by Ultralife. Another key benefit includes obtaining a highly valuable technical team of battery pack and charger system engineers and technicians to add to our new product development-based revenue growth initiatives in our commercial end-markets particularly asset tracking, smart metering and other industrial applications.

The SWE acquisition was completed pursuant to a Stock Purchase Agreement dated May 1, 2019 (the “Stock Purchase Agreement”) by and among Ultralife, SWE, Southwest Electronic Energy Medical Research Institute, a Texas non-profit (the “Seller”), and Claude Leonard Benckenstein, an individual (the “Shareholder”).

The aggregate purchase price for the SWE Acquisition was funded by the Company through a combination of cash on hand and borrowings under the Credit Facilities (see Note 3).

The Stock Purchase Agreement contains customary terms and conditions including representations, warranties and indemnification provisions. A portion of the consideration paid to the Seller will be held in escrow for post-closing adjustments and indemnification purposes.

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The acquisition of SWE will be accounted for as a business combination, and accordingly, the assets acquired and liabilities assumed will be recognized at fair value as of the acquisition date. The operating results and cash flows of SWE will be included in the consolidated financial statements from the date of acquisition in the Company's Battery & Energy Products segment.

Due to the timing of the acquisition, the initial accounting is not yet complete. The Company is in the process of preparing the preliminary estimate of the fair value of assets acquired and liabilities assumed and the associated adjustments for supplemental pro forma revenue and earnings information.

#### *First Amendment Agreement*

On May 1, 2019, in connection with the SWE acquisition, the Company entered into the First Amendment Agreement with KeyBank National Association. See Note 3 for further information.

### **3. CREDIT FACILITY**

On May 1, 2019, Ultralife, SWE, and CLB, INC., a Texas corporation and wholly owned subsidiary of SWE (“CLB”), as borrowers, entered into the First Amendment Agreement (the “First Amendment Agreement”) with KeyBank National Association (“KeyBank” or the “Bank”), as lender and administrative agent, to amend the Credit and Security Agreement by and among Ultralife and KeyBank dated May 31, 2017 (the “Credit Agreement”, and together with the First Amendment Agreement, the “Amended Credit Agreement”).

The Amended Credit Agreement, among other things, provides for a five-year, \$8.0 million senior secured term loan (the “Term Loan Facility”) and extends the term of the \$30.0 million senior secured revolving credit facility (the “Revolving Credit Facility”, and together with the Term Loan Facility, the “Credit Facilities”) through May 31, 2022. Up to six months prior to May 31, 2022, the Revolving Credit Facility may be increased to \$50.0 million with the Bank’s concurrence.

Upon closing of the SWE Acquisition on May 1, 2019, the Company drew down the full amount of the Term Loan Facility and \$6.8 million under the Revolving Credit Facility. The remaining availability under the Revolving Credit Facility is subject to certain borrowing base limits based on receivables and inventories.

The Company is required to repay the borrowings under the Term Loan Facility in sixty (60) equal consecutive monthly payments commencing on May 31, 2019, in arrears, together with applicable interest. All unpaid principal and accrued and unpaid interest with respect to the Term Loan Facility is due and payable in full on April 30, 2024. All unpaid principal and accrued and unpaid interest with respect to the Revolving Credit Facility is due and payable in full on May 31, 2022. The Company may voluntarily prepay principal amounts outstanding at any time subject to certain restrictions.

In addition to the customary affirmative and negative covenants, the Company must maintain a consolidated fixed charge coverage ratio of equal to or greater than 1.15 to 1.0, and a consolidated senior leverage ratio of equal to or less than 2.5 to 1.0, each as defined in the Amended Credit Agreement.

Borrowings under the Credit Facilities are secured by substantially all the assets of the Company.

Interest will accrue on outstanding indebtedness under the Credit Facilities at the Base Rate or the Overnight LIBOR Rate, as selected by the Company, plus the applicable margin. The Base Rate is the higher of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 50 basis points, and (c) the Overnight LIBOR Rate plus one hundred basis points. The applicable margin ranges from zero to negative 50 basis points for the Base Rate and from 185 to 215 basis points for the Overnight LIBOR Rate and are determined based on the Company's senior leverage ratio.

The Company must pay a fee of 0.1% to 0.2% based on the average daily unused availability under the Revolving Credit Facility.

Payments must be made by the Company to the extent borrowings exceed the maximum amount then permitted to be drawn on the Credit Facilities and from the proceeds of certain transactions. Upon the occurrence of an event of default, the outstanding obligations may be accelerated and the Bank will have other customary remedies including resort to the security interest the Company provided to the Bank.

#### **4. SHARE REPURCHASE PROGRAM**

On October 31, 2018, the Company's Board of Directors approved a share repurchase program (the "Share Repurchase Program") which became effective on November 1, 2018, under which the Company is authorized to purchase up to 2.5 million shares of its outstanding common stock over a period not to exceed twelve months.

Under the Share Repurchase Program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. The timing, manner, price and amount of any repurchase will be determined at the Company's discretion and the Share Repurchase Program may be suspended, terminated or modified by the Company's Board of Directors at any time for any reason and does not obligate the Company to purchase any specific number of shares. Under the Program, all purchases will be made in accordance with Securities Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases.

During the quarter ended March 31, 2019, we repurchased a total of 267,300 shares of our common stock for an aggregate consideration (including fees and commissions) of \$1,957.

