CITIGROUP INC
Form 424B2
March 19, 2019

The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus are not an offer to sell these securities, nor are they soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

Subject to Completion. Dated March 19, 2019

Filed Pursuant to Rule 424(b)(2)

Registration Statement Nos. 333-224495 and 333-224495-03
Citigroup Global Markets Holdings Inc.

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Buffered Digital EURO STOXX 50® Index-Linked Notes due

All Payments Due from Citigroup Global Markets Holdings Inc.

Fully and Unconditionally Guaranteed by Citigroup Inc.

Unlike conventional debt securities, the notes offered by this pricing supplement do not pay interest and do not repay a fixed amount of principal at maturity. The amount that you will be paid on your notes on the maturity date (expected to be the second business day after the scheduled determination date) is based on the performance of the EURO STOXX 50® Index (the "underlier") as measured from the trade date to and including the determination date (expected to be between 16 and 18 months after the trade date). If the final underlier level on the determination date is greater than or equal to 90.00% of the initial underlier level (set on the trade date and may be higher or lower than the actual closing level of the underlier on the trade date), you will receive the threshold settlement amount (set on the trade date and expected to be between $1,112.20 and $1,131.60 for each $1,000 stated principal amount of your notes), which represents a contingent fixed return at maturity of 11.22% to 13.16%. **However, if the final underlier level declines from the initial underlier level by more than the 10.00% threshold amount, the return on your notes will be negative and you will lose approximately 1.1111% of the stated principal amount of your notes for every 1% by which the decline of the underlier exceeds the 10.00% threshold amount. You could lose your entire investment in the notes.** In exchange for the potential to receive a contingent fixed return at maturity so long as the underlier does not decline by more than the 10.00% threshold amount, investors in the notes must be willing to forgo (i) any return in excess of the contingent fixed return at maturity of 11.22% to 13.16% (set on the trade date and results from the threshold settlement amount), (ii) any dividends paid on the stocks included in the underlier and (iii) interest on the notes.

To determine your payment at maturity, we will calculate the underlier return, which is the percentage increase or decrease in the level of the underlier from the initial underlier level (set on the trade date) to the final underlier level on the determination date. On the maturity date, for each $1,000 stated principal amount note you then hold, you will receive an amount in cash equal to:

- if the underlier return is *greater than* or *equal to* -10.00% (the final underlier level is *greater than* or *equal to* 90.00% of the initial underlier level), the threshold settlement amount; or

- if the underlier return is *below* -10.00% (the final underlier level is *less than* the initial underlier level by more than 10.00%), the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) approximately 1.1111 *times* (b) the *sum* of the underlier return *plus* 10.00% *times* (c) $1,000. **This amount will be less than $1,000 and may be zero.**

The notes are unsecured senior debt securities issued by Citigroup Global Markets Holdings Inc. and guaranteed by Citigroup Inc. All payments on the notes are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc. If Citigroup Global Markets Holdings Inc. and Citigroup Inc. default on their obligations, you may not receive any amount due under the notes. The notes will not be listed on any securities exchange and may have limited or no liquidity.

Investing in the notes involves risks not associated with an investment in conventional debt securities. See "Summary Risk Factors" beginning on page PS-8.

	Issue Price[(1)]	Underwriting Discount[(2)]	Net Proceeds to Issuer
Per Note:	$1,000.00*	$11.60	$988.40
Total:	$	$	$

(1) Citigroup Global Markets Holdings Inc. currently expects that the estimated value of the notes on the trade date will be at least $959.50 per note, which will be less than the issue price. The estimated value of the notes is based on proprietary pricing models of Citigroup Global Markets Inc. ("CGMI") and our internal funding rate. It is not an indication of actual profit to CGMI or other of our affiliates, nor is it an indication of the price, if any, at which CGMI or any other person may be willing to buy the notes from you at any time after issuance. See "Valuation of the Notes" in this pricing supplement.

(2) CGMI, an affiliate of the issuer, is the underwriter for the offering of the notes and is acting as principal. The total underwriting discount in the table above assumes that the underwriter receives an underwriting discount for each note sold in this offering. For more information on the distribution of the notes, see "Summary Information—Key Terms—Supplemental Plan of Distribution" in this pricing supplement. In addition to the underwriting discount, CGMI and its affiliates may profit from expected hedging activity related to this offering, even if the value of the notes declines. See "Use of Proceeds and Hedging" in the accompanying prospectus.

* The issue price will be between $988.40 and $1,000.00 for investors in certain fee-based advisory accounts, reflecting a foregone underwriting discount with respect to such notes. Please see "Supplemental plan of distribution" on page PS-4 of this pricing supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined that this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

The notes are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

The notes are part of the Medium-Term Senior Notes, Series N of Citigroup Global Markets Holdings Inc. This pricing supplement is a supplement to the documents listed below and should be read together with such documents, which are available at the following hyperlinks:

- **Product Supplement No. EA-02-08 dated February 15, 2019**
- **Underlying Supplement No. 8 dated February 21, 2019**
- **Prospectus Supplement and Prospectus each dated May 14, 2018**

Citigroup Global Markets Inc.

Pricing Supplement No. 2019-USNCH2138 dated----------, 2019

The issue price, underwriting discount and net proceeds listed above relate to the notes we sell initially. We may decide to sell additional notes after the date of this pricing supplement, at issue prices and with underwriting discounts and net proceeds that differ from the amounts set forth above. The return (whether positive or negative) on your investment in notes will depend in part on the issue price you pay for such notes.

CGMI may use this pricing supplement in the initial sale of the notes. In addition, CGMI or any other affiliate of Citigroup Inc. may use this pricing supplement in a market-making transaction in a note after its initial sale.

Buffered Digital EURO STOXX 50® Index-Linked Notes due

INVESTMENT THESIS

- For investors who seek modified exposure to the performance of the underlier, with the opportunity to receive a contingent fixed return at maturity (which results from the threshold settlement amount) if the final underlier level is equal to or greater than 90.00% of the initial underlier level.
- In exchange for the contingent fixed return feature, investors must be willing to forgo (i) participation in any appreciation of the underlier beyond the contingent fixed return, (ii) any dividends that may be paid on the stocks included in the underlier and (iii) interest on the notes. Investors must also be willing to lose some, and up to all, of their investment in the notes if the underlier depreciates by more than the threshold amount, with downside exposure to that depreciation on an accelerated basis to the extent the depreciation exceeds the threshold amount.
- Investors must be willing to accept the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc. and an investment that may have limited or no liquidity.

DETERMINING THE CASH SETTLEMENT AMOUNT

At maturity, for each $1,000 stated principal amount note you then hold, you will receive (as a percentage of the stated principal amount):

- If the final underlier level is equal to or above 90.00% of the initial underlier level: the threshold settlement amount of between 111.22% and 113.16% of the stated principal amount (to be set on the trade date)
- If the final underlier level is below 90.00% of the initial underlier level: 100.00% minus approximately 1.1111% for every 1.00% that the underlier has declined below 90.00% of the initial underlier level

If the final underlier level declines by more than 10.00% from the initial underlier level, the return on the notes will be negative and you could lose your entire investment in the notes.

KEY TERMS

Issuer:	**Citigroup Global Markets Holdings Inc., a wholly owned subsidiary of Citigroup Inc.**
Guarantee:	All payments due on the notes are fully and unconditionally guaranteed by Citigroup Inc.
Underlier:	The EURO STOXX 50® Index (ticker symbol: "SX5E")
Stated Principal Amount:	$ in the aggregate; each note will have a stated principal amount equal to $1,000
Trade Date:	
Settlement Date:	Expected to be the fifth scheduled business day following the trade date. See "Supplemental plan of distribution" on page PS-4 in this pricing supplement for additional information.
Determination Date:	To be set on the trade date and expected to be between 16 and 18 months after the trade date. The determination date is subject to postponement if such date is not a scheduled trading day or if certain market disruption events occur.
Maturity Date:	To be set on the trade date and expected to be the second business day after the scheduled determination date
Initial Underlier Level:	To be set on the trade date and may be an intraday level which may be higher or lower than the actual closing level of the underlier on the trade date
Final Underlier Level:	The closing level of the underlier on the determination date
Underlier Return:	The *quotient* of (i) the final underlier level *minus* the initial underlier level *divided by* (ii) the initial underlier level, expressed as a positive or negative percentage

Threshold Level:	90.00% of the initial underlier level (equal to a -10.00% underlier return)
Threshold Amount:	10.00%
Buffer Rate:	The *quotient* of the initial underlier level *divided* by the threshold level, which equals approximately 111.11%
Threshold Settlement Amount:	To be set on the trade date and expected to be between $1,112.20 and $1,131.60 per $1,000 stated principal amount note
CUSIP/ISIN:	17326YCL8 / US17326YCL83

HYPOTHETICAL PAYMENT AT MATURITY*

*assumes the threshold settlement amount is set at the bottom of the threshold settlement amount range of between 111.22% and 113.16% of the stated principal amount

Hypothetical Final Underlier Level (as % of Initial Underlier Level)	Hypothetical Cash Settlement Amount (as % of Stated Principal Amount)
200.000%	111.220%
175.000%	111.220%
150.000%	111.220%
111.220%	**111.220%**
105.000%	111.220%
100.000%	**111.220%**
95.000%	111.220%
90.000%	**111.220%**
75.000%	83.333%
50.000%	55.556%
25.000%	27.778%
0.000%	**0.000%**

RISKS

Please read the section titled “Summary Risk Factors” in this pricing supplement as well as the more detailed description of risks relating to an investment in the notes contained in the section “Risk Factors Relating to the Securities” beginning on page EA-7 in the accompanying product supplement. You should also carefully read the risk factors included in the accompanying prospectus supplement and in the documents incorporated by reference in the accompanying prospectus, including Citigroup Inc.’s most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, which describe risks relating to the business of Citigroup Inc. more generally.

SUMMARY INFORMATION

The terms of the notes are set forth in the accompanying product supplement, prospectus supplement and prospectus, as supplemented by this pricing supplement. The accompanying product supplement, prospectus supplement and prospectus contain important disclosures that are not repeated in this pricing supplement. For example, certain events may occur that could affect your payment at maturity, such as market disruption events and other events affecting the underlier. These events and their consequences are described in the accompanying product supplement in the sections "Description of the Securities—Consequences of a Market Disruption Event; Postponement of a Valuation Date" and "Description of the Securities—Certain Additional Terms for Securities Linked to an Underlying Index—Discontinuance or Material Modification of an Underlying Index," and not in this pricing supplement. The accompanying underlying supplement contains important disclosures regarding the underlier that are not repeated in this pricing supplement. It is important that you read the accompanying product supplement, underlying supplement, prospectus supplement and prospectus together with this pricing supplement before deciding whether to invest in the notes. Certain terms used but not defined in this pricing supplement are defined in the accompanying product supplement. References to "securities" in the accompanying product supplement include the notes.

Key Terms

Issuer: Citigroup Global Markets Holdings Inc., a wholly owned subsidiary of Citigroup Inc.

Guarantee: all payments due on the notes are fully and unconditionally guaranteed by Citigroup Inc.

Underlier: the EURO STOXX 50® Index (ticker symbol: "SX5E"), as maintained by STOXX Limited (the "underlier sponsor"). The underlier is referred to as the "underlying index" and the underlier sponsor is referred to as the "underlying index publisher" in the accompanying product supplement.

Stated principal amount: each note will have a stated principal amount of $1,000

Purchase at amount other than the stated principal amount: the amount we will pay you at the stated maturity date for your notes will not be adjusted based on the issue price you pay for your notes, so if you acquire notes at a premium (or discount) to the stated principal amount and hold them to the stated maturity date, it could affect your investment in a number of ways. The return on your investment in such notes will be lower (or higher) than it would have been had you purchased the notes at the stated principal amount. Also, the stated threshold level would not offer the same measure of protection to your investment as would be the case if you had purchased the notes at the stated principal amount. Additionally, the threshold settlement amount would represent a lower (or higher) percentage return relative to your initial investment than would be the case if you had purchased the notes at the stated principal amount.

See "Summary Risk Factors — If You Purchase Your Notes at a Premium to the Stated Principal Amount, the Return on Your Investment Will Be Lower Than the Return on Notes Purchased at the Stated Principal Amount and the Impact of Certain Key Terms of the Notes Will be Negatively Affected" on page PS-11 of this pricing supplement.

Cash settlement amount (paid on the maturity date): on the maturity date, for each $1,000 stated principal amount of notes you then hold, we will pay you an amount in cash equal to:

- if the final underlier level is *greater than* or *equal to* the threshold level, the threshold settlement amount; or

- if the final underlier level is *less than* the threshold level, the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) the buffer rate *times* (b) the *sum* of the underlier return *plus* the threshold amount *times* (c) $1,000

Initial underlier level (to be set on the trade date, which may be an intraday level and which may be higher or lower than the actual closing level of the underlier on the trade date):

Final underlier level: the closing level of the underlier on the determination date, except in the limited circumstances described under "Description of the Securities — Certain Additional Terms for Securities Linked to an Underlying Index — Discontinuance or Material Modification of an Underlying Index" on page EA-38 of the accompanying product supplement and subject to adjustment as provided under "Description of the Securities — Certain Additional Terms for Securities Linked to an Underlying Index — Determining the Closing Level" and "Description of the Securities —Consequences of a Market Disruption Event; Postponement of a Valuation Date" on page EA-20 of the accompanying product supplement.

