

ULTRALIFE CORP
Form 10-Q
April 28, 2016
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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 Quarter Ended March 27, 2016

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 0-27460

ULTRALIFE

CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

16-1387013

(State or other jurisdiction of incorporation)

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

2000 Technology Parkway

14513

Newark, New York

(Zip Code)

(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer: Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of the registrant's common stock was 15,329,423, net of 3,859,660 treasury shares, as of April 28, 2016.

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ULTRALIFE CORPORATION AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****ULTRALIFE CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Dollars in Thousands)****(unaudited)****ASSETS**

	March 27, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	\$ 2,759	\$ 14,393
Restricted cash	143	140
Trade accounts receivable, net of allowance for doubtful accounts of \$302 and \$300, respectively	15,140	11,430
Inventories, net	26,980	23,814
Prepaid expenses and other current assets	2,334	1,900
Due from insurance company	177	177
Deferred income taxes	92	92
Total current assets	47,625	51,946
Property, equipment and improvements, net	8,865	9,038
Goodwill	20,584	16,283
Other intangible assets, net	8,475	3,946
Security deposits and other non-current assets	94	309
Total assets	\$ 85,643	\$ 81,522

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:		
Accounts payable	\$ 8,018	\$ 6,494
Accrued compensation and related benefits	1,928	2,377
Accrued expenses and other current liabilities	2,413	1,749
Current portion of debt	1,156	-
Income taxes payable	373	227
Total current liabilities	13,888	10,847
Deferred income taxes	5,513	4,631
Other non-current liabilities	28	28

Total liabilities	19,429	15,506
Commitments and contingencies (Note 11)		
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 19,185,899 shares at March 27, 2016 and 19,181,815 shares at December 31, 2015; outstanding 15,326,239 shares at March 27, 2016 and 15,322,155 at December 31, 2015	1,919	1,918
Capital in excess of par value	177,202	177,007
Accumulated deficit	(93,752)	(94,051)
Accumulated other comprehensive loss	(1,186)	(907)
Treasury stock - at cost; 3,859,660 shares at March 27, 2016 and at December 31, 2015	(17,808)	(17,808)
Total Ultralife Corporation equity	66,375	66,159
Non-controlling interest	(161)	(143)
Total shareholders' equity	66,214	66,016
Total liabilities and shareholders' equity	\$ 85,643	\$ 81,522

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

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ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In Thousands except per share amounts)

(unaudited)

	Three month periods ended	
	March 27,	March 29,
	2016	2015
Revenues	\$20,833	\$19,177
Cost of products sold	14,428	13,170
Gross profit	6,405	6,007
Operating expenses:		
Research and development	1,656	1,359
Selling, general and administrative	4,267	3,826
Total operating expenses	5,923	5,185
Operating income	482	822
Other (expense) income:		
Interest income	-	1
Interest and financing expense	(102)	(67)
Miscellaneous	(11)	(122)
	(113)	(188)
Income before income taxes	369	634
Income tax provision	(88)	(111)
Net income	281	523
Net loss attributable to non-controlling interest	18	10

Net income attributable to Ultralife Corporation	299	533
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Other comprehensive (loss) income:

Foreign currency translation adjustments	(279)	22
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Comprehensive income attributable to Ultralife Corporation	\$20	\$555
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Net income per share attributable to Ultralife common shareholders basic:

Total	\$.02	\$.03
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Net income per share attributable to Ultralife common shareholders diluted:

Total	\$.02	\$.03
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Weighted average shares outstanding basic	15,323	17,346
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Potential common shares	343	8
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Weighted average shares outstanding diluted	15,666	17,354
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The accompanying notes are an integral part of these consolidated financial statements.

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ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(unaudited)

	Three month periods ended	
	March 27,	March 29,
	2016	2015
OPERATING ACTIVITIES:		
Net income	\$ 281	\$523
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	589	596
Amortization of intangible assets	137	60
Amortization of financing fees	19	18
Stock-based compensation	181	144
Deferred income tax benefit	42	55
Loss on long-lived asset disposals	-	36
Changes in operating assets and liabilities:		
Accounts receivable	(2,407)	(392)
Inventories	(1,138)	1,326
Prepaid expenses and other assets	41	(202)
Accounts payable and other liabilities	(620)	996
Net cash provided by (used in) operating activities	(2,875)	3,160
INVESTING ACTIVITIES:		
Acquisition of Accutronics, net of cash acquired	(9,857)	-
Cash paid for property, equipment and improvements	(69)	(470)
Change in restricted cash	-	16
Net cash used in investing activities	(9,926)	(454)
FINANCING ACTIVITIES:		
Cash paid to repurchase treasury stock	-	(336)
Proceeds from debt borrowings	1,156	-
Return of security deposit	-	49

Proceeds from stock option exercise	14	8
Net cash provided by (used in) financing activities	1,170	(279)
Effect of exchange rate changes on cash and cash equivalents	(3)	(5)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,634)	2,422
Cash and cash equivalents, beginning of period	14,393	17,711
Cash and cash equivalents, end of period	\$2,759	\$20,133

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

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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 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, 2015.