From the inception of the Share Repurchase Program on November 1, 2018, we repurchased a total of 372,974 shares of our common stock for an aggregate consideration (including fees and commissions) of \$2,699.

#### **5. EARNINGS PER SHARE**

Basic earnings per share (“EPS”) is computed by dividing earnings attributable to the Company’s common shareholders by the weighted-average shares outstanding during the period. Diluted EPS includes the dilutive effect of securities, if any, and is calculated using the treasury stock method. For the three-month period ended March 31, 2019, 1,052,410 stock options and 11,666 restricted stock awards were included in the calculation of Diluted EPS as such securities are dilutive. Inclusion of these securities resulted in 484,843 additional shares in the calculation of fully diluted earnings per share. For the comparable three-month period ended April 1, 2018, 1,324,753 stock options and 17,500 restricted stock awards were included in the calculation of Diluted EPS resulting in 498,109 additional shares in the calculation of fully diluted earnings per share. There were 448,250 and 214,000 outstanding stock options for the three-month periods ended March 31, 2019 and April 1, 2018, respectively, which were not included in EPS as the effect would be anti-dilutive.

## 6. SUPPLEMENTAL BALANCE SHEET INFORMATION

### Cash

The Company had cash and restricted cash totaling \$21,240 and \$25,934 as of March 31, 2019 and December 31, 2018, respectively.

|                 | <b>March<br/>31,<br/>2019</b> | <b>December<br/>31,<br/>2018</b> |
|-----------------|-------------------------------|----------------------------------|
| Cash            | \$20,929                      | \$25,583                         |
| Restricted Cash | 311                           | 351                              |
| Total           | \$21,240                      | \$25,934                         |

As of March 31, 2019 and December 31, 2018, restricted cash included \$228 and \$266, respectively, relating to a government grant awarded in the People’s Republic of China to fund specified technological research and development initiatives. The grant proceeds are realized to income as a direct offset to expense as the related expenditures are incurred. For the quarter ended March 31, 2019, grant proceeds of approximately \$38 were realized to income.

As of March 31, 2019 and December 31, 2018, restricted cash includes euro-denominated deposits of \$83 and \$85, respectively, withheld by the Dutch tax authorities and third party VAT representatives in connection with a previously utilized logistics arrangement in the Netherlands.

Restricted cash is included as a component of the cash balance for purposes of the consolidated statements of cash flows.

**Inventories**

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

|                 | <b>March<br/>31,<br/>2019</b> | <b>December<br/>31,<br/>2018</b> |
|-----------------|-------------------------------|----------------------------------|
| Raw Materials   | \$17,201                      | \$ 13,274                        |
| Work In Process | 2,067                         | 2,016                            |
| Finished Goods  | 8,638                         | 7,553                            |
| Total           | \$27,906                      | \$ 22,843                        |

**Property, Equipment and Improvements, Net**

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

|                                           | <b>March<br/>31,<br/>2019</b> | <b>December<br/>31,<br/>2018</b> |
|-------------------------------------------|-------------------------------|----------------------------------|
| Land                                      | \$123                         | \$ 123                           |
| Buildings and Leasehold Improvements      | 8,284                         | 8,267                            |
| Machinery and Equipment                   | 51,772                        | 51,261                           |
| Furniture and Fixtures                    | 2,073                         | 2,058                            |
| Computer Hardware and Software            | 5,889                         | 5,590                            |
| Construction In Process                   | 5,478                         | 4,302                            |
|                                           | 73,619                        | 71,601                           |
| Less: Accumulated Depreciation            | (61,221)                      | (60,857 )                        |
| Property, Equipment and Improvements, Net | \$12,398                      | \$ 10,744                        |

Depreciation expense for property, equipment and improvements was \$447 and \$484 for the three-month periods ended March 31, 2019 and April 1, 2018, respectively.

**Goodwill**

The following table summarizes the goodwill activity by segment for the three-month periods ended March 31, 2019 and April 1, 2018:

|                                        | <b>Battery<br/>&amp;<br/>Energy<br/>Products</b> | <b>Communi-<br/>cations<br/>Systems</b> | <b>Total</b> |
|----------------------------------------|--------------------------------------------------|-----------------------------------------|--------------|
| Balance - December 31, 2017            | \$ 8,965                                         | \$ 11,493                               | \$20,458     |
| Effect of Foreign Currency Translation | 240                                              | -                                       | 240          |
| Balance – April 1, 2018                | 9,205                                            | 11,493                                  | 20,698       |
| Effect of Foreign Currency Translation | (589 )                                           | -                                       | (589 )       |
| Balance - December 31, 2018            | 8,616                                            | 11,493                                  | 20,109       |
| Effect of Foreign Currency Translation | 142                                              | -                                       | 142          |
| Balance – March 31, 2019               | \$ 8,758                                         | \$ 11,493                               | \$20,251     |

