

ULTRALIFE BATTERIES INC

Form DEF 14A

April 29, 2008

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SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 - Definitive Proxy Statement
 - Definitive Additional Materials
 - Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

ULTRALIFE BATTERIES, INC.
(Name of Registrant as Specified In Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11

(1) Title of each class of securities to which transaction applies:

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- (1) Amount Previously Paid:

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 - (3) Filing Party:

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-

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**ULTRALIFE BATTERIES, INC.
2000 Technology Parkway
Newark, New York 14513**

May 1, 2008

To Our Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of Ultralife Batteries, Inc. on Thursday, June 5, 2008 at 10:30 A.M. at our corporate offices, 2000 Technology Parkway, Newark, New York 14513.

The accompanying Notice of Annual Meeting of Shareholders and Proxy Statement describe in detail the matters expected to be acted upon at the meeting. This package also contains our 2007 Annual Report to Shareholders, which consists of the Company's annual report and Form 10-K for the fiscal year ended December 31, 2007 and which sets forth important business and financial information concerning your Company.

We hope that you will be able to attend this year's Annual Meeting.

Very truly yours,

John D. Kavazanjian
President and Chief Executive Officer

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**ULTRALIFE BATTERIES, INC.
2000 Technology Parkway
Newark, New York 14513**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
JUNE 5, 2008**

Notice is hereby given that the 2008 Annual Meeting of Shareholders (the Meeting) of Ultralife Batteries, Inc. (the Company) will be held on Thursday, June 5, 2008 at 10:30 A.M. at our corporate offices, 2000 Technology Parkway, Newark, New York 14513 for the following purposes:

1. to elect eight directors for a term of one year and until their successors are duly elected and qualified;
2. to ratify the selection of BDO Seidman LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008;
3. to approve the amendment to our Certificate of Incorporation to change our corporate name to Ultralife Corporation;
4. to approve the amendment to our Amended and Restated 2004 Long-Term Incentive Plan by increasing from 1,500,000 to 2,000,000 the number of shares of our Common Stock authorized to be issued pursuant to that plan; and
5. to transact such other business as may properly come before the Meeting and any adjournments thereof.

Only shareholders of record of Common Stock, par value \$.10 per share, of the Company at the close of business on April 15, 2008 are entitled to receive notice of, and to vote at and attend the Meeting. If you do not expect to be present, you are requested to fill in, date and sign the enclosed proxy, which is solicited by our Board of Directors, and to return it promptly in the enclosed envelope. In the event you decide to attend the Meeting in person, you may, if you desire, revoke your proxy and vote your shares in person.

Our Annual Report to Shareholders for the fiscal year ended December 31, 2007, which includes the Company's Form 10-K, is enclosed.

By Order of the Board of Directors

Patricia C. Barron
Chair of the Board of Directors

Dated: May 1, 2008

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IMPORTANT

REGARDLESS OF WHETHER YOU PLAN TO ATTEND THE MEETING, WE ENCOURAGE YOU TO COMPLETE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

**ULTRALIFE BATTERIES, INC.
2000 Technology Parkway
Newark, New York 14513
(315) 332-7100**

**PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
JUNE 5, 2008**

INFORMATION CONCERNING SOLICITATION AND VOTING

We are furnishing this proxy statement to our shareholders in connection with our Board of Directors' solicitation of proxies for use at our 2008 Annual Meeting of Shareholders (the Meeting) to be held on Thursday, June 5, 2008, at 10:30 A.M. and at any adjournments thereof. The Meeting will be held at our corporate offices, 2000 Technology Parkway, Newark, New York 14513.

The approximate date on which the enclosed form of proxy and this proxy statement are first being sent to our shareholders is May 1, 2008.

When a proxy is returned properly signed, the shares represented thereby will be voted in accordance with the shareholder's directions. If the proxy is signed and returned without choices having been specified, the shares will be voted FOR the election of each director-nominee named herein, and FOR the other proposals identified herein. If for any reason any of the nominees for election as directors shall become unavailable for election, discretionary authority may be exercised by the proxies to vote for substitute nominees proposed by our Board of Directors. A shareholder has the right to revoke a previously granted proxy at any time before it is voted by filing with the Secretary of Ultralife Batteries, Inc. (the Company) a written notice of revocation, or a duly executed later-dated proxy, or by requesting return of the proxy at the Meeting and voting in person.

We will bear the cost of soliciting proxies. In addition to the solicitation of proxies by use of the mails, some of our officers, directors and regular employees, without extra remuneration, may solicit proxies personally or by telephone, telefax or similar transmission. We will reimburse record holders for expenses in forwarding proxies and proxy soliciting material to the beneficial owners of the shares held by them.

Only shareholders of record at the close of business on April 15, 2008 are entitled to notice of, and to vote at, the Meeting. As of April 15, 2008, there were 17,390,987 shares of our Common Stock, par value \$.10 per share (Common Stock), issued and outstanding, each entitled to one vote per share at the Meeting.

Quorum

A majority of the outstanding shares of Common Stock, represented in person or by proxy at the Meeting, will constitute a quorum for the transaction of all business. For purposes of determining whether a quorum is present, shareholders of record who are present at the Meeting in person or by proxy and who abstain, including broker non-votes, are considered to be present at the Meeting for purposes of establishing a quorum.

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Vote Required

The table below shows the vote required to approve each of the proposals described in this proxy statement, assuming the presence of a quorum:

Proposal	Vote Required
1. Election of directors	Plurality of the votes duly cast at the Meeting
2. Ratification of the selection of BDO Seidman LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008	Majority of the votes duly cast at the Meeting*
3. Approval of the amendment to our Certificate of Incorporation to change our corporate name to Ultralife Corporation	The affirmative vote of holders of a majority of the shares of our Common Stock issued and outstanding as of April 15, 2008
4. Approval of the amendment to our Amended and Restated 2004 Long-Term Incentive Plan by increasing from 1,500,000 to 2,000,000 the number of shares of our Common Stock authorized to be issued pursuant to that plan	Majority of the votes duly cast at the Meeting

* The selection of BDO Seidman LLP is being presented to our shareholders for ratification. The Audit and Finance Committee will consider the outcome of this vote when selecting our independent registered public accounting firm for subsequent fiscal years.

Abstentions

Shares that abstain from voting on one or more proposals to be acted on at the Meeting are considered to be present for the purpose of determining whether a quorum exists and are entitled to vote on all proposals properly brought before the Meeting.

Abstentions will have no effect on the election of directors; however, abstentions will have the effect of voting against the proposals to ratify the selection of our independent registered public accountant, to approve the amendment to the Certificate of Incorporation to change our corporate name to Ultralife Corporation and to approve the amendment to our Amended and Restated 2004 Long-Term Incentive Plan (Restated LTIP) because abstentions are deemed to be present and entitled to vote but do not count toward the affirmative vote required to approve the proposals.

Broker Non-Votes

If you own your shares through a broker and do not provide your broker with specific voting instructions, your broker will have the discretion under the rules governing brokers who have record ownership of shares that they hold in street name for their clients to vote your shares on routine matters but not otherwise. As a result, your broker may exercise discretion to vote your shares with respect to the election of directors, the ratification of the selection of our independent registered public accountant and the amendment to the Certificate of Incorporation to change our corporate name to Ultralife Corporation because these are considered routine matters. Your broker will not have the authority to exercise discretion to vote your shares with respect to the proposal to amend the Restated LTIP because it is not considered to be a routine matter.

A broker non-vote occurs when shares held by a broker are not voted on a non-routine proposal because the broker has not received voting instructions from the beneficial owner and the broker lacks discretionary authority to vote the shares in the absence of such instructions.

Shares subject to broker non-votes are considered to be present for the purpose of determining whether a quorum exists and thus count towards satisfying the quorum requirement, but they will not be counted for the purpose of determining the number of shares voting on the proposal to approve the amendment to the Restated LTIP and thus will have no effect on the outcome of this proposal.

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CORPORATE GOVERNANCE

General

Pursuant to the General Corporation Law of the State of Delaware, the state under which we were organized, and our By-laws, our business, property and affairs are managed by or under the direction of our Board of Directors. Members of the Board of Directors are kept informed of Company business through discussions with our Chief Executive Officer and other corporate officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. Our Board of Directors has four standing committees: an Audit and Finance Committee, a Governance Committee, a Compensation and Management Committee and a Mergers and Acquisitions Committee. During 2007, our Board of Directors held 12 meetings and the committees of our Board of Directors held a total of 23 meetings.