Underlier return: the quotient of (i) the final underlier level minus the initial underlier level divided by (ii) the initial underlier level, expressed as a positive or negative percentage

Threshold settlement amount (to be set on the trade date): expected to be between $1,112.20 and $1,131.60 per $1,000 stated principal amount note

Threshold level: 90.00% of the initial underlier level

Threshold amount: 10.00%

Buffer rate: the *quotient* of the initial underlier level *divided* by the threshold level, which equals approximately 111.11%

Trade date: ----------. The trade date is referred to as the "pricing date" in the accompanying product supplement.

Original issue date (settlement date) (to be set on the trade date): expected to be the fifth scheduled business day following the trade date. See "Supplemental plan of distribution" below for additional information.

Determination date (to be set on the trade date): expected to be between 16 and 18 months after the trade date. The determination date is referred to as the "valuation date" in the accompanying product supplement and is subject to

postponement if such date is not a scheduled trading day or if certain market disruption events occur, as described under "Description of the Securities —Consequences of a Market Disruption Event; Postponement of a Valuation Date" on page EA-21 of the accompanying product supplement.

Maturity date (to be set on the trade date): expected to be the second business day after the scheduled determination date

No interest: the notes will not bear interest

No listing: the notes will not be listed on any securities exchange or interdealer quotation system

No redemption: the notes will not be subject to redemption before maturity

Business day: as described under "Description of the Securities — General" on page EA-19 in the accompanying product supplement.

Scheduled trading day: as described under "Description of the Securities — Certain Additional Terms for Securities Linked to an Underlying Index — Definitions of Market Disruption Event and Scheduled Trading Day and Related Definitions" on page EA-37 of the accompanying product supplement.

Supplemental plan of distribution: Citigroup Global Markets Holdings Inc. expects to sell to CGMI, and CGMI expects to purchase from Citigroup Global Markets Holdings Inc., the aggregate stated principal amount of the offered notes specified on the front cover of this pricing supplement. CGMI proposes initially to offer the notes to the public at the issue price set forth on the cover page of this pricing supplement, and to certain unaffiliated securities dealers at such price less a concession not in excess of 1.16% of the stated principal amount. The issue price for notes purchased by certain fee-based advisory accounts will be between 98.84% and 100.00% of the stated principal amount, which reflects a foregone underwriting discount with respect to such notes (i.e., the underwriting discount specified on the cover of this pricing supplement with respect to such notes is 0.00%). In addition to the underwriting discount, CGMI and its affiliates may profit from expected hedging activity related to this offering, even if the value of the notes declines. See "Use of Proceeds and Hedging" in the accompanying prospectus.

CGMI is an affiliate of ours. Accordingly, this offering will conform with the requirements addressing conflicts of interest when distributing the securities of an affiliate set forth in Rule 5121 of the Financial Industry Regulatory

Authority. Client accounts over which Citigroup Inc. or its subsidiaries have investment discretion will not be permitted to purchase the notes, either directly or indirectly, without the prior written consent of the client.

Secondary market sales of securities typically settle two business days after the date on which the parties agree to the sale. Because the settlement date for the notes is more than two business days after the trade date, investors who wish to sell the notes at any time prior to the second business day preceding the original issue date will be required to specify an alternative settlement date for the secondary market sale to prevent a failed settlement. Investors should consult their own investment advisors in this regard.

See "Plan of Distribution; Conflicts of Interest" in the accompanying product supplement and "Plan of Distribution" in each of the accompanying prospectus supplement and prospectus for additional information.

A portion of the net proceeds from the sale of the notes will be used to hedge our obligations under the notes. We expect to hedge our obligations under the notes through CGMI or other of our affiliates, or through a dealer participating in this offering or its affiliates. CGMI or such other of our affiliates or such dealer or its affiliates may profit from this expected hedging activity even if the value of the notes declines. This hedging activity could affect the closing level of the underlier and, therefore, the value of and your return on the notes. For additional information on the ways in which our counterparties may hedge our obligations under the notes, see "Use of Proceeds and Hedging" in the accompanying prospectus.

Prohibition of Sales to EEA Retail Investors

The notes may not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or

(ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC; and

(b)

the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the notes offered so as to enable an investor to decide to purchase or subscribe the notes.

ERISA: as described under "Benefit Plan Investor Considerations" on page EA-52 in the accompanying product supplement.

Calculation Agent: CGMI

CUSIP: 17326YCL8

ISIN: US17326YCL83

PS-4

HYPOTHETICAL EXAMPLES

The table and chart below are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that various hypothetical underlier levels on the determination date could have on the cash settlement amount at maturity.

The table and chart below are based on a range of final underlier levels that are entirely hypothetical; no one can predict what the underlier level will be on any day throughout the life of your notes, and no one can predict what the final underlier level will be on the determination date. The underlier has been highly volatile in the past — meaning that the underlier level has changed considerably in relatively short periods — and its performance cannot be predicted for any future period. Investors in the notes will not receive any dividends on the stocks that constitute the underlier. The table and chart below do not show any effect of lost dividend yield over the term of the notes. See "Summary Risk Factors—Investing in the Notes Is Not Equivalent to Investing in the Underlier or the Stocks that Constitute the Underlier" below.

The information in the table and chart below reflects hypothetical returns on the notes assuming that they are purchased on the original issue date at the stated principal amount and held to the maturity date. If you sell your notes in a secondary market prior to the maturity date, your return will depend upon the value of your notes at the time of sale, which may be affected by a number of factors that are not reflected in the table or chart below such as interest rates, the volatility of the underlier and our and Citigroup Inc.'s creditworthiness. Please read "Summary Risk Factors—The Value of the Notes Prior to Maturity Will Fluctuate Based on Many Unpredictable Factors" in this pricing supplement. It is likely that any secondary market price for the notes will be less than the issue price.

The information in the table and chart also reflects the key terms and assumptions in the box below.

Key Terms and Assumptions	
Stated principal amount	$1,000
Threshold settlement amount	$1,112.20 per $1,000 stated principal amount note
Threshold level	90.00% of the initial underlier level
Buffer rate	Approximately 111.11%
Threshold amount	10.00%
Neither a market disruption event nor a non-scheduled trading day occurs on the originally scheduled determination date	
No change in or affecting any of the stocks comprising the underlier or the method by which the underlier sponsor calculates the underlier	

Notes purchased on original issue date at the stated principal amount and held to
the stated maturity date

Moreover, we have not yet set the initial underlier level that will serve as the baseline for determining the underlier return and the amount that we will pay on your notes, if any, at maturity. We will not do so until the trade date. As a result, the actual initial underlier level may differ substantially from the underlier level prior to the trade date and may be higher or lower than the closing level of the underlier on the trade date.

For these reasons, the actual performance of the underlier over the life of your notes, as well as the amount payable at maturity, if any, may bear little relation to the hypothetical examples shown below or to the historical underlier levels shown elsewhere in this pricing supplement. For information about the historical levels of the underlier during recent periods, see "The Underlier — Historical Closing Levels of the Underlier" below. Before investing in the offered notes, you should consult publicly available information to determine the levels of the underlier between the date of this pricing supplement and the date of your purchase of the offered notes.

The levels in the left column of the table below represent hypothetical final underlier levels and are expressed as percentages of the initial underlier level. The amounts in the right column represent the hypothetical cash settlement amounts, based on the corresponding hypothetical final underlier level (expressed as a percentage of the initial underlier level), and are expressed as percentages of the stated principal amount of a note (rounded to the nearest one-thousandth of a percent). Thus, a hypothetical cash settlement amount of 111.220% means that the value of the cash payment that we would deliver for each $1,000 of the outstanding stated principal amount of the notes on the maturity date would equal 111.220% of the stated principal amount of a note, based on the corresponding hypothetical final underlier level (expressed as a percentage of the initial underlier level) and the assumptions noted above.

Hypothetical Final Underlier Level (as Percentage of Initial Underlier Level)	Hypothetical Cash Settlement Amount (as Percentage of Stated Principal Amount)
200.000%	111.220%
175.000%	111.220%
150.000%	111.220%
111.220%	**111.220%**
105.000%	111.220%
100.000%	**111.220%**
95.000%	111.220%
90.000%	**111.220%**
75.000%	83.333%
50.000%	55.556%
25.000%	27.778%
0.000%	**0.000%**

If, for example, the final underlier level were determined to be 25.000% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be approximately 27.778% of the stated principal amount of your notes, as shown in the table above. As a result, if you purchased your notes on the original issue date at the stated principal amount and held them to the maturity date, you would lose approximately 72.222% of your investment. In addition, if the final underlier level were determined to be 200.000% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be capped at the threshold settlement amount (expressed as a percentage of the stated principal amount), or 111.220% of each $1,000 stated principal amount of your notes, as shown in the table above. As a result, you would not benefit from any increase in the final underlier level over 90.000% of the initial underlier level.

The table above demonstrates the diminishing benefit of the buffer feature of the notes the lower the final underlier level. For example, if the final underlier level were determined to be 75.000% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be approximately 83.333% of the stated principal amount of your notes, resulting in an effective buffer (i.e., the difference between the underlier return and your return on the notes) of approximately 8.333%. However, if the final underlier level were determined to be 50.000% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be approximately 55.556% of the stated principal amount of your notes, resulting in an effective buffer of only approximately 5.556%. The lower the final underlier level, the lower the effective buffer provided by the notes will be.

The following chart also shows a graphical illustration of the hypothetical cash settlement amounts that we would pay on your notes on the maturity date, if the final underlier level (expressed as a percentage of the initial underlier level) were any of the hypothetical levels shown on the horizontal axis. The chart shows that any hypothetical final underlier level (expressed as a percentage of the initial underlier level) of less than 90.000% (the section left of the 90.000% marker on the horizontal axis) would result in a hypothetical cash settlement amount of less than 100.000% of the stated principal amount of your notes (the section below the 100.000% marker on the vertical axis) and, accordingly, in a loss of principal to the holder of the notes. The chart also shows that any hypothetical final underlier level (expressed as a percentage of the initial underlier level) of greater than or equal to 90.000% (the section right of the 90.000% marker on the horizontal axis) would result in a capped return on your investment.

The cash settlement amounts shown above are entirely hypothetical; they are based on levels of the underlier that may not be achieved on the determination date. The actual cash settlement amount you receive on the maturity date may bear little relation to the hypothetical cash settlement amounts shown above, and these amounts should not be viewed as an indication of the financial return on an investment in the notes. The actual market value of your notes on the stated maturity date or at any other time, including any time you may wish to sell your notes, may bear little relation to the hypothetical cash settlement amounts shown above, and these amounts should not be viewed as an indication of the financial return on an investment in the offered notes. The hypothetical cash settlement amounts on notes held to the stated maturity date in the examples above assume you purchased your notes at their stated principal amount and have not been adjusted to reflect the actual issue price you pay for your notes. The return on your investment (whether positive or negative) in your notes will be affected by the amount you pay for your notes. If you purchase your notes for a price other than the stated principal amount, the return on your investment will differ from, and may be significantly lower than, the hypothetical returns suggested by the above examples. Please read "Summary Risk Factors — The Value of the Notes Prior to Maturity Will Fluctuate Based on Many Unpredictable Factors" on page PS-10 of this pricing supplement.

We cannot predict the actual final underlier level or what the value of your notes will be on any particular day, nor can we predict the relationship between the underlier level and the value of your notes at any time prior to the maturity date. The actual amount that you will receive, if any, at maturity and the return on the notes will depend on the actual initial underlier level and the threshold settlement amount, which we will set on the trade date, and the actual final underlier level determined by the calculation agent as described above. Moreover, the assumptions on which the hypothetical returns are based may turn out to be inaccurate. Consequently, the amount of cash to be paid in respect of your notes, if any, on the maturity date may be very different from the information reflected in the table and chart above.

SUMMARY RISK FACTORS

An investment in the notes is significantly riskier than an investment in conventional debt securities. The notes are subject to all of the risks associated with an investment in our conventional debt securities (guaranteed by Citigroup Inc.), including the risk that we and Citigroup Inc. may default on our obligations under the notes, and are also subject to risks associated with the underlier. Accordingly, the notes are suitable only for investors who are capable of understanding the complexities and risks of the notes. You should consult your own financial, tax and legal advisors as to the risks of an investment in the notes and the suitability of the notes in light of your particular circumstances.

The following is a summary of certain key risk factors for investors in the notes. You should read this summary together with the more detailed description of risks relating to an investment in the notes contained in the section "Risk Factors Relating to the Securities" beginning on page EA-7 in the accompanying product supplement. You should also carefully read the risk factors included in the accompanying prospectus supplement and in the documents incorporated by reference in the accompanying prospectus, including Citigroup Inc.'s most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, which describe risks relating to the business of Citigroup Inc. more generally.