**Other Intangible Assets, Net**

The composition of other intangible assets was:

|                               | <b>at March 31, 2019</b> |                                     |            |
|-------------------------------|--------------------------|-------------------------------------|------------|
|                               | <b>Cost</b>              | <b>Accumulated<br/>Amortization</b> | <b>Net</b> |
| Trademarks                    | \$3,407                  | \$ -                                | \$3,407    |
| Customer Relationships        | 6,530                    | 4,453                               | 2,077      |
| Patents and Technology        | 5,510                    | 4,766                               | 744        |
| Distributor Relationships     | 377                      | 377                                 | -          |
| Trade Name                    | 379                      | 123                                 | 256        |
| Total Other Intangible Assets | \$16,203                 | \$ 9,719                            | \$6,484    |

|                               | <b>at December 31, 2018</b> |                                     |            |
|-------------------------------|-----------------------------|-------------------------------------|------------|
|                               | <b>Cost</b>                 | <b>Accumulated<br/>Amortization</b> | <b>Net</b> |
| Trademarks                    | \$3,405                     | \$ -                                | \$3,405    |
| Customer Relationships        | 6,471                       | 4,392                               | 2,079      |
| Patents and Technology        | 5,486                       | 4,725                               | 761        |
| Distributor Relationships     | 377                         | 377                                 | -          |
| Trade Name                    | 370                         | 111                                 | 259        |
| Total Other Intangible Assets | \$16,109                    | \$ 9,605                            | \$6,504    |

The change in the cost value of total intangible assets from December 31, 2018 to March 31, 2019 is a result of the effect of foreign currency translations.

Amortization expense for intangible assets was \$92 and \$102 for the three-month periods ended March 31, 2019 and April 1, 2018, respectively. Amortization included in research and development expenses was \$33 and \$38 for the three-month periods ended March 31, 2019 and April 1, 2018, respectively. Amortization included in selling, general and administrative expenses was \$59 and \$64 for the three-month periods ended March 31, 2019 and April 1, 2018, respectively.

**7. STOCK-BASED COMPENSATION**



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

|                         | <b>Three-Month<br/>Periods<br/>Ended</b> |                              |
|-------------------------|------------------------------------------|------------------------------|
|                         | <b>March<br/>31,<br/>2019</b>            | <b>April<br/>1,<br/>2018</b> |
| Stock Options           | \$ 174                                   | \$ 123                       |
| Restricted Stock Grants | 11                                       | 16                           |
| Total                   | \$ 185                                   | \$ 139                       |

We have stock options outstanding from various stock-based employee compensation plans for which we record compensation cost relating to share-based payment transactions in our financial statements. As of March 31, 2019, there was \$372 of total unrecognized compensation cost related to outstanding stock options, which is expected to be recognized over a weighted average period of 0.8 years.

The following table summarizes stock option activity for the three-month period ended March 31, 2019:

|                                               | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(years) | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------------------|------------------------|------------------------------------------|--------------------------------------------------------------------|---------------------------------|
| Outstanding at January 1, 2019                | 1,576,087              | \$ 6.58                                  |                                                                    |                                 |
| Granted                                       | -                      | -                                        |                                                                    |                                 |
| Exercised                                     | (75,427 )              | 4.71                                     |                                                                    |                                 |
| Forfeited or Expired                          | -                      | -                                        |                                                                    |                                 |
| Outstanding at March 31, 2019                 | 1,500,660              | \$ 6.68                                  | 3.25                                                               | \$ 5,574                        |
| Vested and Expected to Vest at March 31, 2019 | 1,409,243              | \$ 6.65                                  | 3.12                                                               | \$ 5,280                        |
| Exercisable at March 31, 2019                 | 1,031,701              | \$ 5.98                                  | 2.47                                                               | \$ 4,377                        |

Cash received from stock option exercises under our stock-based compensation plans for the three-month periods ended March 31, 2019 and April 1, 2018 was \$356 and \$939, respectively.

In January 2018, 17,500 shares of restricted stock were awarded to certain of our employees. These shares vest in equal annual installments over three years. The weighted average grant date fair value of these awards was \$7.16 per share. Unrecognized compensation cost related to these restricted shares was \$42 at March 31, 2019.

## 8. INCOME TAXES

Our effective tax rate for the three months ended March 31, 2019 and April 1, 2018 was 8% and 3%, respectively. The increase in our effective tax rate for the current quarter compared to the prior quarter was primarily due to the reversal of the valuation allowance on our U.S. deferred tax assets as of December 31, 2018.

Our effective tax rate for the three months ended March 31, 2019 was lower than the U.S. federal statutory rate primarily due to tax benefits relating to the exercise of stock options during the period.

As of March 31, 2019, we have domestic net operating losses (“NOL”) carryforwards of \$63,388, which expire 2019 thru 2035, and domestic tax credits of \$1,817, which expire 2028 thru 2037, available to reduce future taxable income. Management has concluded it is more likely than not that these domestic NOL and credit carryforwards will be fully utilized.

As of March 31, 2019, for certain past operations in the U.K., we continue to report a valuation allowance for NOL carryforwards of approximately \$10,000, nearly all of which can be carried forward indefinitely. Utilization of the net operating losses may be limited due to the change in the past U.K. operation and cannot currently be used to reduce taxable income at our other U.K. subsidiary, Accutronics Ltd.

As of March 31, 2019, we have not recognized a valuation allowance against our other foreign deferred tax assets, as realization is considered to be more likely than not.

As of March 31, 2019, the Company maintains its assertion that all foreign earnings will be indefinitely reinvested in those operations.

There were no unrecognized tax benefits related to uncertain tax positions at March 31, 2019 and December 31, 2018.