Our Board of Directors has determined that all of our directors (other than Mr. Kavazanjian, who serves as our President and Chief Executive Officer) are independent for purposes of the listing standards of the Nasdaq Stock Market. Ms. Barron, our non-executive Chair of the Board of Directors, serves as a non-voting ex-officio member of all Board committees.

Each director attended at least 75% of the aggregate of: (1) the total number of meetings of the Board; and (2) the total number of meetings held by all committees of the Board on which he or she served.

Our Board of Directors has adopted a charter for each of the four standing committees that addresses the composition and function of each committee and has also adopted Corporate Governance Principles that address the composition and function of the Board of Directors. These charters and Corporate Governance Principles are available on our website at www.ultralifebatteries.com under the heading Investor Relations.

Our Board of Directors has determined that all of the directors who serve on these committees are independent for purposes of the listing standards of the Nasdaq Stock Market, and that the members of the Audit and Finance Committee are also independent for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Board of Directors based these determinations primarily on a review of the responses of the directors to questions regarding employment, compensation history, affiliations and family and other relationships, and on follow-up discussions.

Committees of the Board of Directors

Audit and Finance Committee

The current members of the Audit and Finance Committee are Paula H.J. Cholmondeley (Chair), Carole Lewis Anderson and Anthony J. Cavanna. This committee selects our independent registered public accounting firm and has oversight responsibility for reviewing the scope and results of the independent registered public accounting firm's annual examination of our financial statements and the quality and integrity of those financial statements, the qualifications and independence of the independent registered public accounting firm, meeting with our financial management and the independent registered public accounting firm to review matters relating to internal accounting controls, our accounting practices and procedures and other matters relating to our financial condition. The Audit and Finance Committee met nine times during 2007.

Our Board of Directors has determined that each of the members of the Audit and Finance Committee is financially literate in accordance with the listing standards of the Nasdaq Stock Market. In addition, our Board of Directors has determined that both Ms. Cholmondeley and Mr. Cavanna qualify as an audit committee financial expert as defined in Item 407(d)(5) of Regulation S-K.

Governance Committee

The current members of the Governance Committee are Carole Lewis Anderson (Chair), Paula H.J. Cholmondeley, Daniel W. Christman and Ranjit C. Singh. This committee reviews the performance and compensation of our directors, makes recommendations to our Board of Directors for membership and committee

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assignments and for the compensation of our directors, and manages the annual evaluation of the performance of our Chief Executive Officer. The Governance Committee met six times during 2007.

The Governance Committee identifies potential nominees for directors based on recommendations received by directors or from shareholders as described below. Based on the information provided to the Governance Committee, it will make an initial determination whether to conduct a full evaluation of a candidate. As part of the full evaluation process, the committee may conduct interviews, obtain additional background information and conduct reference checks of candidates. The committee may also ask the candidate to meet with management and other members of our Board of Directors. In evaluating a candidate, the Board of Directors, with the assistance of the Governance Committee, takes into account a variety of factors as described in our Corporate Governance Principles.

Compensation and Management Committee

The current members of the Compensation and Management Committee are Daniel W. Christman (Chair), Anthony J. Cavanna, Ranjit C. Singh and Bradford T. Whitmore. The Compensation and Management Committee has general responsibility for determining the remuneration of officers elected by the Board of Directors, granting stock options and restricted stock and otherwise administering our equity compensation plans, and approving and administering any other compensation plans or agreements. Our Restated LTIP is administered by the Compensation and Management Committee. The Compensation and Management Committee met five times during 2007.

Mergers and Acquisitions Committee

The current members of the Mergers and Acquisitions Committee are Ranjit C. Singh (Chair), Carole Lewis Anderson, Anthony J. Cavanna and Bradford T. Whitmore. The Mergers and Acquisitions Committee is responsible for identifying and evaluating acquisition opportunities. The Mergers and Acquisitions Committee met three times during 2007.

Shareholder Recommendations for Director Nominations

As noted above, the Governance Committee considers and establishes procedures regarding recommendations for nomination to our Board of Directors, including nominations submitted by shareholders. Such recommendations, if any, should be sent to Corporate Secretary, Ultralife Batteries, Inc., 2000 Technology Parkway, Newark, New York 14513. Any recommendations submitted to the Corporate Secretary should be in writing and should include any supporting material the shareholder considers appropriate in support of that recommendation, but must include the information that would be required under the rules of the Securities and Exchange Commission (SEC) in a proxy statement soliciting proxies for the election of such candidate and a signed consent of the candidate to serve as a director of the Company, if elected. The Governance Committee evaluates all potential candidates in the same manner, regardless of the source of the recommendation.

Based on the information provided to the Governance Committee, it will make an initial determination whether to conduct a full evaluation of a candidate. The Governance Committee considers the composition and size of the existing Board of Directors, along with other factors, in making its determination to conduct a full evaluation of a candidate. As part of the full evaluation process, the Governance Committee may conduct interviews, obtain additional background information and conduct reference checks of candidates. The Governance Committee may also ask the candidate to meet with management and other members of our Board of Directors. In evaluating a candidate, the Board of Directors, with the assistance of the Governance Committee, takes into account a variety of factors as described in our Corporate Governance Principles.

Annual Meeting Attendance

Our policy is that all of the directors, absent special circumstances, should attend the Company's Annual Meeting of Shareholders. A regular meeting of the Board of Directors is typically scheduled in conjunction with the Annual Meeting of Shareholders. All directors, including Mr. Whitmore who was nominated for the first time, attended last year's Annual Meeting of Shareholders.

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Our Corporate Governance Principles require our Board of Directors to meet in executive session regularly by requiring our independent directors to have at least four regularly-scheduled meetings per year without any management present. Our Board of Directors met in executive session eight times during 2007. In addition, our standing committees meet in executive session on a regular basis.

Communicating with the Board of Directors

Shareholders interested in communicating directly with our Board of Directors as a group may do so in writing to the Company's Corporate Secretary, Ultralife Batteries, Inc., 2000 Technology Parkway, Newark, New York 14513. The Corporate Secretary will review all such correspondence and forward to our Board of Directors a summary of that correspondence and copies of any correspondence that, in his opinion, deals with the functions of the Board of Directors or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board of Directors and request copies of any such correspondence. Any concerns relating to accounting, internal controls or auditing matters will be brought to the attention of the Audit and Finance Committee and handled in accordance with the procedures established by the Audit and Finance Committee with respect to such matters.

Code of Ethics

We have a Code of Ethics applicable to all employees, including the Principal Executive Officer and the Principal Financial Officer, and, to the extent it applies to their activities, all members of the Board of Directors. Our Code of Ethics incorporates the elements of a code of ethics specified in Item 406 of Regulation S-K and also complies with the Nasdaq Stock Market requirements for a code of conduct. Shareholders can find a link to this Code of Ethics on the Company's website at www.ultralifebatteries.com under the heading Investor Relations. We intend to post amendments to or waivers (whether expressed or implied) from the Code of Ethics (to the extent applicable to the Principal Executive Officer or Principal Financial Officer) at the same location on our website as the Code of Ethics.

PROPOSAL 1**ELECTION OF DIRECTORS**

Our Board of Directors currently has eight directors, all of whom have been nominated to serve for an additional one year term. If elected, each director standing for election shall serve until the next annual meeting of shareholders and until his or her successor shall have been elected and qualified. The names of, and certain information with respect to, the persons nominated for election as directors are presented below.

Name	Age	Present Principal Occupation and Employment History
Carole Lewis Anderson	63	Ms. Anderson has been a director of the Company since June 2006 and is a co-founder and principal of Suburban Capital Markets, Inc., a commercial real estate finance company. Prior to her affiliation with Suburban, Ms. Anderson was President and Chief Executive Officer of MNC Investment Bank and Managing Director for Merger and Acquisition Services. Prior

to joining MNC Investment Bank, Ms. Anderson served for two years as Senior Vice President for Corporate Development of Hasbro Inc. and as President of its Infant Products Division. Prior to that, she was Managing Director, Mergers and Acquisitions at Paine Webber Inc. Ms. Anderson is a member of the Editorial Board of *Southeast Real Estate Business*.