You May Lose Some or All of Your Investment

Unlike conventional debt securities, the notes do not repay a fixed amount of principal at maturity. Instead, your payment at maturity will depend on the performance of the underlier. If the underlier depreciates by more than the threshold amount, you will receive less than the stated principal amount of your notes at maturity. You should understand that any depreciation of the underlier beyond the threshold amount will result in a loss of more than 1% of the stated principal amount for each 1% by which the depreciation exceeds the threshold amount, which will progressively offset any protection that the threshold amount would offer. Accordingly, the lower the final underlier level, the less benefit you will receive from the buffer. There is no minimum payment at maturity, and you may lose up to all of your investment.

The Initial Underlier Level Will Be Determined at the Discretion of CGMI, as the Calculation Agent

The initial underlier level may be an intraday level of the underlier on the trade date, as determined by the calculation agent in its sole discretion, and may not be based on the closing level of the underlier on such trade date. The initial underlier level may be higher or lower than the actual closing level of the underlier on the trade date. Although the calculation agent will determine the initial underlier level in good faith, the discretion exercised by the calculation agent in determining the initial underlier level could have an impact (positive or negative) on the value of your notes. The calculation agent is under no obligation to consider your interests as a holder of the notes in taking any actions that might affect the value of your notes, including the determination of the initial underlier level.

The Notes Do Not Pay Interest

Unlike conventional debt securities, the notes do not pay interest or any other amounts prior to maturity. You should not invest in the notes if you seek current income during the term of the notes.

Your Potential Return On the Notes Is Limited

Your potential total return on the notes at maturity is limited to a contingent fixed return at maturity that results from the threshold settlement amount. If the underlier appreciates by more than the contingent fixed return offered by the notes, the notes will underperform an alternative investment providing 1-to-1 exposure to the appreciation of the underlier. When any dividends paid on the underlier are taken into account, the notes may underperform such an alternative investment even if the underlier appreciates by less than the contingent fixed return, because holders of the notes will not receive those dividends.

The Determination Date of the Notes Is a Pricing Term and Will Be Determined by the Issuer on the Trade Date

We will not determine the determination date until the trade date, so you will not know the exact term of, or the maturity date for, the notes at the time that you make your investment decision. The term of the notes could be as short as the shorter end of the determination date range described on PS-3, and as long as the longer end of the determination date range. You should be willing to hold your notes until the latest possible maturity date contemplated by the determination date range. The determination date selected by us could have an impact on the value of the notes. Assuming no changes in other economic terms of the notes, the value of the notes would likely be lower if the term of the notes is at the longer end of the determination date range, rather than the shorter end of the determination date range.

Investing in the Notes Is Not Equivalent to Investing in the Underlier or the Stocks that Constitute the Underlier

You will not have voting rights, rights to receive dividends or other distributions or any other rights with respect to the stocks that constitute the underlier. As of March 15, 2019, the average dividend yield of the stocks that constitute the underlier was approximately 3.55% per year. While it is impossible to know the future dividend yield of the stocks that constitute the underlier, if this average dividend yield were to remain constant for the term of the notes, you would be forgoing an aggregate yield of approximately 5.33% (assuming no reinvestment of dividends and assuming the determination date is set at the most distant date in the range set forth on the cover page) by investing in the notes instead of investing directly in the stocks that constitute the underlier or in another investment linked to the underlier that provides for a pass-through of dividends. The payment scenarios described in this pricing supplement do not

show any effect of lost dividend yield over the term of the notes.

Your Payment at Maturity Depends on the Closing Level of the Underlier on a Single Day

Because your payment at maturity depends on the closing level of the underlier solely on the determination date, you are subject to the risk that the closing level of the underlier on that day may be lower, and possibly significantly lower, than on one or more other dates during the term of the notes. If you had invested in another instrument linked to the underlier that you could sell for full value at a time selected by you, or if the payment at maturity were based on an average of closing levels of the underlier, you might have achieved better returns.

The Notes Are Subject to the Credit Risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc.

If we default on our obligations under the notes and Citigroup Inc. defaults on its guarantee obligations, you may not receive anything owed to you under the notes.

The Notes Will Not Be Listed on any Securities Exchange and You May Not Be Able to Sell Them Prior to Maturity

The notes will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the notes. CGMI currently intends to make a secondary market in relation to the notes and to provide an indicative bid price for the notes on a daily basis. Any indicative bid price for the notes provided by CGMI will be determined in CGMI's sole discretion, taking into account prevailing market conditions and other relevant factors, and will not be a representation by CGMI that the notes can be sold at that price, or at all. CGMI may suspend or terminate making a market and providing indicative bid prices without notice, at any time and for any reason. If CGMI suspends or terminates making a market, there may be no secondary market at all for the notes because it is likely that CGMI will be the only broker-dealer that is willing to buy your notes prior to maturity. Accordingly, an investor must be prepared to hold the notes until maturity.

The Estimated Value of the Notes on the Trade Date, Based on CGMI's Proprietary Pricing Models and Our Internal Funding Rate, Will Be Less than the Issue Price

The difference is attributable to certain costs associated with selling, structuring and hedging the notes that are included in the issue price. These costs include (i) the selling concessions paid in connection with the offering of the notes, (ii) hedging and other costs incurred by us and our affiliates in connection with the offering of the notes and (iii) the expected profit (which may be more or less than actual profit) to CGMI or other of our affiliates in connection with hedging our obligations under the notes. These costs adversely affect the economic terms of the notes because, if they were lower, the economic terms of the notes would be more favorable to you. The economic terms of the notes are also likely to be adversely affected by the use of our internal funding rate, rather than our secondary market rate, to

price the notes. See "The Estimated Value of the Notes Would Be Lower if It Were Calculated Based on Our Secondary Market Rate" below.

The Estimated Value of the Notes Was Determined for Us by Our Affiliate Using Proprietary Pricing Models

CGMI derived the estimated value disclosed on the cover page of this pricing supplement from its proprietary pricing models. In doing so, it may have made discretionary judgments about the inputs to its models, such as the volatility of the underlier, dividend yields on the stocks that constitute the underlier and interest rates. CGMI's views on these inputs may differ from your or others' views, and as an underwriter in this offering, CGMI's interests may conflict with yours. Both the models and the inputs to the models may prove to be wrong and therefore not an accurate reflection of the value of the notes. Moreover, the estimated value of the notes set forth on the cover page of this pricing supplement may differ from the value that we or our affiliates may determine for the notes for other purposes, including for accounting purposes. You should not invest in the notes because of the estimated value of the notes. Instead, you should be willing to hold the notes to maturity irrespective of the initial estimated value.

The Estimated Value of the Notes Would Be Lower if It Were Calculated Based on Our Secondary Market Rate

The estimated value of the notes included in this pricing supplement is calculated based on our internal funding rate, which is the rate at which we are willing to borrow funds through the issuance of the notes. Our internal funding rate is generally lower than our secondary market rate, which is the rate that CGMI will use in determining the value of the notes for purposes of any purchases of the notes from you in the secondary market. If the estimated value included in this pricing supplement were based on our secondary market rate, rather than our internal funding rate, it would likely be lower. We determine our internal funding rate based on factors such as the costs associated with the notes, which are generally higher than the costs associated with conventional debt securities, and our liquidity needs and preferences. Our internal funding rate is not an interest rate that we will pay to investors in the notes, which do not bear interest.

Because there is not an active market for traded instruments referencing our outstanding debt obligations, CGMI determines our secondary market rate based on the market price of traded instruments referencing the debt obligations of Citigroup Inc., our parent company and the guarantor of all payments due on the notes, but subject to adjustments that CGMI makes in its sole discretion. As a result, our secondary market rate is not a market-determined measure of our creditworthiness, but rather reflects the market's perception of our parent company's creditworthiness as adjusted for discretionary factors such as CGMI's preferences with respect to purchasing the notes prior to maturity.

The Estimated Value of the Notes Is Not an Indication of the Price, if Any, at Which CGMI or Any Other Person May Be Willing to Buy the Notes From You in the Secondary Market

Any such secondary market price will fluctuate over the term of the notes based on the market and other factors described in the next risk factor. Moreover, unlike the estimated value included in this pricing supplement, any value of the notes determined for purposes of a secondary market transaction will be based on our secondary market rate, which will likely result in a lower value for the notes than if our internal funding rate were used. In addition, any secondary market price for the notes will be reduced by a bid-ask spread, which may vary depending on the aggregate stated principal amount of the notes to be purchased in the secondary market transaction, and the expected cost of unwinding related hedging transactions. As a result, it is likely that any secondary market price for the notes will be less than the issue price.

The Value of the Notes Prior to Maturity Will Fluctuate Based on Many Unpredictable Factors

The value of your notes prior to maturity will fluctuate based on the level and volatility of the underlier and a number of other factors, including the price and volatility of the stocks that constitute the underlier, the dividend yields on the stocks that constitute the underlier, interest rates generally, the volatility of the exchange rate between the U.S. dollar and the euro, the correlation between that exchange rate and the level of the underlier, the time remaining to maturity and our and Citigroup Inc.'s creditworthiness, as reflected in our secondary market rate. Changes in the level of the underlier may not result in a comparable change in the value of your notes. You should understand that the value of your notes at any time prior to maturity may be significantly less than the issue price.

If the Level of the Underlier Changes, the Market Value of Your Notes May Not Change in the Same Manner

Your notes may trade quite differently from the performance of the underlier. Changes in the level of the underlier may not result in a comparable change in the market value of your notes. We discuss some of the reasons for this disparity under "— The Value of the Notes Prior to Maturity Will Fluctuate Based on Many Unpredictable Factors" above.

Immediately Following Issuance, Any Secondary Market Bid Price Provided by CGMI, and the Value That Will Be Indicated on Any Brokerage Account Statements Prepared by CGMI or Its Affiliates, Will Reflect a Temporary Upward Adjustment

The amount of this temporary upward adjustment will steadily decline to zero over the temporary adjustment period. See "Valuation of the Notes" in this pricing supplement.

The Underlier Is Subject to Risks Associated With Non-U.S. Markets

Investments in securities linked to the value of non-U.S. stocks involve risks associated with the securities markets in those countries, including risks of volatility in those markets, governmental intervention in those markets and cross shareholdings in companies in certain countries. Also, there is generally less publicly available information about companies in some of these jurisdictions than about U.S. companies that are subject to the reporting requirements of the SEC. Further, non-U.S. companies are generally subject to accounting, auditing and financial reporting standards and requirements and securities trading rules that are different from those applicable to U.S. reporting companies. The prices of securities in foreign markets may be affected by political, economic, financial and social factors in those countries, or global regions, including changes in government, economic and fiscal policies and currency exchange

laws. Moreover, the economies in such countries may differ favorably or unfavorably from the economy of the United States in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

The Underlier Performance Will Not Be Adjusted for Changes in the Exchange Rate Between the Euro and the U.S. Dollar

The underlier is composed of stocks traded in euro, the value of which may be subject to a high degree of fluctuation relative to the U.S. dollar. However, the performance of the underlier and the value of your notes will not be adjusted for exchange rate fluctuations. If the euro appreciates relative to the U.S. dollar over the term of the notes, your return on the notes will underperform an alternative investment that offers exposure to that appreciation in addition to the change in the level of the underlier.

Our Offering of the Notes Does Not Constitute a Recommendation of the Underlier

The fact that we are offering the notes does not mean that we believe that investing in an instrument linked to the underlier is likely to achieve favorable returns. In fact, as we are part of a global financial institution, our affiliates may have positions (including short positions) in the stocks that constitute the underlier or in instruments related to the underlier or such stocks and may publish research or express opinions, that in each case are inconsistent with an investment linked to the underlier. These and other activities of our affiliates may affect the level of the underlier in a way that has a negative impact on your interests as a holder of the notes.

The Level of the Underlier May Be Adversely Affected by Our or Our Affiliates' Hedging and Other Trading Activities

We expect to hedge our obligations under the notes through CGMI or other of our affiliates, or through a dealer participating in this offering or its affiliates, who may take positions directly in the stocks that constitute the underlier and other financial instruments related to the underlier or such stocks and may adjust such positions during the term of the notes. Our affiliates also trade the stocks that constitute the underlier and other financial instruments related to the underlier or such stocks on a regular basis (taking long or short positions or both), for their accounts, for other accounts under their management or to facilitate transactions on behalf of customers. Any dealer participating in the offering of the notes or its affiliates may engage in similar activities. These activities could affect the level of the underlier in a way that negatively affects the value of the notes. They could also result in substantial returns for us or our affiliates or any dealer or its affiliates while the value of the notes declines. If the dealer from which you purchase notes is to conduct hedging activities for us in connection with the notes, that dealer may profit in connection with such hedging activities and such profit, if any, will be in addition to the compensation that the dealer receives for the sale of the notes to you. You should be aware that the potential to earn fees in connection with hedging activities may create a further incentive for the dealer to sell the notes to you in addition to the compensation they would receive for the sale of the notes.

We and Our Affiliates May Have Economic Interests That Are Adverse to Yours as a Result of Our Affiliates' Business Activities

Our affiliates may currently or from time to time engage in business with the issuers of the stocks that constitute the underlier, including extending loans to, making equity investments in or providing advisory services to such issuers. In the

course of this business, we or our affiliates may acquire non-public information about such issuers, which we will not disclose to you. Moreover, if any of our affiliates is or becomes a creditor of any such issuer, they may exercise any remedies against such issuer that are available to them without regard to your interests. Any dealer participating in the offering of the notes or its affiliates may engage in similar activities.

