

PERFORMANCE TECHNOLOGIES INC \DE\  
Form 10-Q  
August 07, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarter Ended June 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

**Commission File Number 0-27460**

PERFORMANCE TECHNOLOGIES,  
INCORPORATED  
(Exact name of registrant as specified in its charter)

**Delaware**

**16-1158413**

(State or other jurisdiction of incorporation) (I.R.S. Employer Identification No.)

**140 Canal View Blvd., Rochester, New York 14623**

(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code: (585) 256-0200**

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

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

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

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

The number of shares outstanding of the registrant's common stock was 11,116,397 as of July 31, 2012.

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**PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES**

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PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (unaudited)

## ASSETS

	<b>June 30, 2012</b>	December 31, 2011
Current assets:		
Cash and cash equivalents	\$7,993,000	\$9,641,000
Investments	5,536,000	2,798,000
Accounts receivable, net	4,303,000	5,622,000
Inventories, net	4,965,000	5,421,000
Prepaid expenses and other assets	1,016,000	1,155,000
Prepaid income taxes	151,000	67,000
Total current assets	23,964,000	24,704,000
Investments	2,489,000	3,362,000
Property, equipment and improvements, net	1,828,000	1,891,000
Software development costs, net	4,265,000	3,932,000
Purchased intangible assets, net	4,058,000	4,390,000
Total assets	\$36,604,000	\$38,279,000

## LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$913,000	\$1,015,000
Accrued expenses	1,558,000	1,547,000
Deferred revenue	3,484,000	2,808,000
Fair value of foreign currency hedge contracts		46,000
Other payable		999,000
Total current liabilities	5,955,000	6,415,000
Deferred income taxes	89,000	83,000
Total liabilities	6,044,000	6,498,000
Stockholders' equity:		
Preferred stock - \$.01 par value: 1,000,000 shares authorized; none issued		
Common stock - \$.01 par value: 50,000,000 shares authorized; 13,304,596 shares issued; 11,116,397 shares outstanding	133,000	133,000
Additional paid-in capital	17,472,000	17,347,000
Retained earnings	22,772,000	24,237,000
Accumulated other comprehensive income (loss)	1,000	(118,000)

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Treasury stock - at cost; 2,188,199 shares	(9,818,000	)	(9,818,000	)
Total stockholders' equity	30,560,000		31,781,000	
Total liabilities and stockholders' equity	\$36,604,000		\$38,279,000	

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

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PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Sales	\$5,018,000	\$8,453,000	\$13,374,000	\$18,125,000
Cost of goods sold	2,944,000	4,786,000	6,741,000	9,965,000
Gross profit	2,074,000	3,667,000	6,633,000	8,160,000
Operating expenses:				
Selling and marketing	1,381,000	1,458,000	2,895,000	3,381,000
Research and development	1,506,000	1,569,000	3,128,000	3,749,000
General and administrative	1,017,000	1,117,000	2,142,000	2,609,000
Restructuring charges		60,000		182,000
Total operating expenses	3,904,000	4,204,000	8,165,000	9,921,000
Loss from operations	(1,830,000 )	(537,000 )	(1,532,000 )	(1,761,000 )
Other income (expense), net	29,000	15,000	(1,000 )	90,000
Loss before income taxes	(1,801,000 )	(522,000 )	(1,533,000 )	(1,671,000 )
Income tax benefit	(47,000 )	(70,000 )	(68,000 )	(121,000 )
Net loss	\$(1,754,000 )	\$(452,000 )	\$(1,465,000 )	\$(1,550,000 )
Basic loss per share	\$(.16 )	\$(.04 )	\$(.13 )	\$(.14 )
Weighted average number of common shares used in basic loss per share	11,116,397	11,116,397	11,116,397	11,116,397