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Name	Age	Present Principal Occupation and Employment History
Patricia C. Barron	65	Ms. Barron, who is currently retired, has been a director of the Company since December 2000 and has served as Chair of the Board of Directors since June 2007. Ms. Barron serves as a director of Quaker Chemical Corporation, Teleflex Incorporated and United Services Automobile Association, an insurance mutual corporation. She also serves on a number of non-profit organizations, with a focus on education and health. Ms. Barron had a 28-year career in business. She was an Associate at McKinsey and Company and then moved to Xerox Corporation where she became a corporate officer and held the positions of Vice President of Business Operation Support, President of Engineering Systems and President of Office Document Products. Most recently she has been a Clinical Associate Professor at the Leonard N. Stern School of Business of New York University, where she focused on issues of corporate governance and leadership.
Anthony J. Cavanna	68	Mr. Cavanna, who is currently retired, has been a director of the Company since December 2003. From August 2005 to August 2007, he returned from retirement to serve as the Chief Executive Officer and Chairman of the Board of Directors of Trex Company, Inc., the nation's largest manufacturer of alternative decking products. Prior to his retirement in 2003, he served as the Executive Vice President, Chief Financial Officer and director of Trex Company, Inc. and its predecessor company Trex Company, LLC. Before forming Trex Company, LLC in 1996 by leading a management buyout from Mobil Chemical Company, Mr. Cavanna spent 33 years with Mobil and held a variety of positions, including Group Vice President, Vice President-Planning and Finance, Vice President of Mobil Chemical and General Manager of its Films Division Worldwide, President and General Manager of Mobil Plastics Europe and Vice President-Planning and Supply of the Films Division.
Daniel W. Christman	64	Mr. Christman was appointed to the Board of Directors in August 2001. He is currently Senior Vice President International Affairs for the U.S. Chamber of Commerce, a position he has held since June 2003, and was previously the Executive Director of the Kimsey Foundation in Washington, D.C. Prior to that, he was Superintendent for the U.S. Military Academy at West Point, New York from June 1996 until July 2001. He currently serves as a director of United Services Automobile Association, an insurance mutual corporation and Entegris, Inc., a semi-conductor equipment manufacturer.

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Name	Age	Present Principal Occupation and Employment History
Paula H.J. Cholmondeley	61	Ms. Cholmondeley has been a director of the Company since June 2004. She is currently an independent strategy consultant with accounting expertise. From 2000 to 2004, she was Vice President and General Manager, Specialty Products of Sappi Fine Paper, North America. She has occupied management positions in Owens Corning, the Faxon Company and Blue Cross Blue Shield of Greater Philadelphia. Ms. Cholmondeley is a former certified public accountant and our Sarbanes-Oxley audit committee financial expert and currently serves on the Board of Directors of Dentsply International, Inc., Minerals Technology Inc., Albany International Corp., Terex Corporation and as an independent trustee of Nationwide Mutual Funds.
John D. Kavazanjian	57	Mr. Kavazanjian was elected as the Company's President and Chief Executive Officer effective July 12, 1999 and as a director on August 25, 1999. Prior to joining the Company, Mr. Kavazanjian worked for Xerox Corporation from 1994 in several capacities, most recently as Corporate Vice President, Chief Technology Officer, Document Services Group. From 1992 until 1994, he was the Senior Vice President, Operations for Kendal Square Research Corporation, a high performance computer manufacturer. From 1991 to 1992, he was the Chief Operating Officer for Network Computing, Inc. Mr. Kavazanjian also serves on the Board of Directors of ViaHealth of Wayne Foundation.
Ranjit C. Singh	55	Mr. Singh has been a director of the Company since August 2000, and served as Chairman of the Board from December 2001 to June 2007. Mr. Singh is currently President and Chief Executive Officer of Aptara, Inc. (formerly known as Tech Books), a content outsourcing services company, a position he has held since February 2003. From February 2002 to February 2003, Mr. Singh served as President and Chief Executive Officer of Reliacast Inc., a video streaming software and services company. Prior to that, he was President and Chief Operating Officer of ContentGuard, which develops and markets digital property rights software. Before joining ContentGuard earlier in 2000, Mr. Singh worked for Xerox as a corporate Senior Vice President in various assignments related to software businesses. Mr. Singh joined Xerox in 1997, having come from Citibank where he was Vice President of Global Distributed Computing. Prior to that, he was a principal at two start-up companies and also held executive positions at Data General and Digital Equipment Corporation. Since January 2005, Mr. Singh has served on the Board of Directors of Authentidate Holding Corp.
Bradford T. Whitmore	50	Mr. Whitmore has been a director of the Company since June 2007. He is Managing Partner of Grace Brothers, Ltd., an

investment firm which holds approximately 26.2% of the outstanding shares of our Common Stock. Within the past five years, Mr. Whitmore has served as a director of Sunterra Corp. and Ladish Co. as well as several non-public companies and not-for-profit organizations.

Our Board of Directors has unanimously approved the above-named nominees for directors. Our Board of Directors recommends a vote **FOR** all of these nominees.

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We use a combination of cash compensation and stock-based incentive compensation to attract and retain qualified candidates to serve on our Board of Directors. In 2006, we retained an executive compensation consultant to conduct a survey of certain of our peer group companies to ascertain whether our overall executive compensation was appropriate and balanced. Our practice will be to resurvey every two to three years unless we perceive that there has been a major change in the Company or the market which would warrant a more frequent survey. At the direction of our Governance Committee, management undertook a review of director compensation at those same peer group companies and provided their conclusions to our Governance Committee. In setting director compensation, we consider the amount of time that directors spend fulfilling their duties to the Company, the skill-level required by the Company of members of our Board of Directors, and, based on an independent review by our external compensation consultant, of the compensation paid to directors in similar sized organizations in our industry. After reviewing the information provided, our Board of Directors approved a new director compensation program in 2006 that became effective July 1, 2007. It remains designed to deliver annual director compensation at approximately the median of companies in similar industries and of similar size. The compensation program was changed only to reflect any change in the value of the shares granted as restricted stock awards so that the aggregate dollar value of the award remained unchanged from the prior year. The cash component of director compensation also remained the same.

Directors Cash Compensation

Each non-employee director received during 2007 a \$3,000 quarterly retainer, and the Chair of the Board received a \$5,000 quarterly retainer. Each non-employee director also received \$1,000 for each Board meeting attended; subject, however, to the provision that the meeting compensation was reduced by 50% if the director participated by conference call. Each non-employee director also received \$750 for each meeting of one of the four standing committee meetings attended, whether in person or by telephone. The Chair of the Audit and Finance Committee received a \$1,250 quarterly retainer, the Chairs of the Governance Committee and the Compensation and Management Committee received a \$625 quarterly retainer and the Chair of the Mergers and Acquisitions Committee received a \$250 quarterly retainer. For Board and committee service during 2007, we paid our directors an aggregate \$206,750.

Directors Stock-Based Incentive Compensation

At their meeting on June 6, 2007, the Board of Directors reaffirmed the compensation policy that was adopted on June 8, 2006, including the equity compensation policy for directors, whereby each director will receive an annual award of shares of the Company's Common Stock that are subject to forfeiture restrictions that lapse over time (Restricted Stock). For the July 2007 award of Restricted Stock, the Board determined that the aggregate value of the award for each non-employee director should remain at \$40,000 and that the aggregate value of the award for the Board Chair should remain at \$66,000. To determine the number of shares of Restricted Stock to award based on this valuation, the \$40,000 and \$66,000 award values were divided by the closing price of the Common Stock on July 2, 2007, which was \$10.57. Specifically, on July 2, 2007, each incumbent non-employee director received 3,784 shares of Restricted Stock and the Chair of the Board of Directors received an additional 2,460 shares of Restricted Stock. The forfeiture restrictions applicable to the shares of Restricted Stock issued to all directors other than the Board Chair lapsed with respect to 946 of the shares on each of August 15, 2007, November 15, 2007 and February 15, 2008 and will lapse with respect to a further 946 shares on May 15, 2008. The forfeiture restrictions applicable to the shares of Restricted Stock issued to the Board Chair lapsed with respect to 1,561 of the shares on each of August 15, 2007, November 15, 2007 and February 15, 2008 and will lapse with respect to a further 1,561 shares on May 15, 2008.