The Calculation Agent, Which Is an Affiliate of Ours, Will Make Important Determinations With Respect to the Notes

If certain events occur, such as market disruption events or the discontinuance of the underlier, CGMI, as calculation agent, will be required to make discretionary judgments that could significantly affect your payment at maturity. In making these judgments, the calculation agent's interests as an affiliate of ours could be adverse to your interests as a holder of the notes.

Adjustments to the Underlier May Affect the Value of Your Notes

The underlier sponsor may add, delete or substitute the stocks that constitute the underlier or make other methodological changes that could affect the level of the underlier. The underlier sponsor may discontinue or suspend calculation or publication of the underlier at any time without regard to your interests as holders of the notes.

We May Sell an Additional Aggregate Stated Principal Amount of the Notes at a Different Issue Price

At our sole option, we may decide to sell an additional aggregate stated principal amount of the notes subsequent to the date of this pricing supplement. The issue price of the notes in the subsequent sale may differ substantially (higher or lower) from the original issue price you paid as provided on the cover of this pricing supplement.

If You Purchase Your Notes at a Premium to the Stated Principal Amount, the Return on Your Investment Will Be Lower Than the Return on Notes Purchased at the Stated Principal Amount and the Impact of Certain Key Terms of the Notes Will be Negatively Affected

The cash settlement amount will not be adjusted based on the issue price you pay for the notes. If you purchase notes at a price that differs from the stated principal amount of the notes, then the return on your investment in such notes held to the stated maturity date will differ from, and may be substantially less than, the return on notes purchased at the stated principal amount. If you purchase your notes at a premium to the stated principal amount and hold them to the stated maturity date, the return on your investment in the notes will be lower than it would have been had you

purchased the notes at the stated principal amount or a discount to the stated principal amount. In addition, the impact of the threshold level and the threshold settlement amount on the return on your investment will depend upon the price you pay for your notes relative to the stated principal amount. For example, if you purchase your notes at a premium to the stated principal amount, the threshold settlement amount will represent a lower percentage increase in your investment in the notes than would have been the case for notes purchased at the stated principal amount or a discount to the stated principal amount. Similarly, the threshold level, while still providing some protection for the return on the notes, will allow a greater percentage decrease in your investment in the notes than would have been the case for notes purchased at the stated principal amount or a discount to the stated principal amount.

The U.S. Federal Tax Consequences of an Investment in the Notes Are Unclear

There is no direct legal authority regarding the proper U.S. federal tax treatment of the notes, and we do not plan to request a ruling from the Internal Revenue Service (the "IRS"). Consequently, significant aspects of the tax treatment of the notes are uncertain, and the IRS or a court might not agree with the treatment of the notes as prepaid forward contracts. If the IRS were successful in asserting an alternative treatment of the notes, the tax consequences of the ownership and disposition of the notes might be materially and adversely affected. Moreover, future legislation, Treasury regulations or IRS guidance could adversely affect the U.S. federal tax treatment of the notes, possibly retroactively.

If you are a non-U.S. investor, you should review the discussion of withholding tax issues in "United States Federal Tax Considerations—Non-U.S. Holders" below.

You should read carefully the discussion under "United States Federal Tax Considerations" and "Risk Factors Relating to the Securities" in the accompanying product supplement and "United States Federal Tax Considerations" in this pricing supplement. You should also consult your tax adviser regarding the U.S. federal tax consequences of an investment in the notes, as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

THE UNDERLIER

The EURO STOXX 50® Index is composed of 50 component stocks of market sector leaders from within the 19 EURO STOXX® Supersector indices, which represent the Eurozone portion of the STOXX Europe 600® Supersector indices. The STOXX Europe 600® Supersector indices contain the 600 largest stocks traded on the major exchanges of 18 European countries. The EURO STOXX 50® Index is reported by Bloomberg L.P. under the ticker symbol "SX5E."

STOXX Limited ("STOXX") and its licensors and CGMI have entered into a non-exclusive license agreement providing for the license to CGMI and its affiliates, in exchange for a fee, of the right to use the EURO STOXX 50® Index, which is owned and published by STOXX, in connection with certain financial instruments, including the notes. For more information, see "Equity Index Descriptions—The EURO STOXX 50® Index—License Agreement" in the accompanying underlying supplement.

Please refer to the sections "Risk Factors" and "Equity Index Descriptions—The EURO STOXX 50® Index" in the accompanying underlying supplement for important disclosures regarding the underlier, including certain risks that are associated with an investment linked to the underlier. In addition, information about the underlier may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents and the underlier sponsor's website: .www.stoxx.com, (including information regarding (i) the underlier's top ten constituents and their respective weightings, (ii) the underlier's sector weightings and (iii) the underlier's country weightings). We are not incorporating by reference into this document the website or any material it includes. Neither the issuer nor the agent makes any representation that such publicly available documents or any other publicly available information regarding the underlier is accurate or complete.

Historical Closing Levels of the Underlier

The closing level of the underlier has fluctuated in the past and may, in the future, experience significant fluctuations. Any historical upward or downward trend in the closing level of the underlier during the period shown below is not an indication that the underlier is more or less likely to increase or decrease at any time during the life of your notes.

You should not take the historical levels of the underlier as an indication of the future performance of the underlier. We cannot give you any assurance that the future performance of the underlier will result in your receiving an amount greater than the stated principal amount of your notes on the maturity date.

Neither we nor any of our affiliates make any representation to you as to the performance of the underlier. The actual performance of the underlier over the life of the notes, as well as the cash settlement amount, may bear little relation to the historical levels shown below.

The graph below shows the closing level of the underlier for each day such level was available from January 2, 2014 to March 15, 2019. We obtained the closing levels from Bloomberg L.P., without independent verification.

The closing level of the underlier on March 15, 2019 was 3,386.08.

UNITED STATES FEDERAL TAX CONSIDERATIONS

You should read carefully the discussion under "United States Federal Tax Considerations" and "Risk Factors Relating to the Securities" in the accompanying product supplement and "Summary Risk Factors" in this pricing supplement.

In the opinion of our counsel, Davis Polk & Wardwell LLP, a note should be treated as a prepaid forward contract for U.S. federal income tax purposes. By purchasing a note, you agree (in the absence of an administrative determination or judicial ruling to the contrary) to this treatment. There is uncertainty regarding this treatment, and the IRS or a court might not agree with it. Moreover, our counsel's opinion is based on market conditions as of the date of this preliminary pricing supplement and is subject to confirmation on the pricing date.

Assuming this treatment of the notes is respected and subject to the discussion in "United States Federal Tax Considerations" in the accompanying product supplement, the following U.S. federal income tax consequences should result under current law:

- You should not recognize taxable income over the term of the notes prior to maturity, other than pursuant to a sale or exchange.

- Upon a sale or exchange of a note (including retirement at maturity), you should recognize capital gain or loss equal to the difference between the amount realized and your tax basis in the note. Such gain or loss should be long-term capital gain or loss if you held the note for more than one year.

We do not plan to request a ruling from the IRS regarding the treatment of the notes. An alternative characterization of the notes could materially and adversely affect the tax consequences of ownership and disposition of the notes, including the timing and character of income recognized. In addition, the U.S. Treasury Department and the IRS have requested comments on various issues regarding the U.S. federal income tax treatment of "prepaid forward contracts" and similar financial instruments and have indicated that such transactions may be the subject of future regulations or other guidance. Furthermore, members of Congress have proposed legislative changes to the tax treatment of derivative contracts. Any legislation, Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, possibly with retroactive effect. You should consult your tax adviser regarding possible alternative tax treatments of the notes and potential changes in applicable law.

Non-U.S. Holders. Subject to the discussions below and in "United States Federal Tax Considerations" in the accompanying product supplement, if you are a Non-U.S. Holder (as defined in the accompanying product supplement) of the notes, you generally should not be subject to U.S. federal withholding or income tax in respect of any amount paid to you with respect to the notes, provided that (i) income in respect of the notes is not effectively

connected with your conduct of a trade or business in the United States, and (ii) you comply with the applicable certification requirements.

As discussed under "United States Federal Tax Considerations—Tax Consequences to Non-U.S. Holders" in the accompanying product supplement, Section 871(m) of the Code and Treasury regulations promulgated thereunder ("Section 871(m)") generally impose a 30% withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities ("U.S. Underlying Equities") or indices that include U.S. Underlying Equities. Section 871(m) generally applies to instruments that substantially replicate the economic performance of one or more U.S. Underlying Equities, as determined based on tests set forth in the applicable Treasury regulations. However, the regulations, as modified by an IRS notice, exempt financial instruments issued prior to January 1, 2021 that do not have a "delta" of one. Based on the terms of the notes and representations provided by us as of t/font>

Cost of products sold	14,640	20,908
Gross profit	6,379	6,593
Operating expenses:		
Research and development (including $56 and $65, respectively, of amortization of intangible assets)	1,369	2,139
Selling, general, and administrative (including $45 and $60, respectively, of amortization of intangible assets)	4,635	5,743
Total operating expenses	6,004	7,882
Operating income (loss)	375	(1,289)
Other income (expense):		
Interest income	2	1
Interest expense	(90)	(104)
Miscellaneous	(25)	52
Income (loss) from continuing operations before income taxes	262	(1,340)
Income tax provision-current	38	79
Income tax provision-deferred	60	12
Total income taxes provision	98	91
Net income (loss) from continuing operations	164	(1,431)

Discontinued operations:		
Income (loss) from discontinued operations, net of tax	264	(71)
Net income (loss)	428	(1,502)
Net (income) loss attributable to noncontrolling interest	6	-
Net income (loss) attributable to Ultralife	$434	$(1,502)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(127)	148
Comprehensive income (loss) attributable to Ultralife	$307	$(1,354)
Net income (loss) attributable to Ultralife common shareholders - basic		
Continuing operations	$0.01	$(0.08)
Discontinued operations	$0.02	$(0.01)
Total	$0.02	$(0.09)
Net income (loss) attributable to Ultralife common shareholders - diluted		
Continuing operations	$0.01	$(0.08)
Discontinued operations	$0.02	$(0.01)
Total	$0.02	$(0.09)
Weighted average shares outstanding - basic	17,457	17,358
Weighted average shares outstanding - diluted	17,478	17,358

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

ULTRALIFE CORPORATION

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

	Th Per Mar 31 201
OPERATING ACTIVITIES	
Net income (loss)	$434
Loss (gain) from discontinued operations, net of tax	(26
Adjustments to reconcile net income (loss) from continuing operations to net cash provided from operating activities:	
Depreciation and amortization of financing fees	856
Amortization of intangible assets	101
(Gain) loss on long-lived asset disposal and write-offs	-
Foreign exchange gain	23
Non-cash stock-based compensation	190
Changes in deferred income taxes	148
Changes in operating assets and liabilities:	
Accounts receivable	3,6
Inventories	252
Income taxes receivable	(90
Prepaid expenses and other assets	(2,0
Insurance receivable relating to fires	30
Accounts payable and other liabilities	(2,9
Net cash provided from (used in) operating activities from continuing operations	297
Net cash provided from operating activities from discontinued operations	(99
Net cash provided from (used in) operating activities	(70
INVESTING ACTIVITIES	
Purchase of property and equipment	(33
Net cash used in investing activities from continuing operations	(33
Net cash provided from investing activities from discontinued operations	-
Net cash used in investing activities	(33
FINANCING ACTIVITIES	
Net change in revolving credit facility	-
Proceeds from issuance of common stock	12
Net cash provided from financing activities from continuing operations	12
Net cash used in financing activities from discontinued operations	-
Net cash provided from financing activities	12
Effect of exchange rate changes on cash	(14
Change in cash and cash equivalents	(1,1
Cash and cash equivalents at beginning of period	9,6

Cash and cash equivalents at end of period	$8,48
SUPPLEMENTAL CASH FLOW INFORMATION	
Cash paid for income taxes	$40
Cash paid for interest	$54

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

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ULTRALIFE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar Amounts in Thousands – Except Share and Per Share Amounts)
(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements of Ultralife Corporation and subsidiaries have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and with the instructions to Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the Consolidated Financial Statements and related notes thereto contained in our Form 10-K for the twelve-month period ended December 31, 2012.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

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

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

2. DISPOSITIONS AND EXIT ACTIVITIES

Ultralife Batteries UK, Ltd.

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

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

As a result, the results of presentation herein exclude the discontinued Ultralife Batteries UK, Ltd. operations from the results of continuing operations. The following amounts have been reported as discontinued operations for the three-month periods ending March 31, 2013 and April 1, 2012:

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	Three-Month Periods Ended	
	March 31, 2013	April 1, 2012
Net sales	$ -	$ -
Gain from discontinued operations	241	-
Provision for income taxes	-	-
Gain from discontinued operations, net of tax	241	-

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

RedBlack Communications, Inc.