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 2000 through 2018 remain subject to examination by the Internal Revenue Service (“IRS”) due to our net operating loss carryforwards. Our U.S. tax matters for the years 2000 through 2018 remain subject to examination by various state and local tax jurisdictions due to our net operating loss carryforwards. Our tax matters for the years 2010 through 2018 remain subject to examination by the respective foreign tax jurisdiction authorities.

**9. OPERATING LEASES**

The Company has operating leases predominantly for operating facilities. As of March 31, 2019, the remaining lease terms on our operating leases range from less than one year to approximately 3 years. Renewal options to extend our leases have been exercised. Termination options are not reasonably certain of exercise by the Company. There is no transfer of title or option to purchase the leased assets upon expiration. There are no residual value guarantees or material restrictive covenants.

The components of lease expense for the current and prior comparative period were as follows:

|                      | <b>Three<br/>Months<br/>Ended<br/>MarchApril<br/>31, 1,<br/>2019 2018</b> |        |
|----------------------|---------------------------------------------------------------------------|--------|
| Operating Lease Cost | \$ 145                                                                    | \$ 151 |
| Variable Lease Cost  | 21                                                                        | 18     |
| Total Lease Cost     | \$ 166                                                                    | \$ 169 |

Supplemental cash flow information related to leases was as follows:

**Three  
Months  
Ended  
MarchApril  
31, 1,**

|                                                                         | <b>2019</b> | <b>2018</b> |
|-------------------------------------------------------------------------|-------------|-------------|
| Cash paid for amounts included in the measurement of lease liabilities: |             |             |
| Operating cash flows from operating leases                              | \$ 150      | \$ 153      |
| Right-of-use assets obtained in exchange for lease liabilities:         | \$ 131      | \$ -        |

Supplemental balance sheet information related to leases was as follows:

| <b>Balance Sheet Classification</b>               |                                                | <b>March<br/>31,<br/>2019</b> | <b>December<br/>31,<br/>2018</b> |
|---------------------------------------------------|------------------------------------------------|-------------------------------|----------------------------------|
| <b>Assets:</b>                                    |                                                |                               |                                  |
| Operating lease right-of-use asset                | Other noncurrent assets                        | \$ 844                        | \$ 805                           |
| <b>Liabilities:</b>                               |                                                |                               |                                  |
| Current operating lease liability                 | Accrued expenses and other current liabilities | \$ 412                        | \$ 439                           |
| Operating lease liability, net of current portion | Other noncurrent liabilities                   | 436                           | 376                              |
| Total operating lease liability                   |                                                | \$ 848                        | \$ 815                           |
| Weighted-average remaining lease term (years)     |                                                | 2.3                           | 2.1                              |
| Weighted-average discount rate                    |                                                | 4.5 %                         | 4.5 %                            |

Future minimum lease payments as of March 31, 2019 are as follows:

**Maturity of Operating Lease Liabilities**

|                                           |       |
|-------------------------------------------|-------|
| 2019                                      | \$307 |
| 2020                                      | 389   |
| 2021                                      | 160   |
| 2022                                      | 36    |
| 2023                                      | -     |
| Thereafter                                | -     |
| Total lease payments                      | 892   |
| Less: Imputed interest                    | (44 ) |
| Present value of remaining lease payments | \$848 |

**10. COMMITMENTS AND CONTINGENCIES**

a. Purchase Commitments

As of March 31, 2019, we have made commitments to purchase approximately \$2,363 of production machinery and equipment.

b. Product Warranties

We estimate future warranty costs to be incurred for product failure rates, material usage and service costs in the development of our warranty obligations. Estimated future costs are based on actual past experience and are generally estimated as a percentage of sales over the warranty period. Changes in our product warranty liability during the first three months of 2019 and 2018 were as follows:

**Three-Month  
Periods  
Ended  
March  
31, 1,**

|                                          | <b>2019</b> | <b>2018</b> |
|------------------------------------------|-------------|-------------|
| Accrued Warranty Obligations – Beginning | \$95        | \$149       |
| Accruals for Warranties Issued           | 5           | 14          |
| Settlements Made                         | (5)         | (6)         |
| Accrued Warranty Obligations – Ending    | \$95        | \$157       |

c. Contingencies and Legal Matters

We are subject to legal proceedings and claims that arise from time to time in the normal course of business. We believe that the final disposition of any such matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows. However, recognizing that legal matters are subject to inherent uncertainties, and there exists the possibility that ultimate resolution of these matters could have a material adverse impact on the Company's financial position and results of operations in the period in which any such effects are recorded. We are not aware of any such situations at this time.

**11. BUSINESS SEGMENT INFORMATION**

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

The components of segment performance were as follows:

**Three-Month Period Ended March 31, 2019:**

|                                      | <b>Battery<br/>&amp;<br/>Energy<br/>Products</b> | <b>Communi-<br/>cations<br/>Systems</b> | <b>Corporate</b> | <b>Total</b> |
|--------------------------------------|--------------------------------------------------|-----------------------------------------|------------------|--------------|
| Revenues                             | \$ 15,998                                        | \$ 2,884                                | \$ -             | \$ 18,882    |
| Segment Contribution                 | 4,410                                            | 674                                     | (4,536 )         | 548          |
| Other Expense                        |                                                  |                                         | (58 )            | (58 )        |
| Tax Provision                        |                                                  |                                         | (41 )            | (41 )        |
| Non-Controlling Interest             |                                                  |                                         | (24 )            | (24 )        |
| Net Income Attributable to Ultralife |                                                  |                                         |                  | \$425        |