The Board of Directors moved to a Restricted Stock award in June 2006 in order to improve the Company's annual equity burn rate. Equity burn rate analysis is a measure of dilution that shows how rapidly a company is using its shares reserved for equity compensation plans. This analysis is frequently used by institutional investors to determine whether they should support or reject equity compensation proposals submitted to a company's

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shareholders for approval. To calculate a company's equity burn rate percentage, the sum of the total number of shares represented by stock options granted in a fiscal year, plus two times the total number of shares of restricted stock or other stock awards awarded in that year, is divided by the gross number of shares outstanding at the end of that year. The Company has previously committed to maintaining an average annual equity burn rate for the fiscal years ending December 31, 2006, 2007 and 2008 not exceeding 2.93% per year. This equity burn rate of 2.93% corresponds to the current mean plus one standard deviation of the Standard & Poor's Global Industry Classification Standards peer group pertinent to the Company and is slightly lower than the Company's average annual equity burn rate of 3.12% for the fiscal years ended December 31, 2003, 2004 and 2005. The Company's burn rates for the fiscal years ended December 31, 2006 and 2007 were 4.95% and 2.39%, respectively.

Directors also have share ownership guidelines which require them to hold shares at least equal in value to the amount of their annual cash retainer. Directors have three years to achieve the required holdings. Furthermore, until the required shareholding guidelines are met, directors are required to hold at least 50% of all vested after-tax shares and 50% of shares received on exercise of stock options. Currently, all of our directors meet the share ownership guidelines.

Director Summary Compensation Table

The table below summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended December 31, 2007.

Name (1)	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(2)	Option Awards (\$)	Total (\$)
Carole Lewis Anderson	29,500	40,499	0	69,999
Patricia C. Barron	32,000	55,381	0	87,381
Anthony J. Cavanna	31,750	40,499	0	72,249
Paula H.J. Cholmondeley	36,250	40,499	0	76,749
Daniel W. Christman	30,000	40,499	0	70,499
Ranjit C. Singh	33,250	52,244	0	85,494
Bradford T. Whitmore	14,000	22,891	0	36,891
Total	206,750	292,512	0	499,262

(1) Bradford T. Whitmore began his term as a director on June 6, 2007 following his election by the shareholders to the Board of Directors at the 2007 Annual Meeting of Shareholders. John D. Kavazanjian is ineligible to receive compensation for his service as a director because he is an employee of the Company, serving as the Company's President and Chief Executive Officer.

(2) The amounts set forth in this column reflect shares of restricted stock granted during 2007. The amounts listed are equal to the compensation cost recognized during 2007 for financial statement purposes in accordance with Statement of Financial Accounting Standards, No. 123 (Revised 2004), Share-Based Payment (FAS 123(R)). Additional information related to the calculation of the compensation cost is set forth in Note 8 to our audited financial statements included in our 2007 Annual Report on Form 10-K. The number of restricted shares granted

in 2007, and the grant date fair value of those grants, determined in accordance with FAS 123(R), is set forth below.

<u>Name</u>	Grant Date	Shares (#)	Grant Date Fair Value (\$)
Carole Lewis Anderson	7/2/2007	3,784	39,997
Patricia C. Barron	7/2/2007	6,244	65,999
Anthony J. Cavanna	7/2/2007	3,784	39,997
Paula H.J. Cholmondeley	7/2/2007	3,784	39,997
Daniel W. Christman	7/2/2007	3,784	39,997
Ranjit C. Singh	7/2/2007	3,784	39,997
Bradford T. Whitmore	7/2/2007	3,784	39,997

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PROPOSAL 2

**RATIFY THE SELECTION OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The firm of BDO Seidman LLP, independent registered public accountants, served as the independent registered public accounting firm of the Company in connection with the audit of the Company's financial statements for 2006 and 2007.

The firm of PricewaterhouseCoopers LLP, independent registered public accountants, served as the independent registered public accounting firm of the Company in connection with the audit of the Company's financial statements for 2005.

On June 8, 2006, with the approval of the Company's Audit and Finance Committee, the Company dismissed its independent registered public accountants, PricewaterhouseCoopers LLP, and subsequently engaged BDO Seidman LLP as its new independent registered public accountants for 2006. The reports of PricewaterhouseCoopers LLP on the Company's consolidated financial statements for 2005 did not contain an adverse opinion or a disclaimer of opinion, nor were qualified or modified as to uncertainty, audit scope or accounting principles.

During 2004 and 2005, and the subsequent interim period through April 1, 2006, there were no disagreements between the Company and PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of PricewaterhouseCoopers LLP, would have caused PricewaterhouseCoopers LLP to make reference to the subject matter of any such disagreements in connection with their reports on the Company's financial statements for such years.

None of the reportable events described under Item 304(a)(1)(v) of Regulation S-K occurred within 2004 or 2005, and the subsequent interim period through April 1, 2006 preceding our determination not to renew the engagement of PricewaterhouseCoopers LLP.

During 2004 and 2005, the Company did not consult with BDO Seidman LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events required by applicable securities laws.

Our Audit and Finance Committee has selected BDO Seidman LLP as our independent registered public accounting firm for 2008. This selection will be presented to our shareholders for their ratification at the Meeting. The Board of Directors recommends a vote in favor of the proposal to ratify this selection, and the persons named in the enclosed proxy (unless otherwise instructed therein) will vote such proxies **FOR** this proposal. If the shareholders do not ratify this selection, the Audit and Finance Committee will seek to identify and address the reason or reasons why the shareholders did not ratify the committee's selection.

We have been advised by BDO Seidman LLP that a representative will be present at the Meeting and will be available to respond to appropriate questions. In addition, we intend to give such representative an opportunity to make any statements if he or she should so desire.

Table of Contents**Principal Accountant Fees and Services**

Aggregate fees for professional services rendered for us by BDO Seidman LLP for 2006 and 2007 were:

	BDO 2006	BDO 2007
Audit Fees	\$ 570,074	\$ 701,799
Audit-Related Fees	0	0
Tax Fees	0	10,000
All Other Fees	0	0
Total	\$ 570,074	\$ 711,799

Audit Fees

Audit fees for 2006 and 2007, respectively, were for professional services rendered for the audits of the consolidated financial statements of the Company, consents, income tax provision procedures and assistance with review of documents filed with the SEC.

Audit-Related Fees

There were no audit-related fees for 2006 and 2007.

Tax Fees

Tax fees for 2007 were for services related to tax compliance, including the preparation of tax returns and claims for refund, and tax planning and tax advice.

All Other Fees

There were no all other fees for 2006 and 2007.

Our Audit and Finance Committee has not adopted pre-approval policies and procedures for audit and non-audit services. Accordingly, this proxy statement does not include disclosure regarding pre-approval policies and procedures and related information. The engagement of BDO Seidman LLP for non-audit accounting and tax services during 2007, was limited to circumstances where those services were considered integral to the audit services that it provided or where there was another compelling rationale for using BDO Seidman LLP. All audit, audit-related and permitted non-audit services for which BDO Seidman LLP was engaged were pre-approved by our Audit and Finance Committee in compliance with applicable SEC requirements.

EXECUTIVE OFFICERS

The names of, and certain information with respect to, our executive officers who are not director nominees are presented below.

Name	Age	Present Principal Occupation and Employment History
Julius M. Cirin	54	Mr. Cirin, a battery industry veteran, was named Vice President of Corporate Marketing and Technology in February 2006, having served as Vice President of Corporate Marketing since August 2000. He joined the Company as Director of Marketing in March 1991 at its founding. Prior to this, Mr. Cirin served as Quality Assurance Manager for Eastman Kodak Company in the Ultra Technologies Division from 1986 to 1989. From 1979 to 1986, Mr. Cirin worked at Duracell USA in several product, process engineering and quality management positions. Mr. Cirin has a B.S. in Interdisciplinary Studies from St. John Fisher College.