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

On September 28, 2012 (the "Closing Date"), we entered into and closed a Stock Purchase Agreement (the "Agreement") to sell 100% of our capital stock in RedBlack to BCF Solutions, Inc. In exchange for the sale of RedBlack, we received $2,533 as a purchase price, comprised of cash at closing in the amount of $2,133, funds held in escrow for up to one year in the amount of $250, as well as $150 to be available for RedBlack employee retention programs. In addition, there will be a customary post-closing working capital adjustment to the purchase price that is currently being finalized.

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

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

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

As a result, the presentation of results herein excludes the RedBlack operations from the results of continuing operations. The following amounts have been reported as discontinued operations for the three-month periods ended March 31, 2013 and April 1, 2012:

	Three-Month Periods Ended	
	March 31, 2013	April 1, 2012
Net sales	$ -	$ 1,186
Gain (loss) from discontinued operations	7	(12)
Provision for income taxes	-	11
Gain (loss) from discontinued operations, net of tax	7	(23)

Energy Services Business

On March 8, 2011, our senior management, as authorized by our Board of Directors, decided to exit our Energy Services business, which included standby power and systems design, installation and maintenance activities. As of the end of the second quarter of 2011, all exit activities with respect to our Energy Services segment were completed. As a result, the presentation of results herein excludes the Energy Services segment from the results of continuing operations. The following amounts, due to the variation of our actual experience compared to the estimates of reserves as of the date of closure, have been reported as discontinued operations for the three-month periods ended March 31, 2013 and April 1, 2012:

	Three-Month Periods Ended	
	March 31, 2013	April 1, 2012
Net sales	$ -	$ -
Gain (loss) from discontinued operations	16	(48)
Provision for income taxes	-	-
Gain (loss) from discontinued operations, net of tax	16	(48)

3. INVENTORIES

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

	March 31, 2013	December 31, 2012
Raw materials	$ 13,447	$ 15,023
Work in process	4,281	4,863
Finished goods	10,553	10,484
	$ 28,281	$ 30,370

4. PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2013	December 31, 2012
Land	$ 123	$ 123
Buildings and leasehold improvements	7,388	7,381
Machinery and equipment	46,237	46,606
Furniture and fixtures	1,921	1,810
Computer hardware and software	4,179	4,103
Construction in progress	1,233	1,275
	61,081	61,298
Less: Accumulated depreciation	49,303	48,883
	$ 11,778	$ 12,415

Depreciation expense for property, plant and equipment was $830 and $836 for the three-month periods ended March 31, 2013 and April 1, 2012, respectively.

5. GOODWILL, INTANGIBLE ASSETS AND LONG TERM ASSETS

a. Goodwill

The following table summarizes the goodwill activity by segment for the three-month periods ended March 31, 2013 and April 1, 2012:

	Battery & Energy Products	Communications Systems	Discontinued Operations	Total
Balance at December 31, 2011	$ 4,838	$ 11,493	$ 2,025	$ 18,356
Effect of foreign currency translations	22	-	-	22
Balance at April 1, 2012	4,860	11,493	2,025	18,378
Sale of RedBlack Communications			(2,025)	(2,025)
Effect of foreign currency Translations	(9)	-	-	(9)
Balance at December 31, 2012	4,851	11,493	-	16,344
Effect of foreign currency translations	13	-	-	13
Balance at March 31, 2013	$ 4,864	$ 11,493	$ -	$ 16,357

b. Intangible Assets

The composition of intangible assets was:

	March 31, 2013		
	Gross Assets	Accumulated Amortization	Net
Trademarks	$3,565	$ -	$3,565
Patents and technology	4,498	3,760	738
Customer relationships	4,004	3,412	592
Distributor relationships	382	335	47
Non-compete agreements	217	217	-
Total intangible assets	$12,666	$ 7,724	$4,942

	December 31, 2012		
	Gross Assets	Accumulated Amortization	Net
Trademarks	$3,564	$ -	$3,564
Patents and technology	4,495	3,702	793
Customer relationships	3,998	3,366	632
Distributor relationships	380	330	50
Non-compete agreements	217	217	-
Total intangible assets	$12,654	$ 7,615	$5,039

Amortization expense for intangible assets was $101 and $125 for the three-month periods ended March 31, 2013 and April 1, 2012, respectively.

The change in the cost value of total intangible assets from December 31, 2012 to March 31, 2013 is a result of the effect of foreign currency translations.

c. Long-Term Assets

In the first quarter of this year, we had a sale to a customer of our Communications Systems segment of which $2,031, net of interest, had a payment term of greater than one year. This sale was in order to facilitate this customer's ability to support a soldier modernization initiative. We expect this receivable to be fully collected within two years.

6. DEBT

We have entered into a senior secured asset based revolving credit facility (the "Credit Facility") of up to $20,000, with RBS Business Capital, a division of RBS Asset Finance, Inc. ("RBS"). The proceeds from the Credit Facility can be used for general working capital purposes, general corporate purposes, and letter of credit foreign exchange support. The Credit Facility has a maturity date of May 15, 2013, as discussed in greater detail below (the "Maturity Date"). The Credit Facility is secured by substantially all of our assets.

Our available borrowing under the Credit Facility fluctuates from time to time based upon the amounts of eligible accounts receivable and eligible inventory. Available borrowings under the Credit Facility, as amended by the amendments described below, equals the lesser of (1) $20,000 or (2) 85% of eligible accounts receivable plus the lesser of (a) up to 70% of the book value of our eligible inventory or (b) 85% of the appraised net orderly liquidation

value of our eligible inventory. The borrowing base under the Credit Facility is further reduced by (1) the face amount of any letters of credit outstanding, (2) any liabilities of ours under hedging contracts with RBS and (3) the value of any reserves as deemed appropriate by RBS. We are required to have at least $3,000 available under the Credit Facility at all times.

On January 19, 2011, we entered in a First Amendment to Credit Agreement (the "First Amendment") with RBS. The First Amendment amended the Credit Facility as follows:

(i) Eligible accounts receivable under the Credit Facility (for the determination of available borrowings) now include foreign (non-U.S.) accounts subject to credit insurance payable to RBS (formerly, such accounts were not eligible without arranging letter of credit facilities satisfactory to RBS).

(ii) Decreased the interest rate that will accrue on outstanding indebtedness, as set forth in the following table:

Excess Availability	LIBOR Rate Plus	
Greater than $10,000	3.00	%
Greater than $6,000 but less than or equal to $10,000	3.25	%
Greater than $3,000 but less than or equal to $6,000	3.50	%

On September 28, 2012, we entered into a Second Amendment to the Credit Facility (the "Second Amendment") with RBS. The Second Amendment amended the Credit Facility to consent to the sale of the stock of RedBlack and to release any and all liens on RedBlack.

On February 15, 2013, we entered into a Third Amendment to the Credit Facility (the "Third Amendment") with RBS. The Third Amendment amended the Credit Facility to extend the Maturity Date from February 17, 2013, to May 15, 2013, reduced the maximum amount available under the Credit Facility to $20,000, and reduced the unused line fee to 0.40% per year.

Interest currently accrues on outstanding indebtedness under the Credit Facility at LIBOR plus 3.00%. We have the ability, in certain circumstances, to fix the interest rate for up to 90 days from the date of borrowing.

As of March 31, 2013, in addition to paying interest on the outstanding principal under the Credit Facility, we were required to pay an unused line fee of 0.40% on the unused portion of the $20,000 Credit Facility. We must also pay customary letter of credit fees equal to the LIBOR rate and the applicable margin and any other customary fees or expenses of the issuing bank. Interest that accrues under the Credit Facility is to be paid monthly with all outstanding principal, interest and applicable fees due on the Maturity Date, as extended by the Third Amendment.

We are required to maintain a fixed charge ratio of 1.20 to 1.00 or greater at all times as of and after March 28, 2010. As of March 31, 2013, our fixed charge ratio was 3.00 to 1.00. Accordingly, we were in compliance with the financial covenants of the Credit Facility. All borrowings under the Credit Facility are subject to the satisfaction of customary conditions, including the absence of an event of default and accuracy of our representations and warranties. The Credit Facility also includes customary representations and warranties, affirmative covenants and events of default. If an event of default occurs, RBS would be entitled to take various actions, including accelerating the amount due under the Credit Facility, and all actions permitted to be taken by a secured creditor.

As of March 31, 2013, we had $-0- outstanding under the Credit Facility. At March 31, 2013, the interest rate on the asset based revolver component of the Credit Facility was 3.20%. As of March 31, 2013, we had approximately $13,965 of borrowing capacity under the terms of the revolver agreement, including outstanding letters of credit. At March 31, 2013, we had no outstanding letters of credit related to this facility.

7. SHAREHOLDERS' EQUITY

a. Treasury Stock

At March 31, 2013 and December 31, 2012, we had 1,372,757 shares of treasury stock outstanding, valued at $7,658.

b. Stock Options

We have various stock-based employee compensation plans, for which we follow the provisions of the Financial Accounting Standards Board's ("FASB") guidance on share-based payments, which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

Our shareholders have approved various equity-based plans that permit the grant of stock options, restricted stock and other equity-based awards. In addition, our shareholders have approved certain grants of stock options outside of these plans.

In June 2004, shareholders adopted the 2004 Long-Term Incentive Plan ("LTIP") pursuant to which we were authorized to issue up to 750,000 shares of common stock and grant stock options, restricted stock awards, stock appreciation rights and other stock-based awards. Through shareholder approved amendments to the LTIP in 2006, 2008 and 2011, the total number of authorized shares under the LTIP increased to 2,900,000.

Stock options granted under the LTIP are either Incentive Stock Options ("ISOs") or Non-Qualified Stock Options ("NQSOs"). Key employees are eligible to receive ISOs and NQSOs; however, directors and consultants are eligible to receive only NQSOs. Most ISOs vest over a three- or five-year period and expire on the sixth or seventh anniversary of the grant date. All NQSOs issued to non-employee directors vest immediately and expire on either the sixth or seventh anniversary of the grant date. Some NQSOs issued to non-employees vest immediately and expire within three years; others have the same vesting characteristics as options issued to employees. As of March 31, 2013, there were 2,166,356 stock options outstanding under the LTIP.

On December 19, 2005, we granted our former President and Chief Executive Officer, John D. Kavazanjian, an option to purchase 48,000 shares of common stock at $12.96 per share outside of any of our equity-based compensation plans, subject to shareholder approval. Shareholder approval was obtained on June 8, 2006. The stock option is fully vested and expires on June 8, 2013.

On March 7, 2008, in connection with his becoming employed by us, we granted our Chief Financial Officer and Treasurer, Philip A. Fain, an option to purchase 50,000 shares of common stock at $12.74 per share outside of any of our equity-based compensation plans. The stock option is fully vested and expires on March 7, 2015.

On December 30, 2010, pursuant to the terms of his employment agreement, we granted our President and Chief Executive Officer, Michael D. Popielec, options to purchase shares of common stock under the LTIP as follows: (i) 50,000 shares at $6.42, vesting in annual increments of 12,500 shares over a four-year period commencing December 30, 2011; (ii) 250,000 shares at $6.42, vesting in annual increments of 62,500 shares over a four-year period commencing December 30, 2011; (iii) 200,000 shares at $10.00, with vesting to begin on the date the stock reaches a closing price of $10.00 per share for 15 trading days within a 30-day trading period, with such vesting in annual increments of 50,000 shares over the four anniversary dates of that date; and (iv) 200,000 shares at $15.00, with vesting to begin on the date the stock reaches a closing price of $15.00 per share for 15 trading days within a 30-day trading period, with such vesting in annual increments of 50,000 shares over the four anniversary dates of that date. All such options in items (i) and (ii) shall expire on December 30, 2017. All such options in items (iii) and (iv) shall expire as of the later of December 30, 2017 or five years after the initial vesting commences, but in no event later than December 30, 2020. The options set forth in items (ii), (iii) and (iv) were subject to shareholder approval of an amendment to the LTIP, which approval was obtained on June 7, 2011.

On January 3, 2011, pursuant to the terms of his employment agreement, we granted our President and Chief Executive Officer, Michael D. Popielec, an option to purchase 50,000 shares of common stock at $6.58 under the LTIP. The option vests in annual increments of 12,500 shares over a four-year period commencing December 30, 2011. The option expires on December 30, 2017.

In conjunction with FASB's guidance for share-based payments, we recorded compensation cost related to stock options of $190 and $264 for the three-month periods ended March 31, 2013 and April 1, 2012, respectively. As of March 31, 2013, there was $1,060 of total unrecognized compensation cost related to outstanding stock options, which is expected to be recognized over a weighted average period of 2.32 years.

We use the Black-Scholes option-pricing model to estimate the fair value of non-market performance stock-based awards. The following weighted average assumptions were used to value non-market performance stock options granted during the three-month periods ended March 31, 2013 and April 1, 2012.

	Three-Month Periods Ended			
	March 31, 2013		April 1, 2012	
Risk-free interest rate	0.65	%	0.66	%
Volatility factor	63.17	%	62.93	%
Dividends	0.00	%	0.00	%
Weighted average expected life (years)	4.03		3.91	

We use a Monte Carlo simulation option-pricing model to estimate the fair value of market performance stock-based awards. There were no market performance stock options granted during the three-months ended March 31, 2013 and April 1, 2012.