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

Table of Contents**PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net loss	\$(1,754,000)	\$(452,000)	\$(1,465,000)	\$(1,550,000)
Other comprehensive income (loss), net of tax:				
Change in unrealized (loss) gain on foreign currency hedge contracts	9,000	(27,000 )	46,000	(27,000 )
Change in unrealized (loss) gain on available-for-sale investments	(6,000 )	10,000	73,000	(1,000 )
Other comprehensive income (loss)	3,000	(17,000 )	119,000	(28,000 )
Comprehensive loss	\$(1,751,000)	\$(469,000)	\$(1,346,000)	\$(1,578,000)

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





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	Six Months Ended	
	June 30,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$(1,465,000)	\$(1,550,000)
Non-cash adjustments:		
Depreciation and amortization	1,329,000	1,384,000
Amortization of purchased intangible assets	589,000	532,000
Stock-based compensation expense	125,000	168,000
Revenue from non-monetary exchange	(257,000)	)
Loss on disposal of property, equipment and improvements		28,000
Realized loss on sale of investment		5,000
Non-cash interest expense	1,000	13,000
Deferred income taxes	6,000	
Changes in operating assets and liabilities:		
Accounts receivable	1,319,000	(93,000)
Inventories	456,000	1,242,000
Prepaid expenses and other assets	139,000	(573,000)
Accounts payable and accrued expenses	(91,000)	(2,728,000)
Deferred revenue	676,000	1,962,000
Income taxes payable and prepaid income taxes	(84,000)	(148,000)
Net cash provided by operating activities	2,743,000	242,000
Cash flows from investing activities:		
Purchase of equipment, inventory and intangible assets		(4,377,000)
Purchases of property, equipment and improvements	(279,000)	(215,000)
Payment to Genband	(1,000,000)	
Capitalized software development costs	(1,170,000)	(1,171,000)
Proceeds from sales and maturities of investments	1,053,000	3,943,000
Purchases of investments	(2,995,000)	
Proceeds from sales of property, equipment and improvements		4,000
Net cash used by investing activities	(4,391,000)	(1,816,000)
Net decrease in cash and cash equivalents	(1,648,000)	(1,574,000)
Cash and cash equivalents at beginning of period	9,641,000	12,796,000
Cash and cash equivalents at end of period	\$7,993,000	\$11,222,000

Supplemental Disclosure of Cash Flow Information:

Other payable incurred for the purchase of assets	\$986,000
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The accompanying notes are an integral part of these consolidated financial statements.

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**PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note A – Basis of Presentation and Changes in Significant Accounting Policies**

The interim unaudited Consolidated Financial Statements of Performance Technologies, Incorporated and Subsidiaries (collectively “PT” or “the Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information (“GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results for the interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company as of December 31, 2011, as reported in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Our preparation of the interim unaudited Consolidated Financial Statements of PT requires us to make estimates and assumptions that affect the amounts in those financial statements and accompanying notes. Actual results could differ from these estimates.

**Recent Accounting Pronouncements**

Comprehensive Income:

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income that eliminates the option to present the components of other comprehensive income as part of the statement of equity and requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance became effective as of January 1, 2012 for the Company. The guidance requires changes in financial statement presentation only and has no impact on the Company's financial position or results of operations. The Company has chosen the two-statement approach, and the Statement of Comprehensive Income is presented on page 5.

Fair Value Measurement and Disclosures:

In May 2011, the FASB issued authoritative guidance that amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The Company has adopted this guidance as of January 1, 2012.

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Investments are stated at fair value and consisted of the following:

	June 30, 2012		December 31, 2011	
	Amortized cost	Fair value	Amortized cost	Fair value
Corporate bonds	\$5,822,000	\$5,823,000	\$4,328,000	\$4,260,000
Municipal bonds	1,502,000	1,502,000	504,000	500,000
Guaranteed investment certificates	700,000	700,000	1,400,000	1,400,000
Total investments	8,024,000	8,025,000	6,232,000	6,160,000
Less: current investments	(5,531,000)	(5,536,000)	(2,849,000)	(2,798,000)
Non-current investments	\$2,493,000	\$2,489,000	\$3,383,000	\$3,362,000

The Company's bond investments have a cumulative par value of \$7,898,000 at June 30, 2012.

**Note C – Inventories, net**

Inventories consisted of the following: