

ULTRALIFE CORP
Form 10-Q
November 08, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2013

or

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

For the transition period from _____ to _____

Commission File Number 000-20852

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

Delaware
(State or other jurisdiction
of incorporation or organization)

16-1387013
(I.R.S. Employer Identification No.)

2000 Technology Parkway, Newark, New York 14513
(Address of principal executive offices)
(Zip Code)

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

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

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

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

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

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

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

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

Common stock, \$.10 par value – 17,474,249 shares of common stock outstanding, net of 1,372,757 treasury shares, as of November 1, 2013.

ULTRALIFE CORPORATION
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	(Unaudited) September 29, 2013	December 31, 2012
Current assets:		
Cash and cash equivalents	\$ 10,365	\$ 9,656
Restricted cash	420	422
Trade accounts receivable (less allowance for doubtful accounts of \$295 at September 29, 2013 and \$322 at December 31, 2012)	15,571	20,913
Inventories	27,829	30,370
Due from insurance company	427	723
Deferred tax asset - current	157	120
Income taxes receivable	120	28
Prepaid expenses and other current assets	1,251	1,590
Total current assets	56,140	63,822
Property, plant and equipment, net	10,836	12,415
Other assets:		
Goodwill	16,405	16,344
Intangible assets, net	4,745	5,039
Security deposits and other long-term assets	549	98
	21,699	21,481
Total Assets	\$ 88,675	\$ 97,718
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	\$ -	\$ -
Accounts payable	6,057	11,357
Income taxes payable	2	2
Deferred tax liability - current	75	-
Other current liabilities	4,949	8,533
Total current liabilities	11,083	19,892
Long-term liabilities:		
Deferred tax liability - long-term	4,298	4,160
Other long-term liabilities	59	210

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Total long-term liabilities	4,357	4,370
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Ultralife equity:		
Preferred stock, par value \$0.10 per share, authorized 1,000,000 shares; none issued or outstanding	-	-
Common stock, par value \$0.10 per share, authorized 40,000,000 shares; issued - 18,847,006 at September 29, 2013 and 18,828,734 at December 31, 2012	1,888	1,886
Capital in excess of par value	174,541	173,791
Accumulated other comprehensive loss	(567)	(620)
Accumulated deficit	(94,873)	(93,878)
	80,989	81,179
Less --Treasury stock, at cost -- 1,372,757 shares at September 29, 2013 and 1,372,757 shares at December 31, 2012	7,658	7,658
Total Ultralife equity	73,331	73,521
Noncontrolling interest	(96)	(65)
Total shareholders' equity	73,235	73,456
Total Liabilities and Shareholders' Equity	\$ 88,675	\$ 97,718

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

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

	Three Month Periods Ended		Nine Month Periods Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Revenues	\$ 20,361	\$ 26,181	\$ 58,659	\$ 72,388
Cost of products sold	14,234	17,962	41,631	53,109
Gross profit	6,127	8,219	17,028	19,279
Operating expenses:				
Research and development (including \$56, \$65, \$167 and \$195, respectively, of amortization of intangible assets)	1,418	1,596	4,456	5,706
Selling, general, and administrative (including \$46, \$57, \$134 and \$177, respectively, of amortization of intangible assets)	4,057	4,869	13,419	16,041
Total operating expenses	5,475	6,465	17,875	21,747
Operating income (loss)	652	1,754	(847)	(2,468)
Other income (expense):				
Interest income	13	1	27	4
Interest expense	(66)	(97)	(199)	(316)
Miscellaneous	(8)	(15)	(31)	17
Income (loss) from continuing operations before income taxes	591	1,643	(1,050)	(2,763)
Income tax provision (benefit)-current	(19)	120	42	387
Income tax provision-deferred	3	55	93	50
Total income tax provision (benefit)	(16)	175	135	437
Net income (loss) from continuing operations	607	1,468	(1,185)	(3,200)
Discontinued operations:				
Income from discontinued operations, net of tax	15	200	159	178
Net income (loss)	622	1,668	(1,026)	(3,022)
Net loss attributable to noncontrolling interest	22	11	31	31
Net income (loss) attributable to Ultralife	\$ 644	\$ 1,679	\$ (995)	\$ (2,991)