We calculate expected volatility for stock options by taking an average of historical volatility over the past five years and a computation of implied volatility. The computation of expected term was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield in effect at the time of grant.

Stock option activity for the first three months of 2013 is summarized as:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Shares under option at January 1, 2013	2,211,488	$ 7.47		
Options granted	114,000	3.39		
Options exercised	(3,000)	3.91		
Options forfeited	(25,132)	4.40		
Options expired	(33,000)	11.87		
Shares under option at March 31, 2013	2,264,356	$ 7.23	4.73	$ 475
Vested and expected to vest as of March 31, 2013	2,055,554	$ 7.49	4.63	$ 390
Options exercisable at March 31, 2013	1,045,897	$ 7.31	3.29	$ 110

The total intrinsic value of stock options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the three-month period ended March 31, 2013 was $1.

FASB's guidance for share-based payments requires cash flows from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised stock options in excess of the deferred tax asset attributable to stock compensation costs for such stock options. We did not record any excess tax benefits in the first three months of 2013 and 2012. Cash received from stock option exercises under our stock-based compensation plans for the three-month periods ended March 31, 2013 and April 1, 2012 was $12 and $99, respectively.

c. Restricted Stock Awards

No restricted stock was awarded during the three-month periods ended March 31, 2013 and April 1, 2012. No expense was incurred related to restricted stock awards in the current quarter and $1 of expense was recognized in the three-month period ended April 1, 2012. There is no unrecognized compensation cost related to restricted stock awards as of March 31, 2013.

8. INCOME TAXES

The asset and liability method, prescribed by FASB's guidance on the accounting for income taxes, is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

For the three-month periods ended March 31, 2013 and April 1, 2012, we recorded $98 and $102, respectively, in income tax expense. The expense is primarily due to the recognition of deferred tax liabilities generated from goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carryforward periods. The remaining expense in 2013 was primarily due to the income reported for our China operations during the period.

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Our effective consolidated tax rates for the three-month periods ended March 31, 2013 and April 1, 2012 were:

	Three-Month Periods Ended	
	March 31, 2013	April 1, 2012
Income (loss) from continuing operations before Incomes Taxes (a)	$ 262	$ (1,340)
Total Income Tax Provision (b)	$ 98	$ 91
Effective Tax Rate (b/a)	37.4 %	6.8 %

The overall effective tax rate is the result of the combination of income and losses in each of our tax jurisdictions, which is particularly influenced by the fact that we have not recognized a deferred tax asset pertaining to cumulative historical losses for our U.S. operations and our U.K. subsidiary, as management does not believe, at this time, it is more likely than not that we will realize the benefit of these losses. We have substantial net operating loss carryforwards which offset taxable income in the United States. However, we remain subject to the alternative minimum tax in the United States. The alternative minimum tax limits the amount of net operating loss available to offset taxable income to 90% of the current year income. We incurred $12 in alternative minimum tax for the three months ended March 31, 2013. The alternative minimum tax did not have an impact on income taxes determined for the three-month period ended April 1, 2012. The payment of the alternative minimum tax normally results in the establishment of a deferred tax asset; however, we have established a valuation allowance for our net U.S. deferred tax asset. Therefore, the expected payment of the alternative minimum tax does not result in a net deferred tax asset.

As of December 31, 2012, we had foreign and domestic net operating loss carryforwards totaling approximately $58,030 available to reduce future taxable income. Foreign loss carryforwards of approximately $12,390 can be carried forward indefinitely. The domestic net operating loss carryforwards of $48,549 expire from 2019 through 2032. The domestic net operating loss carryforwards include approximately $2,949 for which a benefit will be recorded in capital in excess of par value when realized.

We have adopted FASB's guidance for the accounting for uncertainty in income taxes. As a result of the implementation of this guidance, there was no cumulative effect adjustment for unrecognized tax benefits, which would have been accounted for as an adjustment to retained earnings.

Our unrecognized tax benefits related to uncertain tax positions at March 31, 2013 relate to Federal and various state jurisdictions. The following table summarizes the activity related to our unrecognized tax benefits:

	Three-Month Periods Ended	
	March 31, 2013	April 1, 2012
Balance at beginning of the period	$ 7,508	$ 6,779
Increases related to current year tax positions	-	-
Increases related to prior year tax positions	-	-
Decreases related to prior year tax positions	-	-
Expiration of statute of limitations for assessment of taxes	-	-
Settlements	-	-
Balance at end of the period	$ 7,508	$ 6,779

The total unrecognized tax benefit balance at March 31, 2013 is comprised of tax benefits that, if recognized, would result in a deferred tax asset and a corresponding increase in our valuation allowance. As a result, because the benefit would be offset by an increase in the valuation allowance, there would be no effect on the effective tax rate.

We are not required to accrue interest and penalties as the unrecognized tax benefits have been recorded as a decrease in our net operating loss carryforward. Interest and penalties would begin to accrue in the period in which the net operating loss carryforwards related to the uncertain tax positions are utilized. We do not expect our unrecognized tax benefits to change significantly over the next twelve months.

As a result of our operations, we file income tax returns in various jurisdictions including U.S. federal, U.S. state and foreign jurisdictions. We are routinely subject to examination by taxing authorities in these various jurisdictions. Our U.S. tax matters for the years 2000 through 2012 remain subject to examination by the Internal Revenue Service (“IRS”) due to our net operating loss carryforwards. Our U.S. tax matters for the years 2000 through 2012 remain subject to examination by various state and local tax jurisdictions due to our net operating loss carryforwards. Our tax matters for the years 2007 through 2012 remain subject to examination by the respective foreign tax jurisdiction authorities. The IRS has completed the examination of our 2009 U.S. federal income tax return, with no resulting material effect to our financial position or results of operations.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred during 2005 and 2006. As such, the domestic net operating loss carryforwards will be subject to an annual limitation estimated to be in the range of approximately $12,000 to $14,500. The unused portion of the annual limitation can be carried forward to subsequent periods. We believe such limitation will not impact our ability to realize the deferred tax asset. The use of our U.K. net operating loss carryforwards may be limited due to the change in our U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center.

9. EARNINGS PER SHARE

We have adopted the provisions of FASB’s guidance for determining whether instruments granted in share-based payment transactions are participating securities. The guidance requires that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (such as restricted stock awards granted by us) be considered participating securities. Because restricted stock awards are participating securities, we are required to apply the two-class method of computing basic and diluted earnings per share (the “Two-Class Method”).

Basic earnings per share ("EPS") is determined using the Two-Class Method and is computed by dividing earnings attributable to Ultralife common shareholders by the weighted-average shares outstanding during the period. The Two-Class Method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Diluted EPS includes the dilutive effect of securities, if any, and reflects the more dilutive EPS amount calculated using the treasury stock method or the Two-Class Method. For the three-month periods ended March 31, 2013 and April 1, 2012, both the Two-Class Method and the treasury stock method calculations for diluted EPS yielded the same result.

The computation of basic and diluted earnings per share is summarized as follows:

	Three-Month Period Ended	
	March 31, 2013	April 1, 2012
Net Income (Loss) from continuing operations attributable to Ultralife common shareholders (a)	170	(1,431)
Effect of Dilutive Securities	-	-
Net Income (Loss) from continuing operations attributable to Ultralife common shareholders - Adjusted (b)	$170	$(1,431)
Net Income (Loss) from discontinued operations attributable to Ultralife common shareholders (c)	$264	$(71)
Effect of Dilutive Securities	-	-
Net Income (Loss) from discontinued operations attributable to Ultralife common shareholders - Adjusted (d)	$264	$(71)
Average Common Shares Outstanding –		
Basic (e)	17,457,000	17,358,000
Effect of Dilutive Securities:		
Stock Options / Warrants	21,000	-
Average Common Shares Outstanding –		
Diluted (f)	17,478,000	17,358,000
EPS – Basic (a/e) - continuing operations	$0.01	$(0.08)
EPS – Basic (c/e) - discontinued operations	$0.02	$(0.01)
EPS – Diluted (b/f) - continuing operations	$0.01	$(0.08)
EPS – Diluted (d/f) - discontinued operations	$0.02	$(0.01)

There were 2,055,606 and 2,337,528 outstanding stock options for the three-month periods ended March 31, 2013 and April 1, 2012, respectively, that were not included in EPS as the effect would be anti-dilutive.

10. COMMITMENTS AND CONTINGENCIES

a. Purchase Commitments

As of March 31, 2013, we have made commitments to purchase approximately $453 of production machinery and equipment.

b. Product Warranties

We estimate future costs associated with expected product failure rates, material usage and service costs in the development of our warranty obligations. Warranty reserves are based on historical experience of warranty claims and generally will be estimated as a percentage of sales over the warranty period. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded. Changes in our product warranty liability during the first three months of 2013 were as follows:

Balance at December 31, 2012	$607
Accruals for warranties issued	53
Settlements made	(16)
Balance at March 31, 2013	$644

c. Contingencies and Legal Matters

We are subject to legal proceedings and claims that arise from time to time in the normal course of business. We believe that the final disposition of such matters, other than the matters described below, will not have a material adverse effect on our financial position, results of operations or cash flows.

Government Grants/Loans

In conjunction with the City of West Point, Mississippi, we applied for a Community Development Block Grant ("CDBG") from the State of Mississippi for infrastructure improvements to our leased facility that is owned by the City of West Point, Mississippi. The CDBG was awarded and as of December 31, 2011, approximately $480 has been distributed under the grant. Under an agreement with the City of West Point, we agreed to employ at least 30 full-time employees at the facility, of which 51% of the jobs had to be filled or made available to low or moderate income families, within three years of completion of the CDBG improvement activities. In addition, we agreed to invest at least $1,000 in equipment and working capital into the facility within the first three years of operation of the facility. While we have yet to receive formal notice from the applicable government agency confirming the closure of the grant, we believe that both of these commitments were satisfied as of March 2011 and, therefore, have not recorded an accrual with respect to any potential liability for the grant amounts received under the CDBG.

In conjunction with Clay County, Mississippi, we applied for a Mississippi Rural Impact Fund Grant ("RIFG") from the State of Mississippi for infrastructure improvements to our leased facility that is owned by the City of West Point, Mississippi. The RIFG was awarded and as of December 31, 2011, approximately $150 has been distributed under the grant. Under an agreement with Clay County, we agreed to employ at least 30 full-time employees at the facility, of which 51% of the jobs had to be filled or made available to low or moderate income families, within two years of completion of the RIFG improvement activities. In September 2010, we received an extension for this commitment to March 31, 2011. In addition, we agreed to invest at least $1,000 in equipment and working capital into the facility within the first three years of operation of the facility. While we have yet to receive formal notice from the applicable government agency confirming the closure of the grant, we believe that both of these commitments were satisfied as of March 2011 and, therefore, have not recorded an accrual with respect to any potential liability for the grant amounts received under the RIFG.

Post Audits of Government Contracts

We had certain "exigent", non-bid contracts with the U.S. government, which were subject to audit and final price adjustment, which resulted in decreased margins compared with the original terms of the contracts. As of December 31, 2012, there were no outstanding exigent contracts with the U.S. government. As part of its due diligence, the U.S. government has conducted post-audits of the completed exigent contracts to ensure that information used in supporting the pricing of exigent contracts did not differ materially from actual results. In September 2005, the Defense Contracting Audit Agency ("DCAA") presented its findings related to the audits of three of the exigent contracts, suggesting a potential pricing adjustment of approximately $1,400 related to reductions in the cost of materials that occurred prior to the final negotiation of these contracts. In addition, in June 2007, we received a request from the Office of Inspector General of the Department of Defense ("DoD IG") seeking certain information and documents relating to our business with the Department of Defense. We cooperated with the DCAA audit and DoD IG inquiry by making available to government auditors and investigators our personnel and furnishing the requested information and documents. The DCAA Audit and DoD IG inquiry were consolidated and the US Attorney's Office represented the government in connection with these matters. Under applicable federal law, we may have been subject up to treble damages and penalties associated with the potential pricing adjustment. In light of the uncertainty, we decided to enter into discussions with the U.S. Attorney's Office in April 2011 to negotiate a settlement that would be in the best interests of our customers, employees and shareholders. On April 21, 2011, we were advised by the government that there was a $2,730 settlement-in-principle to resolve all claims related to the contracts, subject to final approval by the Department of Justice. As a result, we recorded a $2,730 charge as a reduction in revenues for the first quarter of 2011. On June 1, 2011, we entered into a Settlement Agreement with the United States of America, acting through the United States Department of Justice and on behalf of the Department of Defense that required us to pay a total of $2,700 plus accrued interest thereon at the rate of 2.625% per annum. Under the Settlement Agreement, we were required to make principal payments of $1,000, $567, $567 and $566 being due on June 8, 2011, December 1, 2011, June 1, 2012 and December 1, 2012, respectively. Each principal payment was accompanied by a payment of accrued interest. As of December 31, 2012, we have made all required payments.

9-Volt Battery Litigation

In July 2010, we were served with a summons and complaint filed in Japan by one of our 9-volt battery customers. The complaint alleged damages associated with claims of breach of warranty in an amount of approximately $1,100. A trial was held on May 25, 2012, in Japan before a panel of three judges, after which the parties agreed to settle the matter for approximately $125, which has been reflected in our cost of products sold in the second quarter of 2012. The terms of the settlement agreement include no legal liability on our part and the plaintiff abandoning all other claims against us.