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Name	Age	Present Principal Occupation and Employment History
Peter F. Comerford	50	Mr. Comerford was named Vice President of Administration and General Counsel on July 1, 1999 and was elected Secretary of the Company in December 2000. He joined the Company in May 1997 as Senior Corporate Counsel and was appointed Director of Administration and General Counsel in December of that year. Prior to joining the Company, Mr. Comerford was a practicing attorney for approximately fourteen years having worked primarily in municipal law departments including the City of Niagara Falls, New York where he served as the Corporation Counsel. Mr. Comerford has a B.A. from the State University of New York at Buffalo, an MBA from Canisius College and a J.D. from the University of San Diego School of Law.
James E. Evans	59	Mr. Evans was named Vice President of Business Operations in March 2008, having served as Vice President and General Manager of the Company's Government and Defense Business since February 2007. He joined Ultralife in July 2006 as Vice President of the Government and Defense Business when the Company acquired McDowell Research Corp., where he served as Vice President of Sales and Marketing since July 2001. Prior to this, Mr. Evans served as Vice President of Sales and Marketing for Turtle Mountain Communications from January 2000 to July 2001. From November 1989 to December 1999, he was Director of Special Operations and Navy Business Development at Harris Corporation. From July 1968 to December 1989, Mr. Evans served in the U.S. Navy in the communications field where he retired with the rank of Chief Warrant Officer 3.
Philip A. Fain	53	Mr. Fain, Vice President of Business Development, joined the Company in March 2008. Prior to joining Ultralife, he was Managing Partner of CXO on the GO, a management-consulting firm, which he co-founded in November 2003. Prior to founding CXO on the GO, Mr. Fain served as Vice President of Finance - RayBan Sunoptics for Luxottica, SpA. Prior to the acquisition of Bausch & Lomb's global eyewear business by Luxottica, Mr. Fain served as B&L's Senior Vice President Finance - Global Eyewear from 1997 to 1999 and as Vice President and Controller for the US Sunglass business from 1993 to 1996. From 1983 to 1993, Mr. Fain served in various positions with B&L including executive positions in corporate accounting, finance and audit. Mr. Fain began his career as a CPA and consultant with Arthur Andersen & Co. in 1977. He received his BA in Economics from the University of Rochester and MBA from the William E. Simon Graduate School of Business Administration of the University of Rochester.

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Name	Age	Present Principal Occupation and Employment History
Robert W. Fishback	52	Mr. Fishback joined the Company in December 1998 as Corporate Controller. He became Vice President of Finance and Chief Financial Officer in October 1999 and was appointed Treasurer of the Company in December 2002. Prior to joining the Company, Mr. Fishback served as Controller-Shared Services for ITT Industries, a diversified manufacturing company, from 1997 to 1998. From 1995 to 1997, he was Director-Corporate Accounting for Goulds Pumps Inc., a manufacturer of industrial and commercial pumps. From 1983 to 1995, Mr. Fishback served in various managerial capacities in finance and operations with Frontier Corporation, a provider of local and long-distance telecommunications services. Mr. Fishback began his career in public accounting with Deloitte and Touche in 1978. He is a CPA and has an MBA in finance from the State University of New York at Buffalo. His undergraduate degree in accounting is from Grove City College.
Patrick R. Hanna, Jr.	59	Mr. Hanna was named Vice President of Corporate Strategy and Business Integration in February 2006, having served as Vice President of Corporate Strategy since December 2001. He joined the Company in February 2000 as Director of Strategic Planning after a 23 year career with Xerox Corporation. Mr. Hanna served in many capacities in the areas of strategic and business planning development, most recently as the Strategic Planning Manager of the Xerox Internet and Software Services organization. Mr. Hanna has a B.S. in electrical engineering from Howard University and an MBA from the William E. Simon Graduate School of Business Administration of the University of Rochester.
Philip M. Meek	47	Mr. Meek was named Chief Operating Officer of the Company's Stationary Power Services unit in November 2007, having served as Vice President of Manufacturing since January 2002. He joined the Company in August 1998 as Production Manager, and in September 1999 became Director of Primary Battery Manufacturing. Prior to this, Mr. Meek worked for Duracell USA from 1989 to 1998 where he held several manufacturing management positions at Duracell's largest alkaline battery manufacturing facility. Mr. Meek has a B.S. from Indiana University of Pennsylvania.
Andrew J. Naukam	48	Mr. Naukam, Vice President of Far East Operations since December 2007, joined the Company in 1994 as Engineering Manager and held positions as Director of Engineering, Vice President of R&D and Director of Manufacturing for our UK operations. Mr. Naukam was named Chief Operating Officer of the Company's subsidiary ABLE New Energy Co., Ltd. in December 2007. Most recently, he held the position of Chief Operating Officer of our McDowell Research unit having

previously served as Vice President of Quality Assurance. Prior to working for us, Mr. Naukam worked for Hansford Manufacturing Corp. from 1991 to 1994, and as a project engineer for Bausch & Lomb's Eyewear Division from 1989 to 1991. From 1986 to 1989, Mr. Naukam was a mechanical development engineer for the Ultra Technologies Division of Eastman Kodak Company. Mr. Naukam has a B.S. in mechanical engineering from the State University of New York at Buffalo.

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Name	Age	Present Principal Occupation and Employment History
William A. Schmitz	45	Mr. Schmitz, currently Chief Operating Officer, joined the Company in December 1999 as Vice President, Manufacturing, Primary Batteries, and became Vice President and General Manager, Primary Batteries in 2001 and Chief Operating Officer in 2002. Before this, Mr. Schmitz worked for Bausch & Lomb from 1985 to 1999 in several positions, most recently as Director, New Product Development in the Eyewear Division from 1995 to 1999. Mr. Schmitz has an M.S. in Operations Management from the University of Rochester and a B.S. in Mechanical Engineering from the Rochester Institute of Technology.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information regarding the beneficial ownership of shares of the Company's Common Stock as of April 15, 2008 by each person known by the Company to beneficially own more than five percent of the outstanding shares of Common Stock, with percentages based on 17,390,987 shares issued and outstanding.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class Beneficially Owned
Grace Brothers, Ltd. (1) 1560 Sherman Avenue, Suite 900 Evanston, IL 60201	4,518,616	26.0%
Invesco Ltd. (2) 1360 Peachtree Street NE Atlanta, GA 30309	1,252,473	7.2%

- (1) This information as to the beneficial ownership of shares of the Company's Common Stock is based on the Schedule 13D/A (Amendment No. 5) dated March 2, 2007 filed with the SEC by Grace Brothers, Ltd., an Illinois limited partnership, Bradford T. Whitmore (Whitmore) and Spurgeon Corporation (Spurgeon), its general partners, that reports beneficial ownership of 4,419,542 shares of the Company's Common Stock, and on a March 15, 2007 Form 4 - Statement of Changes in Beneficial Ownership, filed with the SEC by Grace Brothers, Ltd. that reports the acquisition of an additional 99,074 shares of the Company's Common Stock. Grace Brothers, Ltd., Whitmore and Spurgeon share voting and dispositive power with respect to all 4,518,616 shares. The amount reported in the table excludes 29,599 shares of the Company's Common Stock held by Whitmore, who has sole voting and dispositive power with respect to such shares.

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- (2) This information as to the beneficial ownership of shares of the Company's Common Stock is based on the Schedule 13G dated February 9, 2008 filed with the SEC by Invesco Ltd., a Bermuda company, on behalf of itself and its subsidiaries, PowerShares Capital Management LLC (PS US), a United States company, and PowerShares Capital Management Ireland LTD (PS Ireland), an Ireland company. The number of shares shown is beneficially owned by Invesco Ltd., which provides investment management services to institutional and individual investors worldwide through its subsidiaries identified above. PS US has sole voting and sole dispositive power with respect to 1,252,018 shares, and PS Ireland has sole voting and sole dispositive power with respect to 455 shares.

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of shares of the Company's Common Stock as of April 15, 2008 by (1) each director and each Named Executive Officer of the Company (as defined on page 17), and (2) all directors and executive officers of the Company as a group.

Name of Beneficial Owner (1)	Number of Shares Beneficially Owned (1)	Percent of Class Beneficially Owned (2)
Carole Lewis Anderson (3)	13,784	*
Patricia C. Barron (4)	68,755	*
Anthony J. Cavanna (5)	45,784	*
Paula H.J. Cholmondeley (6)	39,919	*
Daniel W. Christman (7)	56,875	*
John D. Kavazanjian (8)	241,046	1.4%
Ranjit C. Singh (9)	99,457	*
Bradford T. Whitmore (10)	4,548,215	26.2%
Peter F. Comerford (11)	87,467	*
James E. Evans (12)	15,974	*
Robert W. Fishback (13)	96,912	*
William A. Schmitz (14)	110,412	*
All directors and executive officers as a group (17 persons) (15)	5,561,223	30.8%

* Less than 1%

- (1) Except as otherwise indicated, the shareholders named in this table have sole voting and investment power with respect to the shares of Common Stock beneficially owned by them. The information provided in this table is based upon information provided to the Company by such shareholders. The table reports beneficial ownership for the Company's directors and executive officers in accordance with Rule 13d-3 under the Exchange Act. This means all Company securities over which directors and executive officers directly or indirectly have or share voting or investment power are listed as beneficially owned. The amounts also include shares of restricted stock that are subject to vesting as well as shares that may be acquired by exercise of stock options prior to June 14, 2008, which shares are referred to in the footnotes to this table as shares subject to options that may be exercised.

