

Ultralife Batteries, Inc.

Audit and Finance Committee Charter

I. Purpose

The primary function of the Audit and Finance Committee (the “Committee”) is to assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities by reviewing: the consolidated financial information of Ultralife Batteries, Inc. and its subsidiaries (the “Company”) which will be provided to stockholders and others; adequacy of the systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and the Company’s auditing, accounting and financial reporting processes. Consistent with this function, the Committee should encourage management to engage in continuous improvement of, and should foster adherence to, the Company’s policies, procedures and practices at all levels.

Generally, the Committee’s primary duties and responsibilities are to: (a) serve as an independent and objective party to monitor the Company’s financial reporting processes and internal control systems, (b) review and appraise the audit efforts of the Company’s independent accountants and its internal accounting staff, (c) review and monitor areas of risk that could have a material impact on the Company, and (d) provide an open avenue of communication among the independent accountants, financial and senior management, and the Board.

II. Membership Requirements

The Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent (an “Independent Director”). An Independent Director shall refer to a person other than an officer or employee of the Company or any other person having a relationship, which in the opinion of the Company’s directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a member of the Committee. The following persons shall NOT be considered an Independent Director:

- a) A director employed by the Company for the current year and any of the past three years;
- b) A director who accepted, or who has a Family Member who accepted from the Company any compensation during the current or any of the past three fiscal years, *other than* (i) compensation for board and related committee service, (ii) payments arising solely from investments in the Company’s securities, (iii) compensation paid to a Family Member who is a non-executive employee of the Company, (iv) benefits under a tax-qualified retirement plan, (v) benefits under non-discretionary compensation, or (vi) loans permitted under Section 13(k) of the Securities Exchange Act of 1934. A Family Member, as used herein, includes: spouse, parents, siblings, children, mother and father in-laws, brother and sister-in-laws, son and daughter-in-laws and anyone who resides in the home of such individual;
- c) A director who is a Family Member of an individual who, over the last three years, was employed by the Company as an executive officer;

- d) A director who is, or has a Family Member who is, a partner in, a controlling shareholder of, or an executive officer of any organization to which the Company made or received as payments (other than in the form of equity investments in the Company's securities, or payments made under non-discretionary charitable contribution matching programs) an amount that exceeded 5% of the Company's consolidated gross revenues for that year or \$200,000, whichever is more, in any of the past three years;
- e) A director who is, or who has a Family Member who is, employed as an executive officer of another entity where any of the Company's executives serve, or served at any time during the past three years, on that entity's compensation committee, and
- f) A director who is, or who has a Family Member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

A member of the Committee may not be affiliated with the Company. Affiliated, as used herein, means controls, is controlled by, or is under common control with the Company.

A member of the Committee shall not have participated in the preparation of the financial statements of the Company at any time during the past three years.

The Committee may, under exceptional and limited circumstances, act in the best interests of the Company and its stockholders by appointing a Committee member who is not an Independent Director, provided however, the member shall not be a current employee or a Family Member of an employee. In such an instance, the Board shall disclose in its annual proxy statement the nature of the relationship and the reason(s) for appointing such individual as a Committee member. However, a member appointed under this exception may not serve more than two years and may not chair the Committee.

All members of the Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. The Committee has, and will continue to have, at least one member who has accounting or related financial management expertise, such as that gained from past employment in finance or accounting, professional certification in accounting, or other comparable experience or background such as having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. In carrying out their Committee responsibilities, members of the Committee are not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the outside auditor's work. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

The members of the Committee shall be elected by the Board at the Company's Annual Meeting of the Board or until their successors shall be duly elected and qualified. The Committee will be chaired by an Independent Director appointed by the Board.