**Three-Month Period Ended April 1, 2018:**

|  | <b>Battery<br/>&amp;<br/>Energy</b> | <b>Communi-<br/>cations<br/>Systems</b> | <b>Corporate</b> | <b>Total</b> |
|--|-------------------------------------|-----------------------------------------|------------------|--------------|
|--|-------------------------------------|-----------------------------------------|------------------|--------------|



|                                      | <b>Products</b> |          |          |          |
|--------------------------------------|-----------------|----------|----------|----------|
| Revenues                             | \$ 17,224       | \$ 5,845 | \$ -     | \$23,069 |
| Segment Contribution                 | 5,036           | 2,246    | (4,926 ) | 2,356    |
| Other Expense                        |                 |          | (133 )   | (133 )   |
| Tax Provision                        |                 |          | (55 )    | (55 )    |
| Non-Controlling Interest             |                 |          | (17 )    | (17 )    |
| Net Income Attributable to Ultralife |                 |          |          | \$2,151  |

The following tables disaggregate our business segment revenues by major source and geography.

Commercial and Government/Defense Revenue Information:

| Three-Month Period Ended March 31, 2019: | Total      | Government/ |          |
|------------------------------------------|------------|-------------|----------|
|                                          | Commercial | Revenue     | Defense  |
| Battery & Energy Products                | \$ 15,998  | \$ 10,010   | \$ 5,988 |
| Communications Systems                   | 2,884      | -           | 2,884    |
| Total                                    | \$ 18,882  | \$ 10,010   | \$ 8,872 |
|                                          |            | 53          | % 47 %   |

| Three-Month Period Ended April 1, 2018: | Total      | Government/ |           |
|-----------------------------------------|------------|-------------|-----------|
|                                         | Commercial | Revenue     | Defense   |
| Battery & Energy Products               | \$ 17,224  | \$ 9,626    | \$ 7,598  |
| Communications Systems                  | 5,845      | -           | 5,845     |
| Total                                   | \$ 23,069  | \$ 9,626    | \$ 13,443 |
|                                         |            | 42          | % 58 %    |

U.S. and Non-U.S. Revenue Information<sup>1</sup>:

| Three-Month Period Ended March 31, 2019: | Total<br>Revenue | United<br>States | Non-United<br>States |    |   |
|------------------------------------------|------------------|------------------|----------------------|----|---|
| Battery & Energy Products                | \$ 15,998        | \$ 7,567         | \$ 8,431             |    |   |
| Communications Systems                   | 2,884            | 2,454            | 430                  |    |   |
| Total                                    | \$ 18,882        | \$ 10,021        | \$ 8,861             | 53 | % |
|                                          |                  |                  |                      | 47 | % |

| Three-Month Period Ended April 1, 2018: | Total<br>Revenue | United<br>States | Non-United<br>States |    |   |
|-----------------------------------------|------------------|------------------|----------------------|----|---|
| Battery & Energy Products               | \$ 17,224        | \$ 9,415         | \$ 7,809             |    |   |
| Communications Systems                  | 5,845            | 5,573            | 272                  |    |   |
| Total                                   | \$ 23,069        | \$ 14,988        | \$ 8,081             | 65 | % |
|                                         |                  |                  |                      | 35 | % |

<sup>1</sup> Sales classified to U.S. include shipments to U.S.-based prime contractors which in some cases may serve non-U.S. projects

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

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, our reliance on certain key customers; possible future declines in demand for the products that use our batteries or communications systems; the unique risks associated with our China operations; potential costs because of the warranties we supply with our products and services; potential disruptions in our supply of raw materials and components; our efforts to develop new commercial applications for our products; reduced U.S. and foreign military spending including the uncertainty associated with government budget approvals; possible breaches in security and other disruptions; variability in our quarterly and annual results and the price of our common stock; safety risks, including the risk of fire; our inability to comply with changes to the regulations for the shipment of our products; our resources being overwhelmed by our growth prospects; our ability to retain top management and key personnel; possible impairments of our goodwill and other intangible assets; our customers' demand falling short of volume expectations in our supply agreements; negative publicity of Lithium-ion batteries; our exposure to foreign currency fluctuations; the risk that we are unable to protect our proprietary and intellectual property; rules and procedures regarding contracting with the U.S. and foreign governments; our ability to utilize our net operating loss carryforwards; exposure to possible violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act or other anti-corruption laws; our ability to comply with government regulations regarding the use of "conflict minerals"; possible audits of our contracts by the U.S. and foreign governments and their respective defense agencies; known and unknown environmental matters; technological innovations in the non-rechargeable and rechargeable battery industries; and other risks and uncertainties, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those forward-looking statements described herein. When used in this report, the words "anticipate", "believe", "estimate" or "expect" or words of similar import are intended to identify forward-looking statements. For further discussion of certain of the matters described above and other risks and uncertainties, see Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018.

Undue reliance should not be placed on our forward-looking statements. Except as required by law, we disclaim any obligation to update any risk factors or to publicly announce the results of any revisions to any of the forward-looking statements contained in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended December 31, 2018 to reflect new information or risks, future events or other developments.