Arista Power Litigation

On September 23, 2011, we initiated an action against Arista Power, Inc. ("Arista") and our former senior sales and engineering employee, David Modeen ("Modeen") in the State of New York Supreme Court, County of Wayne (Index No. 73379). In our Complaint, we allege that Arista recruited all but one of the members of its executive team from us, subsequently changed and redirected its business to compete directly with us by using our confidential information, and during the summer of 2011, recruited Modeen to become an Arista employee. We allege that, as a result of actions by Arista and Modeen: (i) Modeen has breached the terms of his Employee Confidentiality, Non-Disclosure, Non-Compete, Non-Disparagement and Assignment Agreement with us; (ii) Modeen has breached certain agreements, duties and obligations he owed us, including to protect and refrain from disclosing our trade secrets and confidential and proprietary information; (iii) Arista's employment of Modeen will inevitably lead to the disclosure and use of our trade secrets by Arista, in violation of Modeen's duties and obligations to us; (iv) Arista unlawfully induced Modeen to breach his agreements with and duties and obligations to us; and (v) Arista's recruitment and employment of Modeen has breached a subcontract between Arista and us. We seek damages as

determined at trial and preliminary and permanent injunctive relief. The defendants have answered the allegations set forth in the Complaint, without asserting any counterclaims.

On December 5, 2011, Arista served us with a Complaint it filed on November 29, 2011 in the State of New York Supreme Court, County of Monroe (Index No. 11-13896) against us, our officers, several of our directors, and an employee. In its Complaint, Arista alleges that we and our named defendants have violated the terms of a Confidentiality Agreement with Arista and have unfairly competed against Arista by unlawfully appropriating Arista's trade secrets and that as a result of such activity, Arista has incurred damages in excess of $60,000. Arista seeks damages, an accounting, and preliminary and permanent injunctive relief.

On December 21, 2011, we and our officers, directors and employee named in Arista's Complaint filed a motion to dismiss Arista's Complaint against our officers, directors and employee as Arista's Complaint fails to state any cause of action against any of them and to dismiss the claim of fraud against our officers, directors and employee. Subsequently, Arista filed an Amended Complaint alleging essentially the same causes of action but adding additional factual allegations against us and our officers, directors and employee. In addition, Arista filed a motion to disqualify our outside legal counsel representing us and our officers, directors and employee in both Arista's Complaint and our Complaint against Arista. In response, we and our officers, directors and employee filed a new motion to dismiss Arista's Complaint against us in its entirety and seeking dismissal of the fraud claim against us. Arista's motion to disqualify our outside legal counsel was denied on February 10, 2012. On March 9, 2012, the Court issued its decision on our motion to dismiss, granting the motion to the extent of dismissing some claims against us, but denying the motion to dismiss the individuals from the lawsuit at this preliminary stage. On April 19, 2012, an Answer was filed on behalf of us, our officers, directors and employee. Discovery has commenced with respect to the Arista litigation and is ongoing.

We initiated the September 23, 2011 Complaint against Arista Power to protect our customers, employees and shareholders from the unauthorized use and theft of our investments in intellectual property, trade secrets and confidential information by Arista and its employees. Protecting our collective intellectual property and know-how, developed at great cost to us to form our competitive position in the marketplace and create value for our shareholders, is a fundamental responsibility of all our employees.

We believe the November 29, 2011 Arista Complaint is retaliatory and without merit. Our development of the foundation for the new product concept for which Arista claims we allegedly used its trade secrets commenced in 2008, long prior to the departure of those individuals who now constitute the executive team of Arista. Furthermore, we believe the purported damage of $60,000 being claimed by Arista is based solely on the reduction in its market capitalization between November 2009 and the filing date of the Complaint. This market value loss is totally unrelated to any actions on account of us, and claims for recovery of this or any other amount are legally and factually baseless.

Accordingly, we will vigorously pursue our complaint against Arista and defend what we believe to be a meritless action on the part of Arista Power.

11. BUSINESS SEGMENT INFORMATION

On March 8, 2011, our senior management, as authorized by our Board of Directors, decided to exit our Energy Services business, which previously was a stand alone business segment. See Note 2 in these Notes to Condensed Consolidated Financial Statements for additional information.

On February 16, 2012, our senior management, as authorized by our Board of Directors, decided to divest our RedBlack Communications business, which previously was reported in the Communications Systems segment. See Note 2 in these Notes to Condensed Consolidated Financial Statements for additional information.

During the fourth quarter of 2012, we elected not to renew the lease for our U.K. manufacturing facility which expired on March 24, 2013, and to relocate our sales and services operations to a smaller facility. As a result of this decision, we were required to restore the facility back to its original condition per a previous contractual commitment. This facility previously served our Battery and Energy Segments business. A portion of these costs were classified as a discontinued operation in the fourth quarter of 2012. See Note 2 in these Notes to Consolidated Financial Statements for additional information.

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

The components of segment performance were as follows:

Three-Month Period Ended March 31, 2013

	Battery & Energy Products	Communications Systems	Discontinued Operations	Corporate	Total
Revenues	$ 13,053	$ 7,966	$ -	$ -	$ 21,019
Segment contribution	3,100	3,279	-	(6,004)	375
Interest expense, net				(88)	(88)
Miscellaneous				(25)	(25)
Income taxes-current				(38)	(38)
Income taxes-deferred				(60)	(60)
Gain from discontinued operations			264		264
Noncontrolling interest				6	6
Net income attributable to Ultralife					$ 434
Total assets	$ 47,742	$ 32,645	$ -	$ 11,855	$ 92,242

Three-Month Period Ended April 1, 2012

	Battery & Energy Products	Communications Systems	Discontinued Operations	Corporate	Total
Revenues	$ 20,082	$ 7,419	$ -	$ -	$ 27,501
Segment contribution	3,943	2,650	-	(7,882)	(1,289)
Interest expense, net				(103)	(103)
Miscellaneous				52	52
Income taxes-current				(79)	(79)
Income taxes-deferred				(12)	(12)
Loss from discontinued operations			(71)		(71)
Noncontrolling interest				-	-
Net loss attributable to Ultralife					$ (1,502)
Total assets	$ 51,597	$ 30,524	$ 3,125	$ 9,418	$ 94,664

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB's guidance for the disclosure regarding fair value of financial instruments requires disclosure of an estimate of the fair value of certain financial instruments. The fair value of financial instruments pursuant to FASB's guidance for the disclosure regarding fair value of financial instruments approximated their carrying values at March 31, 2013 and December 31, 2012. The fair value of cash, trade accounts receivable, trade accounts payable, accrued liabilities, and our revolving credit facility approximates carrying value due to the short-term nature of these instruments.

13. FIRE AT MANUFACTURING FACILITY

In June 2011, we experienced a fire that damaged certain inventory and machinery and equipment at our facility in China. The fire occurred after business hours and was fully extinguished quickly with no injuries, and the plant was back in full operation shortly thereafter with no significant disruption in supply or service to customers.

The total amount of the loss pertaining to assets and the related expenses was approximately $1,589. The majority of our insurance claim is related to the recovery of damaged inventory. In June 2012, we received approximately $1,017 as a partial payment on our insurance claim, which resulted in no gain or loss being recognized. Subsequent to the end of the quarter, we have received $269 as a further payment on this claim, with no gain or loss recognized. As of

March 31, 2013, we reflect a receivable from the insurance company relating to this claim of $434, which is net of our deductible of approximately $132, and represents additional proceeds to be received. The deductible charge was expensed in the second quarter of 2011 and reflected as a component of cost of products sold in the Consolidated Statements of Comprehensive Income.

14. RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

In March 2013, the FASB issued ASU 2013-05, “Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.” ASU 2013-05 states that the cumulative translation adjustment is released into net income when a reporting entity ceases to have a controlling interest in a subsidiary that is controlled by a consolidated foreign entity. Further, this update states that the sale of an investment in a foreign entity includes both events that result in the loss of a controlling financial interest in a foreign entity, regardless of any retained investment, and events that result in an acquirer obtaining control through a step acquisition. ASU 2013-05 is effective prospectively for fiscal years beginning after December 15, 2013, with early adoption permitted. We do not believe that adoption of this standard will have a material impact on our consolidated results of operations and financial condition.

In February 2013, the FASB issued ASU 2013-02, “Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income.” ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component as well as presentation, either on the face of the financial statement or in the notes, of significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. ASU 2013-02 is effective for fiscal years beginning after December 15, 2012. Adoption of this standard did not have a material impact on our consolidated results of operations and financial condition.

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

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, our reliance on certain key customers, reduced U.S. defense spending, including the uncertainty with government budget approvals, general domestic and global economic conditions, future demand for our products and services, the successful commercialization of our products, our resources being overwhelmed by our growth prospects, residual effects of negative news related to our industries, government and environmental regulations, business disruptions, including those caused by fires, the impairment of our intangible assets, the unique risks associated with our Chinese operations, loss of top management, the process of U.S. defense procurement, finalization of non-bid government contracts, raw material supplies, competition and customer strategies, technological innovations in the non-rechargeable and rechargeable battery industries, changes in our business strategy or development plans, capital deployment, and other risks and uncertainties, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those forward-looking statements described herein. When used in this report, the words “anticipate”, “believe”, “estimate” or “expect” or words of similar import are intended to identify forward-looking statements. For further discussion of certain of the matters described above and other risks and uncertainties, see Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

The following discussion and analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-Q and our Consolidated Financial Statements and Notes thereto contained in our Form 10-K for the year ended December 31, 2012.

The financial information in this Management's Discussion and Analysis of Financial Condition and Results of Operations is presented in thousands of dollars, except for share and per share amounts. All figures presented below represent results from continuing operations, unless otherwise specified.

General

We offer products and services ranging from portable power solutions to communications and electronics systems. Through our engineering and collaborative approach to problem solving, we serve government, defense and commercial customers across the globe. We design, manufacture, install and maintain power and communications systems including: rechargeable and non-rechargeable batteries, charging systems, communications and electronics systems and accessories and custom engineered systems. We continually evaluate ways to grow, including the design, development and sale of new products, expansion of our sales force to penetrate new markets and geographies, as well as seeking opportunities to expand through acquisitions. We sell our products worldwide through a variety of trade channels, including original equipment manufacturers (“OEMs”), industrial and defense supply distributors and directly to U.S. and international defense departments.

We report our results in two operating segments: Battery & Energy Products and Communications Systems. The Battery & Energy Products segment includes: lithium 9-volt, cylindrical and various other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories. The

Communications Systems segment includes: RF amplifiers, power supplies, cable and connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems, integrated communication systems for fixed or vehicle applications and communications and electronics systems design. We believe that reporting performance at the gross profit level is the best indicator of segment performance. As such we report segment performance at the gross profit level and operating expenses as Corporate charges. (See Note 11 in the Notes to Consolidated Financial Statements)

We continually evaluate ways to grow, including opportunities to expand through mergers, acquisitions and joint ventures, which can broaden the scope of our products and services, expand operating and market opportunities and provide the ability to enter new lines of business synergistic with our portfolio of offerings.

On March 8, 2011, we decided to exit our Energy Services business. As a result of management's review of our business segments and products, and taking into account the lack of growth and profitability potential of the Energy Services segment as well as its sizeable operating losses, we determined it was appropriate to refocus our operations on profitable growth opportunities presented in our other segments, Battery & Energy Products and Communications Systems. In the fourth quarter of 2010, we recorded a non-cash impairment charge of $13,793 to write-off the goodwill and intangible assets and certain fixed assets associated with the standby power portion of our Energy Services business. The actions taken to exit our Energy Services business resulted in the elimination of approximately 40 jobs and the closing of five facilities, primarily in California, Florida and Texas. We completed all exit activities with respect to our Energy Services segment by the end of the second quarter of 2011, and have reclassified our Energy Services segment as a discontinued operation.

In connection with the exit activities described above, we recorded total restructuring charges of approximately $2,924 in 2011. The restructuring charges include approximately $703 of employee-related costs, including termination benefits, approximately $250 of lease termination costs, approximately $941 of inventory and fixed asset write-downs and approximately $1,030 of other associated costs. The cash component of the aggregate total restructuring charges was approximately $1,984. Subsequent to the completion of our exit activities, adjustments have been made to estimates of certain reserves and accruals that existed at that time. These adjustments amount to $257 and were due to the difference in our actual experience compared to our expectations as of the completion of our exit activities.

On February 16, 2012, we announced our intention to divest our RedBlack Communications, Inc. ("RedBlack") business in 2012. As a result of management's ongoing review of our business portfolio, management had determined that RedBlack offered limited opportunities to achieve the operating thresholds of our new business model. On September 28, 2012, we entered into and closed a Stock Purchase Agreement to sell 100% of our capital stock in RedBlack to BCF Solutions, Inc (the "Agreement"). In exchange for the sale of RedBlack, we received $2,533 as a purchase price, comprised of cash at closing in the amount of $2,133, funds held in escrow for up to one year in the amount of $250, as well as $150 to be available for RedBlack employee retention programs. In addition, there will be a customary post-closing working capital adjustment to the purchase price. The Agreement contains customary representations and warranties that will survive for a period of two or three years. The Agreement also contains customary indemnification for breaches of the representations and warranties identified in the Agreement. Pursuant to the Agreement, we are prohibited from engaging or participating with any current customer of RedBlack in any business, directly or indirectly, that competes with the business conducted by RedBlack for two years. We are also prohibited from hiring, soliciting, or recruiting any current employee, independent contractor, or consultant of BCF Solutions, Inc. or RedBlack for two years. Commencing with the first quarter of 2012, the results of the RedBlack operations and related divestiture costs will be reported as a disputed operation.