- (2) Based on 17,390,987 shares issued and outstanding.
- (3) Includes (i) 6,000 shares subject to an option that may be exercised by Ms. Anderson; and (ii) 946 shares of restricted stock that will vest on May 15, 2008.
- (4) Includes (i) 1,200 shares held jointly by Ms. Barron and her husband; (ii) 31,409 shares subject to options that may be exercised by Ms. Barron; and (iii) 1,561 shares of restricted stock that will vest on May 15, 2008.
- (5) Includes (i) 34,000 shares subject to options that may be exercised by Mr. Cavanna; and (ii) 946 shares of restricted stock that will vest on May 15, 2008.

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- (6) Includes (i) 30,000 shares subject to options that may be exercised by Ms. Cholmondeley; and (ii) 946 shares of restricted stock that will vest on May 15, 2008.
- (7) Includes (i) 40,591 shares subject to options that may be exercised by Mr. Christman; and (ii) 946 shares of restricted stock that will vest on May 15, 2008.
- (8) Includes (i) 1,800 shares held by Mr. Kavazanjian's wife; (ii) 112,000 shares subject to options that may be exercised by Mr. Kavazanjian; (iii) 4,333 shares of restricted stock that are subject to time vesting; and (iv) 15,000 shares of restricted stock that are subject to performance-based vesting.
- (9) Includes (i) 79,505 shares subject to options that may be exercised by Mr. Singh; and (ii) 946 shares of restricted stock that will vest on May 15, 2008.
- (10) Includes 4,518,616 shares beneficially owned by Grace Brothers, Ltd., an Illinois limited partnership. Mr. Whitmore is a general partner of Grace Brothers, Ltd. See Security Ownership of Certain Beneficial Owners on page 14 for more information about Grace Brothers, Ltd. Mr. Whitmore holds 1,200 shares in a margin account.
- (11) Includes (i) 53,900 shares subject to options that may be exercised by Mr. Comerford; (ii) 2,200 shares of restricted stock that are subject to time vesting; and (iii) 4,500 shares of restricted stock that are subject to performance-based vesting.
- (12) Includes (i) 7,334 shares subject to options that may be exercised by Mr. Evans; and (ii) 6,600 shares of restricted stock subject to time vesting.
- (13) Includes (i) 71,400 shares subject to options that may be exercised by Mr. Fishback; (ii) 3,466 shares of restricted stock subject to time vesting; and (iii) 7,500 shares of restricted stock subject to performance-based vesting.
- (14) Includes (i) 300 shares held by Mr. Schmitz's wife; (ii) 82,100 shares subject to options that may be exercised by Mr. Schmitz; (iii) 3,466 shares of restricted stock subject to time vesting; and (iii) 7,500 shares of restricted stock subject to performance-based vesting.
- (15) Includes (i) 654,622 shares subject to options exercisable by directors and executive officers; (ii) 27,529 shares of restricted stock subject to time vesting; and (iii) 43,500 shares of restricted stock subject to performance-based vesting.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who own more than 10% of our Common Stock to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of Common Stock and other equity securities of the Company. To our knowledge, based solely on review of the copies of such reports furnished to us during 2007, all Section 16(a) filings applicable to our officers, directors and more than 10% beneficial owners were filed in a timely manner.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

The Compensation and Management Committee of the Board of Directors (the Committee) has responsibility for establishing, implementing and monitoring adherence with the Company's compensation philosophy. The Committee ensures that the total compensation paid to the Named Executive Officers is fair, reasonable and competitive. The Committee has established a goal of having base salary and cash compensation set at approximately the 50% level of the Company's peer group, while superior pay performance is leveraged through stock-based incentive compensation. Where an individual is placed relative to the peer group is based on the Committee's judgment of the individual's performance and relative value to the Company.

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Throughout this proxy statement, the individuals who served as the Company's Principal Executive Officer and Principal Financial Officer during 2007, as well as the other individuals included in the Summary Compensation Table on page 24, are referred to as the Named Executive Officers.

Compensation Philosophy and Objectives

The Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Company, and which aligns executives' interests with those of the shareholders by rewarding performance to meet and exceed established goals, with the long-term objective of increasing shareholder value.

We base our executive compensation policies on the same principles that guide us in establishing all of our compensation programs. We design compensation programs to attract, retain and motivate talented individuals. In particular:

We base compensation decisions on a combination of the level of job responsibility, individual performance and Company performance. Generally, as employees progress to higher levels in the Company, an increasing proportion of their pay is linked to Company performance and shareholder returns.

Our goal is to have our compensation package reflect the value of the job in the marketplace. To attract and retain a skilled work force, we must remain competitive with the pay of other employers who compete with us for talent.

We develop and administer our compensation programs to foster the long-term focus required for success in our industry, but we also work to achieve an appropriate balance between short-term and long-term compensation in order to adequately motivate our employees.

To this end, the Committee reviews the executive compensation program annually to assess if the Company is able to attract and retain exceptionally talented executives. The Committee also ensures that our total compensation is linked to our ability to meet our annual financial and non-financial goals, and longer-term, to drive strong levels of shareholder return.

Setting Executive Compensation

Based on the foregoing objectives, the Committee has structured the Company's annual and long-term incentive-based cash and non-cash executive compensation to motivate executives to achieve the business goals set by the Company and reward the executives for achieving such goals. In furtherance of this, the Committee engaged a compensation consulting firm during 2006 to conduct a review of its total compensation program for the executives. That firm provided the Committee with relevant market data and alternatives to consider when making compensation decisions for the Chief Executive Officer and other executive officers. The Committee decided that it would continue to rely on the 2006 data during its December 2007 review of executive compensation and that it would continue in 2008 to move executive compensation to the 50% level of the Company's peer group. This decision was based on the Committee's determination that the Company's executives had not yet been moved near the midpoint of the peer group range, a goal set in 2007. Further, the Committee decided it would re-evaluate the relevant peer group and the appropriate market data during 2008, given the dramatic changes of the Company since the 2006 survey.

In making compensation decisions, the Committee compares each element of total compensation against compensation data, compiled by our outside consulting firm, from companies of similar size and industry orientation. A significant percentage of compensation is allocated to incentive compensation in order to link executives

compensation to the performance of the Company. The Committee reviews information provided by the outside consultant to determine the appropriate level and mix of base salary with incentive compensation and benefits.

Executive compensation competitive data is provided by our outside consulting firm and is obtained from two primary sources: a peer group, which was reviewed and approved by the Committee, and an industry standard executive compensation survey. The peer group is a set of 14 US-based, public firms focused in the Power

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Generation and Storage industry with revenues between \$50M and \$200M and is comprised of the following companies:

Arotech Corporation	Excel Technology, Inc.
Bel Fuse Inc.	Motorcar Parts America Inc.
Comarco, Inc.	Quantum Fuel Systems Technologies Worldwide
Distributed Energy Systems Corp.	SL Industries Inc.
Electro Scientific Industries Inc.	Spectrum Control Inc.
Energy Conversion Devices Inc.	SunPower Corporation
Evergreen Solar, Inc.	Vicor Corp.

Role of Executive Officers in Compensation Decisions

The Committee makes final compensation decisions relative to base, bonus and equity for the executive officers based on the recommendations of the Chief Executive Officer, with the exception of the Chief Executive Officer, whose compensation is developed by the Compensation and Management Committee, based on input from the Company's compensation consultant. The Committee approves recommendations regarding equity awards to all executives and other employees of the Company. The Chief Executive Officer makes recommendations with respect to equity compensation for non-executive officers and decisions regarding the non-equity compensation of non-executive officers.

The Chief Executive Officer annually reviews the performance of each executive officer, other than himself, whose performance is reviewed by the Committee. The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Committee. The Committee can exercise its discretion in modifying any recommended adjustments or awards to executive officers.