The December 31, 2015 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

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. ACQUISITION

On January 13, 2016, Ultralife UK Limited (the Merger Subsidiary), a U.K. corporation and a wholly-owned subsidiary of Ultralife Corporation (the Company), completed the acquisition of all of the outstanding ordinary shares of Accutronics Limited (Accutronics), a U.K. corporation based in Newcastle-under-Lyme, U.K., from Intrinsic Equity Limited, Catapult Growth Fund Limited Partnership, MJF Pension Trustees Limited, Robert Andrew Phillips and Michael Allen (collectively, the Sellers). There are no material relationships between the Company or Merger Subsidiary and any of the Sellers, other than pertaining to this acquisition. Accutronics is a leading independent designer and manufacturer of smart batteries and charger systems for high-performance, feature-laden portable and handheld electronic devices and will be classified in the Battery & Energy Products segment.

The acquisition was completed pursuant to the terms of a Share Purchase Agreement dated January 13, 2016, with an effective date of January 1, 2016 for accounting purposes, by and among the Merger Subsidiary and the Sellers. The Merger Subsidiary paid at the time of closing an aggregate purchase price of £7,575 (\$10,976) in cash, and in exchange the Merger Subsidiary received all of the outstanding shares of Accutronics ordinary stock. Monies to fund the purchase price were advanced to the Merger Subsidiary from the Company's general corporate funds.

The purchase price was subject to adjustment based on the difference between actual and estimated amounts of working capital of Accutronics as well as the amount of net cash of Accutronics. The adjustment resulted in a final payment to the Sellers in the amount of £133 on February 24, 2016, bringing the total aggregate purchase price to

£7,708 (\$11,161).

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The purchase price allocation was determined in accordance with the accounting treatment of a business combination in the FASB ASC Topic 805, *Business Combinations*. Under the guidance, the fair value of the consideration was determined and the assets acquired and liabilities assumed have been recorded at their fair values at the date of the acquisition. The excess of the purchase price over the estimated fair values has been recorded as goodwill.

The allocation of purchase price to the assets acquired and liabilities assumed at the date of the acquisition is presented in the table below (in thousands). Management is responsible for determining the fair value of the tangible and intangible assets acquired and liabilities assumed as of the date of acquisition. Management considered a number of factors, including reference to an analysis performed under FASB ASC Topic 805 solely for the purpose of allocating the purchase price to the assets acquired and liabilities assumed. The Company's estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that occur. The resulting purchase price allocation is considered preliminary as it is subject to change due to events in the future and subject to audit by the Company's independent registered accountants. The final audited purchase price allocation may include (1) changes in allocations to intangible assets such as customer contracts and relationships, trade name and intellectual property as well as goodwill, (2) changes to deferred income taxes and (3) other changes to assets and liabilities.

Cash	\$1,304
Accounts Receivable	1,344
Inventory	2,167
Prepays and Other Current Assets	290
Property, Plant & Equipment	269
Identifiable Intangible Assets	4,776
Goodwill	4,407
Accounts Payable	(1,009)
Accrued Expenses	(1,133)
Income Taxes Payable	(111)
Non-Current Liabilities	(209)
Deferred Income Taxes	(74)
Deferred Income Taxes on Intangible Assets	<u>(860)</u>
Total Consideration	\$11,161

The goodwill included in the Company's purchase price allocation presented above represents the value of Accutronics assembled and trained workforce, the incremental value that Accutronics engineering and technology will bring to the Company and the revenue growth which is expected to occur over time which is attributable to increased market penetration from future new products and customers. The goodwill acquired in connection with the acquisition is not deductible for income tax purposes.

During the three month period ended March 27, 2016, direct acquisition costs of \$251 and increased cost of sales related to purchase accounting adjustments of \$91 for inventory acquired were recorded in the Company's Consolidated Statement of Income and Comprehensive Income. Accutronics contributed revenue of \$2,486 and an operating loss of \$275 during the three month period ended March 27, 2016 reflecting the purchase accounting adjustments and non-recurring costs directly related to the acquisition.

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The following unaudited pro forma information presents the combined results of operations as if the acquisition of Accutronics had been completed on January 1, 2015, the beginning of the comparable prior year three month period. The unaudited pro forma results include purchase accounting adjustments to reflect the restatement of inventory to estimated fair value and the resulting increase in cost of sales for the sale of the inventory during this three month period, direct acquisition costs and the amortization of intangible assets resulting from the purchase price allocation.

The unaudited pro forma results do not reflect the realization of any expected cost savings or other synergies from the acquisition of Accutronics as a result of restructuring activities, other cost savings initiatives or sales synergies following the completion of the business combination. Accordingly, these unaudited pro forma results are presented for informational purposes only and not necessarily indicative of what the actual results of operations of the combined Company would have been if the acquisition had occurred at the beginning of the 2015 period presented, nor are they indicative of future results of operations.

Set forth below is the unaudited pro forma results of the Company and Accutronics for the three month period ended March 29, 2015 as if the acquisition occurred as of January 1, 2015 along with the reported results for the three month period ended March 27, 2016 which includes