During the fourth quarter of 2012, we elected not to renew the lease for our U.K. manufacturing facility which expired on March 24, 2013, and relocated our sales and services operations to a smaller facility. As a result of this decision, we were required to restore the facility back to its original condition pursuant to the terms of the U.K. Facility Lease. In the fourth quarter of 2012, we recorded approximately $950 related to this requirement of which $200 was recorded as general & administrative expenses and $750 was recorded as discontinued operations. This liability was settled in the first quarter of 2013 resulting in a gain to discontinued operations of $241. We expect to realize net savings of approximately $500 on an annualized basis beginning in the second quarter of 2013 due to this election.

Overview

Consolidated revenues of $21,019 for the three-month period ended March 31, 2013, decreased by $6,482, or 23.6%, from $27,501 during the three-month period ended April 1, 2012, primarily due to the continued slowdown in the US government and defense order rate for rechargeable and non-rechargeable batteries and charger systems, slightly offset by the fulfillment of large orders for amplifiers from international defense customers and continued demand for amplifiers from the U.S. government.

Gross profit for the three-month period ended March 31, 2013 was $6,379, or 30.3% of revenues, compared to $6,593, or 24.0% of revenues, for the same quarter a year ago. The 630 basis points improvement is due primarily to significant improvements in overall productivity, resulting in the elimination of most manufacturing variances experienced in the first quarter of 2012, as well as, increased margin resulting from the higher volume of amplifier production and shipments.

Operating expenses decreased to $6,004 during the three-month period ended March 31, 2013, compared to $7,882 during the three-month period ended April 1, 2012, resulting primarily from continued actions to reduce general and administrative expenses, focused spending in the development of new products and lower overall sales commissions and selling expense.

The combination of higher gross margin and essentially flat operating expenses as a percentage of revenue resulted in a $1,664 improvement in operating income of $375 for the three-month period ended March 31, 2013, compared to an operating loss of $1,289 for the three-month period ended April 1, 2012.

Net income from continuing operations was $164, or $0.01 per share, for the three-month period ended March 31, 2013, compared to a net loss of $1,431, or $0.08 per share, for the three-month period ended April 1, 2012. Net income from discontinued operations was $264, or $0.02 per share, for the three-month period ended March 31, 2013 versus a net loss of $71, or $0.01 per share, for the three-month period ended April 1, 2012.

Adjusted EBITDA from continuing operations, defined as net income (loss) attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, plus/minus expenses/income that we do not consider reflective of our ongoing continuing operations, amounted to $1,477 in the first quarter of 2013 compared to $65 for the first quarter of 2012. See the section "Adjusted EBITDA from continuing operations" beginning on page 29 for a reconciliation of Adjusted EBITDA from continuing operations to net income (loss) attributable to Ultralife.

As a result of careful working capital management and cash generated from operations, our liquidity remains solid with no debt, and cash and cash equivalents, including restricted cash, of $8,908, a $4,601 improvement over the cash position of $4,307 as of the first quarter of 2012. The increase in cash and cash equivalents from the first quarter of 2012 is primarily attributable to our financial performance and cash generated from our Lean initiatives, including reductions in inventory. Cash and cash equivalents, including restricted cash, as of March 31, 2013 declined by $1,170 from $10,078 as of December 31, 2012. The decrease in cash and cash equivalents from December 31, 2012 is primarily attributable to our cash outflows related to our settlement of the U.K. Lease Facility.

Outlook

The company reiterates its outlook for 2013 and continues to expect low-to-mid-single digit revenue growth reflecting strong growth in Communications Systems sales and modest gains in the Battery & Energy Products business, despite continued constraints on U.S. government spending. Based on this outlook for revenue growth, ongoing productivity improvements and plans to continue prudently investing in new product development, management expects to increase operating profitability for the year and to generate a mid-single digit operating margin.

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The company cautions that the timing of orders and shipments may cause variability in quarterly results.

Results of Operations

Three-month periods ended March 31, 2013 and April 1, 2012

Revenues. Consolidated revenues for the three-month period ended March 31, 2013 amounted to $21,019, a decrease of $6,482, or 23.6%, from the $27,501 reported for the three-month period ended April 1, 2012.

Battery & Energy Products sales decreased $7,029, or 35.0%, from $20,082 for the three-month period ended April 1, 2012 to $13,053 for the three-month period ended March 31, 2013. Revenues for Battery & Energy Products decreased primarily due to the continued slowdown in U.S. government and defense order rate for rechargeable and non-rechargeable batteries and charger systems and lower sales of 9 volt batteries resulting from the selloff of the remaining legacy products in the first quarter of 2012 with the introduction of the new battery design.

Communications Systems revenues increased $547, or 7.4%, from $7,419 during the three-month period ended April 1, 2012 to $7,966 for the three-month period ended March 31, 2013, reflecting the fulfillment of large orders for amplifiers from international defense customers and continued demand for amplifiers from the U.S. government.

Cost of Products Sold. Cost of products sold totaled $14,640 for the quarter ended March 31, 2013, a decrease of $6,268, or 30.0%, from the $20,908 reported for the same three-month period a year ago. Consolidated cost of products sold as a percentage of total revenue decreased from 76.0% for the three-month period ended April 1, 2012 to 69.7% for the three-month period ended March 31, 2013. Correspondingly, consolidated gross margin was 30.3% for the three-month period ended March 31, 2013, compared with 24.0% for the three-month period ended April 1, 2012, reflecting productivity gains in both businesses, a higher mix of Communications Systems sales and certain property tax credits related to prior years.

In our Battery & Energy Products segment, the cost of products sold decreased $6,186, from $16,139 during the three-month period ended April 1, 2012 to $9,953 during the three-month period ended March 31, 2013. Battery & Energy Products' gross profit for the first quarter of 2013 was $3,100, or 23.7% of revenues, a decrease of $843 from gross profit of $3,943, or 19.6% of revenues, for the first quarter of 2012. Battery & Energy Products' gross margin as a percentage of revenues increased for the three-month period ended March 31, 2013 by 410 basis points, reflecting significant improvements in the overall productivity resulting with the elimination of most labor and material manufacturing variances, and to a lesser extent, the receipt of certain tax refunds relating to prior years.

In our Communications Systems segment, the cost of products sold decreased by $82 or 1.7% from $4,769 during the three-month period ended April 1, 2012 to $4,687 during the three-month period ended March 31, 2013. Communications Systems' gross profit for the first quarter of 2013 was $3,279, or 41.2% of revenues, an increase of $629 from gross profit of $2,650, or 35.7% of revenues, for the first quarter of 2012. The 550 basis points increase in gross margin as a percentage of revenue during 2013 is primarily due to higher manufacturing volumes and shipments of amplifiers, as well as, continued productivity improvements in line with our Lean initiatives.

Operating Expenses. Total operating expenses for the three-month period ended March 31, 2013 totaled $6,004, a decrease of $1,878 or 23.8% from the $7,882 recorded during the three-month period ended April 1, 2012, resulting primarily from continued actions to reduce general and administrative expenses, and focused spending in the development of new products.

Overall, operating expenses as a percentage of revenues was essentially flat at 28.6% during the three-month period ended March 31, 2013 when compared to 28.7% in the three-month period ended April 1, 2012. Amortization expense associated with intangible assets related to our acquisitions was $101 for the first quarter of 2013 ($45 in selling, general and administrative expenses and $56 in research and development costs), compared with $125 for the first quarter of 2012 ($60 in selling, general, and administrative expenses and $65 in research and development costs). Research and development costs were $1,369 for the three-month period ended March 31, 2013, a decrease of $770, or 36.0%, from $2,139 for the three-month ended April 1, 2012, as we focused our spending on the development of new products with the highest estimated return on investment. Selling, general, and administrative expenses decreased $1,108, or 19.3%, to $4,635 during the first quarter of 2013 from $5,743 during the first quarter of 2012, reflecting continued actions to reduce discretionary general and administrative expenses and lower sales commissions earned.

Other Income (Expense). Other income (expense) totaled $(113) for the three-month period ended March 31, 2013 compared to $(51) for the three-month period ended April 1, 2012. Interest expense, net of interest income, decreased $15, to $88 for the first quarter of 2013 from $103 for the comparable period in 2012, as a result of lower average borrowings under our revolving credit facilities. Miscellaneous income (expense) amounted to $(25) for the first quarter of 2013 compared with income of $52 for the first quarter of 2012, primarily due to transactions impacted by changes in foreign currencies relative to the U.S. dollar.

Income Taxes. We reflected a tax provision of $98 for the first quarter of 2013 compared with a tax provision of $91 for the first quarter of 2012. The effective consolidated tax rate for the three-month periods ended March 31, 2013 and April 1, 2012 was:

	Three-Month Periods Ended	
	March 31, 2013	April 1, 2012
Income before Incomes Taxes (a)	$ 262	$ (1,340)
Total Income Tax Provision (b)	$ 98	$ 91
Effective Tax Rate (b/a)	37.4 %	6.8 %

See Note 8 in the Notes to Condensed Consolidated Financial Statements for additional information regarding our income taxes.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred in 2005 and 2006. As such, the domestic net operating loss (“NOL”) carryforward will be subject to an annual limitation estimated to be in the range of approximately $12,000 to $14,500. The unused portion of the annual limitation can be carried forward to subsequent periods. Our ability to utilize NOL carryforwards due to successive ownership changes is currently limited to a minimum of approximately $12,000 annually, plus the carryover from unused portions of the annual limitations. We believe such limitation will not impact our ability to realize the deferred tax asset.

In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. This limitation did not have an impact on income taxes determined for the first quarters of 2012 and 2011. The use of our U.K. NOL carryforwards may be limited due to the change in the U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center.

Discontinued Operations. Income from discontinued operations, net of tax, totaled $264 for the first quarter of 2013, compared to a loss of $71 for the first quarter of 2012. The income realized in the first quarter of 2013 was primarily

related to the final settlement of the obligation to return the company's former UK facility back to its original condition per a previous contractual commitment. The first quarter of 2012 loss includes operating results and costs related to our previously announced divestiture of our RedBlack Communication business and our exit from the Energy Services business which was completed in the second quarter of 2011. For more information, see Note 2 to the Condensed Consolidated Financial Statements.

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Net Income (Loss) Attributable to Ultralife. Net income attributable to Ultralife and income attributable to Ultralife common shareholders per diluted share was $434 and $0.02, respectively, for the three months ended March 31, 2013, compared to a net loss attributable to Ultralife and loss attributable to Ultralife common shareholders per diluted share of $1,502 and $0.09, respectively, for the three months ended April 1, 2012. Average common shares outstanding used to compute diluted earnings per share increased from 17,358,000 in the first quarter of 2012 to 17,478,000 in the first quarter of 2013, mainly due to stock option exercises and shares of common stock issued to our non-employee directors.

Adjusted EBITDA from continuing operations

In evaluating our business, we consider and use Adjusted EBITDA from continuing operations, a non-GAAP financial measure, as a supplemental measure of our operating performance. We define Adjusted EBITDA from continuing operations as net income (loss) attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, plus/minus expenses/income that we do not consider reflective of our ongoing continuing operations. We use Adjusted EBITDA from continuing operations as a supplemental measure to review and assess our operating performance and to enhance comparability between periods. We also believe the use of Adjusted EBITDA from continuing operations facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in such items as capital structures (affecting relative interest expense and stock-based compensation expense), the book amortization of intangible assets (affecting relative amortization expense), the age and book value of facilities and equipment (affecting relative depreciation expense) and other significant non-operating expenses or income. We also present Adjusted EBITDA from continuing operations because we believe it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. We reconcile Adjusted EBITDA from continuing operations to net income (loss) attributable to Ultralife, the most comparable financial measure under U.S. generally accepted accounting principles ("U.S. GAAP").

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

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

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

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

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

- although discontinued operations does not reflect our current business operations, discontinued operations includes the costs we incurred by exiting our Energy Services and certain of our U.K. businesses and divesting our RedBlack Communications business; and

- other companies may calculate Adjusted EBITDA from continuing operations differently than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA from continuing operations only supplementally. Adjusted EBITDA from continuing operations is calculated as follows for the periods presented:

	Three-Month Periods Ended	
	March 31, 2013	April 1, 2012
Net income (loss) attributable to Ultralife	$ 434	$ (1,502)
Add: interest expense, net	88	103
Add: income tax provision	98	91
Add: depreciation expense	830	836
Add: amortization expense	101	125
Add: stock-based compensation expense	190	341
Add (Less): loss (gain) from discontinued operations	(264)	71
Adjusted EBITDA		