The following discussion and analysis should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-Q and the Risk Factors and our Consolidated Financial Statements and Notes thereto contained in our Form 10-K for the year ended December 31, 2018.

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.

## General

We offer products and services ranging from 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 and manufacture 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, Lithium Power®, McDowell Research®, AMTITM, ABLETM, ACCUTRONICS™, ACCUPRO™, and ENTELLION™ 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, thin cell and other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories. The Communications Systems segment includes: RF amplifiers, power supplies, cable and connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems, integrated communication systems for fixed or vehicle applications and communications and electronics systems design. We believe that reporting performance at the gross profit level is the best indicator of segment performance. As such, we report segment performance at the gross profit level and operating expenses as Corporate charges. See Note 11 in the Notes to Consolidated Financial Statements.

Our website address is [www.ultralifecorporation.com](http://www.ultralifecorporation.com). We make available free of charge via a hyperlink on our website (see Investor Relations link on the website) our annual reports 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, CFO, 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](http://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.

## Overview

Consolidated revenues of \$18,882 for the three-month period ended March 31, 2019, decreased by \$4,187 or 18.1%, from \$23,069 during the three-month period ended April 1, 2018, due to the timing differences in government/defense battery shipments and the start-up of production and shipment of Communications Systems products to support the U.S. Army's Network Modernization initiatives under the delivery orders announced in October 2018, which were less than Q1 2018 shipments of Vehicle Amplifier Adapters for the U.S. Army's Special Force Assistance Brigades under a contract awarded in December 2017 and power supplies shipments to a large global defense prime contractor.

Gross profit for the three-month period ended March 31, 2019 was \$5,084 or 26.9% of revenues, compared to \$7,282 or 31.6% of revenues, for the same quarter a year ago. The 470 basis point decrease in gross margin resulted from costs incurred to commence production of Communications Systems large program awards announced in October 2018 for shipment in 2019 and the product mix of our shipments.

Operating expenses decreased to \$4,536 during the three-month period ended March 31, 2019, compared to \$4,926 during the three-month period ended April 1, 2018. The decrease of \$390 or 7.9% was attributable to continued tight control over discretionary spending.

Operating income for the three-month period ended March 31, 2019 was \$548 or 2.9% of revenues, compared to \$2,356 or 10.2% for the year-earlier period. The decrease in operating income primarily resulted from lower sales in our Communications Systems business and the costs to transition to production to fulfill the large program awards announced in October 2018.

Net income attributable to Ultralife was \$425, or \$.03 per share – basic and diluted, for the three-month period ended March 31, 2019 compared to \$2,151, or \$0.14 per share – basic and \$0.13 per share – diluted, for the three-month period ended April 1, 2018. Adjusted EBITDA, defined as net income (loss) attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, and stock-based compensation expense, plus/minus expenses/income that we do not consider reflective of our ongoing operations, amounted to \$1,204 or 6.4% of revenues in the first quarter of 2019 compared to \$2,973 or 12.9% of revenues for the first quarter of 2018. See the section “Adjusted EBITDA” beginning on page 21 for a reconciliation of Adjusted EBITDA to net income attributable to Ultralife.

With key amplifier product shipments now increasing and robust opportunities for growth from our diversified set of commercial and government/defense customers ahead of us, we remain well positioned for another year of profitable growth in 2019.

## Results of Operations

### *Three-Month Periods Ended March 31, 2019 and April 1, 2018*

**Revenues.** Consolidated revenues for the three-month period ended March 31, 2019 amounted to \$18,882, a decrease of \$4,187, or 18.1%, from the \$23,069 reported for the three-month period ended April 1, 2018.

Battery & Energy Products revenues decreased \$1,226, or 7.1%, to \$15,998 from \$17,224 for the three-month period ended April 1, 2018. Commercial revenues for the first quarter of 2019 comprised 63% of total revenues for the segment and increased 4.0% over the prior year period. This increase primarily resulted from 10.4% revenue growth

attributable to our medical customers, partially offset by a reduction in the sales of our 9-Volt batteries. Government and defense sales decreased 21.2% primarily due to the lumpiness of orders from some of our U.S. and international defense customers.

Communications Systems revenues decreased \$2,961, or 50.7%, to \$2,884 from \$5,845 for the three-month period ended April 1, 2018. This decrease is primarily due to the initial start-up production and shipment of products to support the U.S. Army's Network Modernization initiatives under the delivery orders announced in October 2018 which were less than Q1 2018 shipments of Vehicle Amplifier Adapters for the U.S. Army's Special Force Assistance Brigades under a contract awarded in December 2017 and power supplies shipments to a large global defense prime contractor.

**Cost of Products Sold.** Cost of products sold totaled \$13,798 for the quarter ended March 31, 2019, a decrease of \$1,989, or 12.6%, from the \$15,787 reported for the same three-month period a year ago. Consolidated cost of products sold as a percentage of total revenue increased to 73.1% for the three-month period ended March 31, 2019 from 68.4% for the three-month period ended April 1, 2018. Correspondingly, consolidated gross margin was 26.9% for the three-month period ended March 31, 2019, compared with 31.6% for the three-month period ended April 1, 2018, primarily reflecting sales mix and costs incurred to commence the initial production of Communications Systems products to begin shipments under large program awards announced in October 2018.

For our Battery & Energy Products segment, gross profit for the first quarter of 2019 was \$4,410 or 27.6% of revenues, a decrease of \$626 or 12.4% from gross profit of \$5,036 or 29.2% of revenues, for the first quarter of 2018. The decrease in Battery & Energy Products' gross margin for 2019 was due to product mix.



For our Communications Systems segment, gross profit for the first quarter of 2019 was \$674 or 23.4% of revenues, a decrease of \$1,572 or 70.0%, from gross profit of \$2,246, or 38.4% of revenues, for the first quarter of 2018. The decrease in gross margin during 2019 was primarily due to costs incurred to commence production of large program awards announced in October 2018.

**Operating Expenses.** Total operating expenses for the three-month period ended March 31, 2019 totaled \$4,536, a decrease of \$390 or 7.9% from the \$4,926 reported during the three-month period ended April 1, 2018. The decrease resulted from continued tight control over discretionary spending in 2019.

Overall, operating expenses as a percentage of revenues were 24.0% for the quarter ended March 31, 2019 compared to 21.4% for the quarter ended April 1, 2018. Amortization expense associated with intangible assets related to our acquisitions was \$92 for the first quarter of 2019 (\$59 in selling, general and administrative expenses and \$33 in research and development costs), compared with \$102 for the first quarter of 2018 (\$64 in selling, general, and administrative expenses and \$38 in research and development costs). Research and development costs were \$1,036 for the three-month period ended March 31, 2019, a decrease of \$65 or 5.9%, from \$1,101 for the three-months ended April 1, 2018. The decrease primarily reflects the timing of development and testing costs associated with new products. Selling, general, and administrative expenses decreased \$325 or 8.5%, to \$3,500 during the first quarter of 2019 from \$3,825 during the first quarter of 2018. The decrease is attributable to continued tight control over discretionary administrative spending.

**Other Expense.** Other expense totaled \$58 for the three-month period ended March 31, 2019 compared to \$133 for the three-month period ended April 1, 2018. Interest and financing expense decreased \$28, from \$33 for the first quarter of 2018 to \$5 for the comparable period in 2019. The decrease is due to the offsetting interest earned on our higher cash balances from the year-earlier period. Miscellaneous expense amounted to \$53 for the first quarter of 2019 compared with \$100 for the first quarter of 2018, primarily due to the strengthening of the U.S. dollar relative to Pounds Sterling and the Euro.

**Income Taxes.** The tax provision for the 2019 first quarter was \$41 compared to \$55 for the first quarter of 2018. See Note 8 in the Notes to Consolidated Financial Statements for additional information regarding our income taxes.

**Net Income Attributable to Ultralife.** Net income attributable to Ultralife was \$425, or \$.03 per share – basic and diluted for the three-month period ended March 31, 2019 compared to \$2,151, or \$0.14 per share – basic and \$0.13 per share – diluted, for the three-month period ended April 1, 2018. Average weighted common shares outstanding used to compute diluted earnings per share increased from 16,202,314 in the first quarter of 2018 to 16,224,790 in the first quarter of 2019. The increase in 2019 is attributable to stock option exercises since the first quarter of 2018 and an increase in the weighted average stock price to compute diluted shares from \$8.17 for the first quarter of 2018 to \$9.40 for the first quarter of 2019, partially offset by the repurchase of shares in the 2019 period.

Adjusted EBITDA

In evaluating our business, we consider and use Adjusted EBITDA, a non-GAAP financial measure, as a supplemental measure of our operating performance. We define Adjusted EBITDA as net income attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, and stock-based compensation expense. We also use Adjusted EBITDA as a supplemental measure to review and assess our operating performance and to enhance comparability between periods. We also believe the use of Adjusted EBITDA facilitates investors' understanding of operating performance from period to period by backing out potential differences caused by variations in such items as capital structures (affecting relative interest expense and stock-based compensation expense), the amortization of intangible assets acquired through our business acquisitions (affecting relative amortization expense and provision (benefit) for income taxes), the age and book value of facilities and equipment (affecting relative depreciation expense) and one-time charges/benefits relating to income taxes. We also present Adjusted EBITDA from operations because we believe it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. We reconcile Adjusted EBITDA to Net income attributable to Ultralife, the most comparable financial measure under U.S. generally accepted accounting principles ("U.S. GAAP").

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

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

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

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

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

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

We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA only on a supplemental basis. Neither current nor potential investors in our securities should rely on Adjusted EBITDA as a substitute for any GAAP measures and we encourage investors to review the following reconciliation of Adjusted EBITDA to Net income attributable to Ultralife.



Adjusted EBITDA is calculated as follows for the periods presented:

|                                                      | <b>Three-Month<br/>Periods</b> |                              |
|------------------------------------------------------|--------------------------------|------------------------------|
|                                                      | <b>Ended</b>                   |                              |
|                                                      | <b>March<br/>31,<br/>2019</b>  | <b>April<br/>1,<br/>2018</b> |
| Net Income Attributable to Ultralife                 | \$425                          | \$2,151                      |
| Add:                                                 |                                |                              |
| Interest and Financing Expense, Net                  | 5                              | 33                           |
| Income Tax Provision                                 | 41                             | 55                           |
| Depreciation Expense                                 | 447                            | 484                          |
| Amortization of Intangible Assets and Financing Fees | 101                            | 111                          |
| Stock-Based Compensation Expense                     | 185                            | 139                          |
| Adjusted EBITDA                                      | \$1,204                        | \$2,973                      |

### Liquidity and Capital Resources

As of March 31, 2019, cash totaled \$21,240, a decrease of \$4,694 as compared to \$25,934 of cash held at December 31, 2018, primarily driven by the procurement of inventory for large program awards for our Communications Systems business, strategic capital investment for our Battery & Energy Products business, and repurchases of our common stock under our Share Repurchase Program.

During the three-month period ended March 31, 2019, net cash of \$545 was used in operations, driven by a \$4,963 increase in inventory primarily relating to large program awards announced in October 2018 for our Communications Systems business. Cash used in operations was largely offset by net income of \$449 plus non-cash expenses (depreciation, amortization, stock-based compensation and deferred taxes) totaling \$728 and a net decrease of \$3,241 in other working capital items primarily attributable to the timing of customer collections and supplier payments.

Cash used in investing activities for the three-month period ended March 31, 2019 consisted of capital expenditures of \$2,581 primarily due to investment in automation equipment pertaining to our Battery & Energy Products business, including 3-Volt cell production.

Net cash used in financing activities for the three months ended March 31, 2019 was attributable to share repurchases under our Share Repurchase Program totaling \$1,957, partially offset by stock option exercise proceeds of \$356.

As of March 31, 2019, the Company has significant U.S. net operating loss carryforwards available to utilize as an offset to future taxable income. See Note 8 in the notes to consolidated financial statements for additional information.

As of March 31, 2019, we had made commitments to purchase approximately \$2,363 of production machinery and equipment, which we expect to fund through operating cash flows or debt borrowings.

### *Debt Commitments*

On May 1, 2019, in connection with financing the SWE acquisition (see Note 2 to the notes to consolidated financial statements), the Company drew down \$8.0 million on its Term Loan Facility and \$6.8 million under its Revolving Credit Facility.

The Company believes that the cash flow generated from future operations and availability under our Revolving Credit Facility will be sufficient to meet our general funding requirements for the foreseeable future.

See Note 3 to the notes to consolidated financial statements for further information regarding our credit facilities.

### Critical Accounting Policies

Management exercises judgment in making important decisions pertaining to choosing and applying accounting policies and methodologies in many areas. Not only are these decisions necessary to comply with U.S. GAAP, but they also reflect management's view of the most appropriate manner in which to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 ("Summary of Operations and Significant Accounting Policies") to our Consolidated Financial Statements in our 2018 Annual Report on Form 10-K should be reviewed for a greater understanding of how our financial performance is recorded and reported.

During the first three months of 2019, there were no significant changes in the manner in which our significant accounting policies were applied or in which related assumptions and estimates were developed. Refer to Note 1 in the notes to consolidated financial statements for updated accounting policies to reflect the Company's adoption of Topic 842 - *Leases* as of January 1, 2019.

## **Item 4. Controls and Procedures**

### *Evaluation of Disclosure Controls and Procedures*

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

*Changes in Internal Control Over Financial Reporting*

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



**PART II. OTHER INFORMATION**

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

**Purchases of Equity Securities by the Issuer**

Refer to Note 4 of the Notes to Consolidated Financial Statements (Part I, Item 1 of this Form 10-Q) for further discussion regarding share repurchases.

On October 31, 2018, the Company’s Board of Directors approved a share repurchase program (the “Share Repurchase Program”) which became effective on November 1, 2018 and under which the Company was authorized to repurchase up to 2.5 million shares of its outstanding common stock over a period not to exceed twelve months.

Share repurchases under this program were made in accordance with SEC Rule 10b-18 using a variety of methods, which included open market purchases and block trades in compliance with applicable insider trading and other securities laws and regulations. With the exception of repurchases made during stock trading black-out periods under 10b5-1 Plans, the timing, manner, price and amount of any repurchases were determined at the Company’s discretion.

The following table sets forth information regarding our repurchases of common stock for the first quarter of 2019 under this program:

| <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased</b> | <b>Weighted<br/>Average<br/>Price<br/>Paid<br/>Per<br/>Share</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased<br/>As Part of<br/>Publicly<br/>Announced</b> | <b>Maximum<br/>Number<br/>of<br/>Shares<br/>That<br/>May Yet<br/>Be<br/>Purchased</b> |
|---------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
|---------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|

|               |         |        | <b>Program</b> | <b>Under the</b> |
|---------------|---------|--------|----------------|------------------|
|               |         |        |                | <b>Program</b>   |
| January 2019  | 267,100 | \$7.29 | 372,774        | 2,127,226        |
| February 2019 | 200     | 7.49   | 372,974        | 2,127,026        |
| March 2019    | -       | -      | 372,974        | 2,127,026        |
| Total         | 267,300 |        | 372,974        |                  |

All repurchases were made using cash resources. The above table excludes shares repurchased to settle employee tax withholding related to the vesting of stock awards.

**Item 6. EXHIBITS**

Exhibit

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

**SIGNATURES**

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

**ULTRALIFE CORPORATION**

(Registrant)

Date: May 2, 2019 By: /s/ Michael D. Popielec  
Michael D. Popielec  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 2, 2019 By: /s/ Philip A. Fain  
Philip A. Fain  
Chief Financial Officer and Treasurer  
(Principal Financial Officer and  
Principal Accounting Officer)

**Index to Exhibits**

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