Compensation and Management Committee Activity

The Committee recognizes the importance of maintaining sound principles for the development and administration of executive compensation and took steps in 2007 to enhance the Committee's ability to effectively carry out its responsibilities as well as to ensure that there are strong links between executive pay and performance. Examples of actions that the Committee took in 2007 include:

Review and evaluation of executives against personal and Company goals and utilization of that evaluation to set compensation levels.

Participation in the setting of individual performance goals for 2008 for each executive officer.

Meeting in executive sessions without Company management present.

Approval of 2008 base salary increases for the executive officers.

2007 Executive Compensation Components

For the fiscal year ended December 31, 2007, the principal components of compensation for the Named Executive Officers were:

base salary;

performance-based annual cash-based incentive compensation; and
long-term equity incentive compensation.

Base Salary

The Company provides Named Executive Officers and other executives with a base salary to compensate them for services rendered during the fiscal year. Base salary ranges for Named Executive Officers are determined for each executive based on his or her position and responsibility by using market data.

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During its review of base salaries for executives, the Committee primarily considers:

competitive pay practices;

the performance of the executive including any change in the responsibilities assumed by the executive; and

the performance of the Company.

Salary levels are considered annually as part of the Company's performance review process as well as upon a change in job responsibility. Merit based increases to salaries of executives are based on the Chief Executive Officer's recommendation and, where possible, the Committee's assessment of the individual's performance. Base salaries, as determined by a study conducted by the Company's compensation consultant in 2006, were found to be significantly below market norms for comparable companies. In this light, the Committee approved increases during 2007, for the 2008 fiscal year, that better aligned executive salaries with the market, moving them to approximately the 50% level of the Company's peer group, based on the 2006 survey.

Performance-Based Annual Cash-Based Incentive Compensation

At the beginning of 2006, the Company implemented a new short-term cash incentive plan (STIP) for executive officers which it continued in 2007. The Committee implemented the STIP as a means of rewarding executive officers for their performance during the fiscal year and to assist in achieving the Committee's stated goal of moving executive compensation to the 50% level of the Company's peer group. This element of compensation fits into the Committee's stated objective of remaining competitive with the pay of other employers who compete with the Company for talent.

Under the STIP, John D. Kavazanjian, our President and Chief Executive Officer, was eligible to receive for 2007 a cash bonus of 50% of his 2007 base compensation as a target award and up to 100% of his 2007 base compensation as an overachievement award. The determination as to whether to pay a cash bonus to Mr. Kavazanjian, as well as the amount of the cash bonus, if any, was made by the Board of Directors, in its sole discretion, based upon the Committee's recommendation, which, in turn, is based upon our Board of Directors' assessment of the Company's performance during the fiscal year.

William A. Schmitz, our Chief Operating Officer, was eligible to receive for 2007 a cash bonus of 40% of his 2007 base compensation as a target award and up to 70% of his 2007 base compensation as an overachievement award under the STIP. The determination as to whether to pay a cash bonus to Mr. Schmitz, as well as the amount of the cash bonus, if any, was made by the Board of Directors, in its sole discretion, based upon the Committee's recommendation, which, in turn, is based upon our Board of Directors' assessment of the Company's performance during the fiscal year.

Robert W. Fishback, our Vice President of Finance and Chief Financial Officer, was eligible to receive for 2007 a cash bonus of 40% of his 2007 base compensation as a target award and up to 70% of his 2007 base compensation as an overachievement award under the STIP. The determination as to whether to pay a cash bonus to Mr. Fishback, as well as the amount of the cash bonus, if any, was made by the Board of Directors, in its sole discretion, based upon the Committee's recommendation, which, in turn, is based upon our Board of Directors' assessment of the Company's performance during the fiscal year.

Peter F. Comerford, our Vice President of Administration and General Counsel, as well as our other executive officers, Julius M. Cirin, Vice President of Corporate Marketing and Technology, Patrick R. Hanna, Jr., Vice President of Corporate Strategy and Business Integration, Philip M. Meek, Chief Operating Officer of our Stationary Power Services unit, and Andrew J. Naukam, Vice President of Far East Operations and Chief Operating Officer of

the Company's subsidiary ABLE New Energy Co., Ltd., were each eligible to receive for 2007 a cash bonus of 30% of their 2007 base compensation as a target award and up to 50% of their 2007 base compensation as an overachievement award under the STIP. The determination as to whether to pay a cash bonus to these officers, as well as the amount of the cash bonus, if any, depended on two factors, each of which was equally important. The first factor was the achievement of the performance goals established for the executive officer. Each executive officer's performance goals were based upon the particular area for which the executive officer was responsible and related to the achievement of identifiable and largely objective standards. All were based, in part, on the achievement of

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budgeted financial thresholds. The second factor was the overall assessment by the Board of Directors of the Company's performance during 2007.

James E. Evans, our Vice President of Business Operations, was not eligible to receive a cash bonus in 2007 because his compensation includes a component based on sales commissions. Mr. Evans receives as a sales commission a certain percentage of all of the Company's qualifying defense and government sales.

Short-term incentive payouts over the last five years have been very modest. In 2002, 2003 and 2004, the payouts averaged approximately 20% of base salary. In 2005, 2006 and 2007, because of Company performance that fell below budgeted financial thresholds, there were no short-term incentive payouts to executive officers.

The Company uses adjusted operating income as its measure of objective financial performance. Adjusted operating income represents operating income before amortization, non-cash stock compensation expense, the effect of a gain or loss on a minority ownership interest and any other items outside of the control of management that are approved by the Committee to be subtracted from operating income. In order for the Company's executive officers to satisfy the Company financial performance component of the STIP, the Company's adjusted operating income has to improve beyond certain budgeted levels. In 2007, the Company's adjusted operating income fell below such budgeted levels and the Company financial performance component of the STIP was not met.

For 2008, the Company will continue to refine its STIP. For 2008, formal bonus target awards will remain unchanged from 2007 for each executive. Mr. Kavazanjian's overachievement award will remain unchanged. Mr. Schmitz, Mr. Fishback and Mr. Fain are eligible to earn up to 80% of their 2008 base compensation as an overachievement award. Mr. Comerford and our other executive officers are eligible to earn up to 60% of their 2008 base compensation as an overachievement award.

For 2008, Mr. Kavazanjian's, Mr. Schmitz's, Mr. Fishback's and Mr. Fain's bonuses will be based entirely on the Company's financial results. The other executives will have 50% of their targeted bonus amounts based on the Company's financial performance and the other 50% will be based on the attainment of specified objectives. Payout of the objectives component of the bonus will be subject to a minimum threshold of 90% of Company performance being achieved before this component pays out.

For 2008, Mr. Evans will not participate in the STIP, but will instead receive as a sales commission a certain percentage of all of the Company's qualifying defense and government sales.

Long-Term Equity Incentive Compensation

In 2006, the Compensation and Management Committee approved a new approach to long-term incentives for the Company. Historically, only stock options had been granted to executives. The adoption of the new approach to long-term incentive compensation is consistent with the Committee's objective to align executives' interests with those of the shareholders.

The Company's long-term incentive compensation consists of three components: (1) stock options, (2) performance-vested restricted shares, and (3) time-vested restricted shares. All awards under this plan are made in December of every year. This plan will increase the link to shareholder value creation, retain key executive talent, and reduce FAS 123(R) expenses. Each component is addressed below.

To continue to provide significant upside potential based on increases in the Company's stock price, 50% of the value of the long-term incentive award is delivered in the form of stock options. In 2006, the Board granted options to purchase shares of Common Stock under the Company's Restated LTIP to its executive officers. The options have a

seven-year term and vest over a three-year period in equal installments. For 2007, in order for the options grants to reflect the value of the Company's stock, option awards were adjusted based on the Black Scholes value of the award. In December 2007, Mr. Kavazanjian received a conditional option to purchase 22,500 shares of Common Stock, Mr. Schmitz and Mr. Fishback each received conditional options to purchase 12,000 shares of Common Stock, and Mr. Comerford and Mr. Evans each received conditional options to purchase 6,000 shares of Common Stock. These options are conditioned upon the Company's shareholders approving the amendment to the Restated LTIP to increase the number of shares of Common Stock authorized to be issued pursuant to the plan. In addition to these conditional options, the Committee granted conditional options to purchase 24,000 shares of Common Stock

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to other executive officers. The Committee chose to make these options conditional because there was an insufficient number of shares available under the Restated LTIP to make the 2007 award to the Named Executive Officers consistent with past practices.