III. Duties and Responsibilities

The Audit Committee's duties and responsibilities are as follows:

- a) Review and reassess the adequacy of the Committee's charter and the actions of the Committee in fulfilling its charter on an annual basis.
- b) Be directly responsible for the appointment, compensation, retention and oversight of the work of any public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, with the understanding that each public accounting firm must report directly to the Committee.
- c) Meet with independent auditors and financial management of the Company to understand the scope and associated fees of the proposed audit for the current year and the audit procedures to be utilized, and at the conclusion thereof discuss any comments or recommendations of the independent auditors.
- d) Review the consolidated financial statements contained in the annual report to shareholders, quarterly financial statements, including MD&A disclosures, with management to determine that management is satisfied with the disclosure and content of the financial statements to be presented to the shareholders. Discuss earnings press releases and financial information with management, as well as earnings guidance provided to analysts and rating agencies. Discuss with the independent auditors the financial statements and the results of the audit. Any changes in accounting principles should be reviewed.
- e) Review with the Company's financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the Company, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper. Discuss with independent auditors any significant matters regarding internal controls over financial reporting that have come to their attention during the conduct of their audit. The Committee must establish procedures for the (i) receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. Further, the Committee periodically should review Company policy statements to determine their adherence to an appropriate code of conduct.
- f) Authorize, when deemed necessary to carry out the duty of the Committee, the engagement of independent counsel and other advisors.
- g) Ensure that appropriate funding is made available for payment of (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report, or performing other audit, review or attest services for the Company, (ii) compensation to any advisors employed by the Committee under (f) above, and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
- h) Review the internal audit function, including its competence and objectivity, and proposed audit plans for the coming year.

- i) Provide sufficient opportunity for the internal and independent auditors to meet with the members of the Committee without members of management present. Among the items to be discussed in these meetings are the independent auditor's evaluation of the Company's financial, accounting, and auditing personnel, and the cooperation that the independent auditors received during the course of the audit. Review with the independent auditors any audit problems or difficulties and management's response.
- j) Ensure that the Committee receives a formal written statement from the independent auditor delineating all relationships between the auditor and the Company regarding any relationships or services that would potentially impact the independence or objectivity of the auditor. The Committee shall take, or recommend that the full Board take, any appropriate action to oversee the independence of the independent auditor.
- k) Review and monitor the status of contingent liabilities (including legal proceedings and tax status), legislative and regulatory developments, and other areas of risk that could materially impact the Company.
- l) Direct and supervise investigations into matters within the scope of the Committee's duties.
- m) Submit the minutes of all meetings of the Committee to, or discuss the matters discussed at each Committee meeting with, the Board.
- n) Carry out such other duties and responsibilities as may be assigned to the Committee by the Board.
- o) Periodically review a report on the independent auditor's internal quality control procedures and any issues raised in most recent peer reviews and internal reviews, and governmental or professional authorities' investigations within the preceding five years.
- p) Discuss policies on risk assessment and risk management.
- q) Set clear hiring policies for employees or former employees of the independent auditors.
- r) Report regularly to the Board.

IV. Pre-Approval of Auditor Engagements

The Committee shall:

Approve in advance any audit or non-audit engagement or relationship between the corporation and the independent auditors, other than "prohibited non-auditing services", as determined from time to time by the SEC, the Public Company Accounting Oversight Board or Nasdaq through regulation or listing requirements.

The Committee may:

- (a) pre-approve audit and non-audit services based on policies and procedures adopted by the Committee, provided that: (i) the policies and procedures are detailed as to the particular service, (ii) the Committee is informed of each service on a timely basis, (iii) such policies and procedures do not include delegation of the Committee's

responsibilities to management, and (iv) such policies and procedures are disclosed in the corporation's annual reports; and/or

(b) delegate to one or more of its members the authority to approve in advance all audit or non-audit services to be provided by the independent auditors so long as decisions made by such member are presented to the full Committee at the immediately subsequent scheduled meeting.

Notwithstanding the foregoing, pre-approval is not necessary for de minimis non-audit services if:

(a) the aggregate amount of all such non-audit services provided to the corporation constitutes not more than five percent of the total amount of revenues paid by the corporation to its auditors during the fiscal year in which the non-audit services are provided;

(b) such services were not recognized by the corporation at the time of the engagement to be non-audit services; and

(c) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board of Directors to whom authority to grant such approvals has been delegated by the Committee.

- END -