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Other comprehensive income (loss):				
Foreign currency translation adjustments	32	(204)	53	(81)
Comprehensive income (loss) loss attributable to Ultralife				
	\$ 676	\$ 1,475	\$ (942)	\$ (3,072)
Net income (loss) attributable to Ultralife common shareholders - basic				
Continuing operations	\$ 0.04	\$ 0.09	\$ (0.07)	\$ (0.18)
Discontinued operations	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01
Total	\$ 0.04	\$ 0.10	\$ (0.06)	\$ (0.17)
Net income (loss) attributable to Ultralife common shareholders - diluted				
Continuing operations	\$ 0.04	\$ 0.09	\$ (0.07)	\$ (0.18)
Discontinued operations	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01
Total	\$ 0.04	\$ 0.10	\$ (0.06)	\$ (0.17)
Weighted average shares outstanding - basic				
	17,467	17,418	17,461	17,390
Weighted average shares outstanding - diluted				
	17,532	17,418	17,461	17,390

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

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

	Nine Month Periods Ended	
	September 29, 2013	September 30, 2012
OPERATING ACTIVITIES		
Net loss	\$ (1,026)	\$ (3,022)
Income from discontinued operations, net of tax	(159)	(178)
Adjustments to reconcile net loss from continuing operations to net cash provided from operating activities:		
Depreciation and amortization of financing fees	2,331	2,566
Amortization of intangible assets	301	372
Loss on long-lived asset impairment	56	13
Loss on long-lived asset disposal and write-offs	-	
Foreign exchange loss (gain)	33	(3)
Non-cash stock-based compensation	740	1,001
Changes in deferred income taxes	170	74
Changes in operating assets and liabilities:		
Trade accounts receivable	5,380	3,265
Inventories	2,622	1,766
Due from insurance company	315	1,014
Income taxes receivable	(91)	104
Prepaid expenses and other assets	(455)	(39)
Income taxes payable	-	(9)
Accounts payable and other liabilities	(7,818)	(5,020)
Net cash provided from (used in) operating activities from continuing operations	2,399	1,904
Net cash used in operating activities from discontinued operations	(998)	(2,133)
Net cash provided from (used in) operating activities	1,401	(229)
INVESTING ACTIVITIES		
Purchase of property and equipment	(736)	(2,011)
Change in restricted cash	(2)	(250)
Net cash used in investing activities from continuing operations	(738)	(2,261)
Net cash provided from investing activities from discontinued operations	182	2,133
Net cash used in investing activities	(556)	(128)
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	12	115
Net cash provided from financing activities from continuing operations	12	115
Net cash used in financing activities from discontinued operations	-	-
Net cash provided from financing activities	12	115
Effect of exchange rate changes on cash	(148)	(119)

Change in cash and cash equivalents	709	(361)
Cash and cash equivalents at beginning of period	9,656	5,320
Cash and cash equivalents at end of period	\$ 10,365	\$ 4,959
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 77	\$ 291
Cash paid for interest	\$ 84	\$ 184

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

ULTRALIFE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands – Except Share and Per Share Amounts)
(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements of Ultralife Corporation and 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 Condensed Consolidated Financial Statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the Consolidated Financial Statements and related notes thereto contained in our Form 10-K for the twelve month period ended December 31, 2012.

The year-end condensed consolidated balance sheet data 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.

2. DISPOSITIONS AND EXIT ACTIVITIES

Ultralife Batteries UK, Ltd.

During the fourth quarter of 2012, we elected not to renew the lease for our U.K. manufacturing facility which expired on March 24, 2013 (the “U.K. Facility Lease”), and instead relocated our sales and services operations to a smaller facility. As a result of this decision, we were required to restore the facility back to its original condition pursuant to the terms of the U.K. Facility Lease.

The costs associated with the lease exit were not determinable until late in the fourth quarter of 2012. Accordingly, we recorded a liability as of the end of 2012 for our estimate of the costs to return the facility to its original condition as well as other related expenses. A total of \$228 was charged to selling, general, and administrative costs related to operations transferred to our facilities in Newark, NY, and an additional \$815 was recorded as discontinued operations for those operations that were not transferred to our facilities in Newark, NY. The termination of the U.K. Facility Lease did not result in any employee reductions or other termination costs, with the exception of the aforementioned restoration costs.

As a result, the results of presentation herein exclude the discontinued Ultralife Batteries UK, Ltd. operations from the results of continuing operations. The following amounts have been reported as discontinued operations for the three and nine month periods ending September 29, 2013 and September 30, 2012:

	Three Month Periods Ended		Nine Month Periods Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net sales	\$ -	\$ -	\$ -	\$ -
Gain from discontinued operations	-	-	241	-
Provision for income taxes	-	-	-	-
Gain from discontinued operations, net of tax	\$ -	\$ -	\$ 241	\$ -

The cost of returning our former UK facility back to its original condition was less than our estimate of the cost made during the fourth quarter of 2012. As a result, we recognized the difference as a gain from discontinued operations during the first quarter of 2013.

RedBlack Communications, Inc.

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

On September 28, 2012 (the “Closing Date”), we entered into and closed a Stock Purchase Agreement (the “Agreement”) to sell 100% of our capital stock in RedBlack to BCF Solutions, Inc. In exchange for the sale of RedBlack, we received \$2,533 as a purchase price, comprised of cash at closing in the amount of \$2,133, funds held in escrow for up to one year in the amount of \$250, as well as \$150 to be available for RedBlack employee retention programs. In addition, there was a customary post-closing working capital adjustment to the purchase price of \$125, partially offset by other adjustments, that resulted in a loss of \$118 that was recorded in the second quarter of 2013.

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

The Agreement contains restrictive covenants that continue for two years from the Closing Date, under which we are prohibited from engaging or participating with any current customer of RedBlack in any business, directly or indirectly, that competes with the business conducted by RedBlack for two years. We are also prohibited from hiring, soliciting, or recruiting any current employee, independent contractor, or consultant of BCF Solutions, Inc. or RedBlack for two years.

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

As a result, the presentation of results herein excludes the RedBlack operations from the results of continuing operations. The following amounts have been reported as discontinued operations for the three and nine month periods ended September 29, 2013 and September 30, 2012:

	Three Month Periods Ended		Nine Month Periods Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net sales	\$ -	\$ 1,267	\$ -	\$ 3,404
Gain (loss) from discontinued operations	15	(59)	(96)	(3)
Benefit from income taxes	-	(196)	-	(174)
Gain (loss) from discontinued operations, net of tax	\$ 15	\$ 137	\$ (96)	\$ 171

3. INVENTORIES

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

	September 29, 2013	December 31, 2012
Raw materials	\$ 16,458	\$ 15,023
Work in process	3,353	4,863
Finished goods	8,018	10,484
	\$ 27,829	\$ 30,370

4. PROPERTY, PLANT AND EQUIPMENT

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

	September 29, 2013	December 31, 2012
Land	\$ 123	\$ 123
Buildings and leasehold improvements	7,407	7,381
Machinery and equipment	47,018	46,606
Furniture and fixtures	1,947	1,810
Computer hardware and software	4,209	4,103
Construction in progress	1,389	1,275
	62,093	61,298
Less: Accumulated depreciation	51,257	48,883
	\$ 10,836	\$ 12,415

Depreciation expense for property, plant and equipment was \$720 and \$2,279 for the three and nine month periods ended September 29, 2013, respectively, and \$800 and \$2,460 for the three and nine month periods ended September 30, 2012, respectively.

In the second quarter of 2013, we received a termination notice from the New York State Energy Research and Development Authority ("NYSERDA") regarding our collaborative agreement to develop and demonstrate a large hybrid grid-connected energy storage system. Pursuant to the terms of the agreement, NYSERDA will reimburse us for certain construction and project research and development costs incurred through the date of termination. Construction costs are reflected in the property, plant and equipment, net line on our Condensed Consolidated Balance Sheets as of September 29, 2013 and December 31, 2012. Project research and development costs are reflected in the research and development line on our Condensed Consolidated Statements of Comprehensive Income (Loss) the three

and nine month periods ended September 29, 2013 and September 30, 2012.

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

5. GOODWILL, INTANGIBLE ASSETS AND LONG TERM ASSETS

a. Goodwill

The following table summarizes the goodwill activity by segment for the three month periods ended September 29, 2013 and September 30, 2012:

	Battery & Energy Products	Communications Systems	Discontinued Operations	Total
Balance at December 31, 2011	\$ 4,838	\$ 11,493	\$ 2,025	\$18,356
Sale of RedBlack Communications	-	-	(2,025)	(2,025)
Effect of foreign currency Translations	6	-	-	6
Balance at September 30, 2012	4,844	11,493	-	16,337
Effect of foreign currency Translations	7	-	-	7
Balance at December 31, 2012	4,851	11,493	-	16,344
Effect of foreign currency translations	61	-	-	61
Balance at September 29, 2013	\$ 4,912	\$ 11,493	\$ -	\$16,405

b. Intangible Assets

The composition of intangible assets was:

	September 29, 2013		
	Gross Assets	Accumulated Amortization	Net
Trademarks	\$3,567	\$ -	\$3,567
Patents and technology	4,508	3,882	626
Customer relationships	4,027	3,515	512
Distributor relationships	390	350	40
Non-compete agreements	218	218	-
Total intangible assets	\$12,710	\$ 7,965	\$4,745