In order to strengthen the link to performance while delivering restricted shares to reduce the Company's FAS 123(R) expense, 25% of the long-term incentive value will be delivered in the form of performance-vested restricted shares. In 2006, the Board granted performance-vested restricted shares of the Company's Common Stock under the Company's Restated LTIP to its executive officers. These shares vest in three equal installments and become unrestricted only if the Company meets or exceeds the same predetermined target for its operating performance for 2007, 2008 and 2009 as used for determining cash awards pursuant to the non-equity incentive plan. Mr. Kavazanjian was granted a total of 15,000 performance-vested restricted shares, Mr. Schmitz and Mr. Fishback each were granted a total of 7,500 performance-vested restricted shares, and Mr. Comerford was granted a total of 4,500 performance-vested restricted shares. All other executive officers were each granted a total of 3,000 performance-vested restricted shares. The plan also contemplates the ability to apply any excess operating performance to a prior year or a subsequent year for purposes of satisfying the vesting requirements.

To increase the retention of key executives, 25% of the long-term incentive value will be delivered in the form of time-based restricted shares. In 2007, the Board granted time-vested restricted shares of the Company's Common Stock under the Company's Restated LTIP to its executive officers. These shares vest over a three-year period in equal installments, a date set at the discretion of the Committee. Vesting is set to commence on March 1, 2009 with shares vesting equally on the next two anniversary dates of that date. Mr. Kavazanjian was granted a total of 3,000 time-vested restricted shares, Mr. Schmitz and Mr. Fishback each were granted a total of 1,800 time-vested restricted shares, and Mr. Comerford was granted a total of 1,200 time-vested restricted shares. Other executive officers, other than Mr. Evans, were each granted a total of 1,200 time-vested restricted shares.

In addition, in December 2007 the Board granted Mr. Evans a total of 10,000 time-vested restricted shares. The grant to Mr. Evans will vest in three annual equal installments beginning on March 1, 2008.

Stock Ownership and Retention Guidelines

For 2007, the Company has implemented share ownership guidelines in order to align better the interests of executives and shareholders. The stock ownership requirements for executives are as follows:

Chief Executive Officer	1.0 times salary
Chief Operating Officer & Chief Financial Officer	0.5 times salary
Other Executive Officers	0.33 times salary

For 2008, the Committee established the presumed share price at \$20.15 per share, which was based on the closing price of the Company's Common Stock on December 31, 2007. The stock ownership requirements discussed above will remain unchanged for 2008, except that in addition to our Chief Operating Officer and Chief Financial Officer, our Vice President of Business Development and our Vice President of Business Operations will be required to own the equivalent of at least .5 times their salaries in our Common Stock. Each year the Committee will establish a new presumed share price for the following year taking into consideration the Common Stock's historical performance. Executives have three years to achieve the required holdings. Additionally, there are share holding requirements which require that until the share ownership guidelines are met, executives must hold at least 50% of all vested restricted share grants (on an after tax basis) and 50% of shares received on exercise of stock options.

Retirement Benefits

Other than the qualified 401(k) Plan with a Company match that the Company and its subsidiaries may make available to all employees, the Company does not provide its executives with any other retirement benefits. Currently, the Company matches one-half (2%) of the first 4% of the employee contribution under its 401(k) Plan. See page 30 for more information about the Company's 401(k) Plan.

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Perquisites and Other Personal Benefits

The Company provides Named Executive Officers with perquisites and other personal benefits that the Company and the Committee believe are reasonable and consistent with its overall compensation program to better enable the Company to attract and retain superior employees for key positions. The Committee periodically reviews the levels of perquisites and other personal benefits provided to Named Executive Officers.

In 2006, the Committee approved a flexible supplemental benefits account that will be established for each executive officer beginning in 2007. The amount established for the Chief Executive Officer is \$7,500 per annum and \$5,000 for the other executive officers. Premiums for supplemental long-term disability insurance for executives will be taken out of these amounts and the Chief Executive Officer will present the Committee with other offerings that executives can use with their account balances.

Attributed costs of the personal benefits described above for the Named Executive Officers for the fiscal year ended December 31, 2007, are included in the *All Other Compensation* column of the Summary Compensation Table on page 24.

Severance and Change of Control Payments

The Company has entered into employment agreements with certain of its Named Executive Officers that contain change-of-control and severance provisions. The terms of these agreements are summarized on page 29 under *Employment Arrangements*. The severance provisions of the employment agreements are intended to address competitive concerns by providing the Named Executive Officers with compensation that may alleviate the uncertainty of having to leave for another employer or foregoing other opportunities. The change of control provisions of the employment agreements are intended to allow us to rely upon the Named Executive Officers' continued employment and objective advice, without concern that a Named Executive Officer might be distracted by the personal uncertainties and risks created by an actual or proposed change of control. These potential benefits provide our Named Executive Officers with important protections that we believe are necessary to attract and retain executive talent.

Tax and Accounting Implications

Deductibility of Executive Compensation

As part of its role, the Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that the Company may not deduct compensation of more than \$1,000,000 that is paid to certain individuals. The Company believes that compensation paid under the management incentive plans is fully deductible for federal income tax purposes. However, in certain situations, the Committee may approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation for its executive officers.

Nonqualified Deferred Compensation

On October 22, 2004, the American Jobs Creation Act of 2004 (the Jobs Creation Act) was signed into law, changing the tax rules applicable to nonqualified deferred compensation arrangements. The Committee does not believe that the Company currently has any nonqualified deferred compensation arrangements; however the Committee is mindful of the Jobs Creation Act and its related regulations when making compensation decisions.

Accounting for Stock-Based Compensation

Beginning on January 1, 2006, the Company began accounting for stock-based payments, including stock options and restricted stock awards, in accordance with the requirements of FAS 123(R).

Conclusion

The Compensation and Management Committee has reviewed all components of the Chief Executive Officer's and other Named Executive Officers' compensation, including salary, short-term cash incentive compensation,

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long-term equity incentive compensation, accumulated vested and unvested stock option and restricted stock, and the dollar value to the executive and cost to the Company of all perquisites and other personal benefits. The elements of the Chief Executive Officer's and Named Executive Officers' compensation are described in the Summary Compensation Table on page 24.

Based on this review, the Compensation and Management Committee finds the Chief Executive Officer's and each Named Executive Officer's total compensation (including the potential payouts under change-in-control and severance scenarios) in the aggregate to be reasonable.

The Compensation and Management Committee believes that the Chief Executive Officer's and each Named Executive Officer's compensation are appropriate given the Company's performance in 2007.

Based on the Company's and the executive team's financial and non-financial performance in 2007, no bonus or non-equity incentive plan compensation was awarded to any of the Company's executives.

The long-term incentives that were awarded in 2007 are reasonable in light of the market and the fact that the Company and the shareholders benefit from the executive team having an incentive to deliver increased shareholder return.

Total direct compensation for the Named Executive Officers remains conservatively positioned versus the market and the target pay for the Named Executive Officers has been moved to approximately the 50% level of peer group companies based on a 2006 survey. The strides made in 2006 in terms of increases to base salary and bonus targets, and more competitive long-term incentive compensation, will enable the Company to attract and retain executive talent. Given the changes in the market and the Company since 2006, the Committee will re-evaluate both the peer group and market data during 2008.

COMPENSATION AND MANAGEMENT COMMITTEE REPORT

The Compensation and Management Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation and Management Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

The Compensation and Management Committee:

Daniel W. Christman, Chair

Anthony J. Cavanna

Ranjit C. Singh

Bradford T. Whitmore

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The individuals named in the following tables include, as of December 31, 2007, our Principal Executive Officer, our Principal Financial Officer and our other Named Executive Officers.

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning the annual and long-term compensation of the Named Executive Officers for all services in all capacities to the Company and its subsidiaries during 2006 and 2007:

Name and Principal Position	Year	Salary (\$)(1)	Stock Awards (\$)(2)	Option Awards (\$)(3)(4)	All Other Compensation (\$)(5)	Total (\$)
John D. Kavazanjian	2007	330,293	57,388	271,120	7,391	666,192