

MECHANICAL TECHNOLOGY INC
Form 10-Q
August 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2013

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Mechanical Technology, Incorporated

(Exact name of registrant as specified in its charter)

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New York

(State or Other Jurisdiction

of Incorporation)

0-6890

(Commission File Number)

14-1462255

(IRS Employer

Identification No.)

325 Washington Avenue Extension, Albany, New York 12205

(Address of registrant's principal executive office)

(518) 218-2550

(Registrant's telephone number, including area code)

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 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, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

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

The number of shares of common stock, par value of \$0.01 per share, outstanding as of August 1, 2013 was 5,256,883.

MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****Mechanical Technology, Incorporated and Subsidiaries****Condensed Consolidated Balance Sheets as of June 30, 2013 (Unaudited) and December 31, 2012**

(Dollars in thousands, except per share)

	June 30, 2013	December 31, 2012
Assets		
Current Assets:		
Cash	\$ 835	\$ 289
Accounts receivable	1,092	1,674
Inventories	839	1,118
Deferred income taxes, net	16	16
Prepaid expenses and other current assets	90	100
Total Current Assets	2,872	3,197
Deferred income taxes, net	1,363	1,519
Property, plant and equipment, net	124	129
Total Assets	\$ 4,359	\$ 4,845
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$ 246	\$ 208
Accrued liabilities	939	1,048
Deferred revenue		591
Total Current Liabilities	1,185	1,847

Commitments and Contingencies (Note 11)**Equity:**

Common stock, par value \$0.01 per share,
authorized 75,000,000; 6,261,975 issued in both
2013 and 2012

	63		63	
Additional paid-in capital	135,585		135,561	
Accumulated deficit	(121,997)	(122,183)
	(13,754)	(13,754)

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Common stock in treasury, at cost, 1,005,092 shares
in both 2013 and 2012

Total MTI stockholders' deficit	(103)	(313)
Non-controlling interest	3,277	3,311
Total Equity	3,174	2,998
Total Liabilities and Equity	\$ 4,359	\$ 4,845

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

Mechanical Technology, Incorporated and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the Three and Six Months Ended June 30, 2013 and 2012

(Dollars in thousands, except per share)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Product revenue	\$ 2,267	\$ 1,366	\$ 4,467	\$ 2,570
Operating costs and expenses:				
Cost of product revenue	801	740	1,776	1,318
Unfunded research and product development expenses	307	337	647	710
Selling, general and administrative expenses	927	978	1,746	2,070
Operating income (loss)	232	(689)	298	(1,528)
Other income, net	9	180	9	183
Income (loss) before income taxes and non-controlling interest	241	(509)	307	(1,345)
Income tax expense	(156)		(155)	
Net income (loss)	85	(509)	152	(1,345)
Plus: Net loss (income) attributed to non-controlling interest	15	(61)	34	(46)
Net income (loss) attributed to MTI	\$ 100	\$ (570)	\$ 186	\$ (1,391)
Income (loss) per share attributable to MTI (Basic)	\$.02	\$ (.11)	\$.04	\$ (.26)
Income (loss) per share attributable to MTI (Diluted)	\$.02	\$ (.11)	\$.04	\$ (.26)
Weighted average shares outstanding (Basic)	5,256,883	5,256,246	5,256,883	5,255,564
Weighted average shares outstanding (Diluted)	5,258,901	5,256,246	5,256,883	5,255,564

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

MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Equity
For the Year Ended December 31, 2012
and the Six Months Ended June 30, 2013 (Unaudited)

	Common Stock				Treasury Stock		Non-Controlling Interest (NCI)		Total
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Shares	Amount	Total MTI Stockholders Equity (Deficit)		
January 1, 2012	6,259,975	\$ 63	\$ 135,389	\$ (120,097)	1,005,092	\$ (13,754)	\$ 1,601	\$ 3,314	\$ 4,915
Net loss attributed to MTI	-	-	-	(2,086)	-	-	(2,086)	-	(2,086)
Stock based compensation	-	-	171	-	-	-	171	-	171
Issuance of shares common stock	2,000	-	1	-	-	-	1	-	1
Net loss attributed to NCI	-	-	-	-	-	-	-	(3)	(3)
December 31, 2012	6,261,975	\$ 63	\$ 135,561	\$ (122,183)	1,005,092	\$ (13,754)	\$ (313)	\$ 3,311	\$ 2,998
Net income attributed to MTI	-	-	-	186	-	-	186	-	186
Stock based compensation	-	-	24	-	-	-	24	-	24
Net loss attributed to NCI	-	-	-	-	-	-	-	(34)	(34)
June 30, 2013	6,261,975	\$ 63	\$ 135,585	\$ (121,997)	1,005,092	\$ (13,754)	\$ (103)	\$ 3,277	\$ 3,174

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

MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the Six Months Ended June 30, 2013 and 2012

(Dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
Operating Activities		
Net income (loss)	\$ 152	\$(1,345)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	46	73
Gain on disposal of equipment	(9)	(130)
Deferred income taxes	156	
Stock based compensation	24	113
Provision for excess and obsolete inventories	(16)	68
Changes in operating assets and liabilities:		
Accounts receivable	582	1,231
Inventories	295	(280)
Prepaid expenses and other current assets	10	20
Accounts payable	38	116
Deferred revenue	(591)	
Accrued liabilities	(109)	(172)
Net cash provided by (used in) operating activities	578	(306)
Investing Activities		
Purchases of equipment	(41)	(10)
Proceeds from sale of equipment	9	91
Net cash (used in) provided by investing activities	(32)	81
Increase (decrease) in cash	546	(225)
Cash beginning of period	289	1,669
Cash end of period	\$ 835	\$ 1,444

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

MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Nature of Operations

Description of Business

Mechanical Technology, Incorporated (MTI or the Company), a New York corporation, was incorporated in 1961. MTI operates in two segments, the Test and Measurement Instrumentation segment, which is conducted through MTI Instruments, Incorporated (MTI Instruments), a wholly-owned subsidiary, and the New Energy segment, which is conducted through MTI MicroFuel Cells Incorporated (MTI Micro), a variable interest entity (VIE) that is included in these condensed consolidated financial statements and described further below in Note 2.

MTI Instruments was incorporated in New York on March 8, 2000 and is a worldwide supplier of precision non-contact physical measurement solutions, portable vibration measurement and balancing systems, wafer inspection tools and precision contact measurement of material tensile strength. MTI Instruments uses a comprehensive array of technologies to solve complex, real world applications in numerous industries including industrial manufacturing, semiconductor, solar, commercial and military aviation, automotive and research and development centers. MTI Instruments' products consist of electronic gauging instruments for position, displacement, vibration applications within the research, design, test, manufacturing/production processes; wafer characterization of semi-insulating and semi-conducting wafers, both in the semiconductor and solar industries; tensile stage systems for materials testing at academic and industrial settings; and engine vibration analysis systems for both military and commercial aircraft as well as industrial power engines.

MTI Micro was incorporated in Delaware on March 26, 2001, and, until its operations were suspended in late 2011, had been developing Mobion®, a handheld energy-generating device to replace current lithium-ion and similar rechargeable battery systems in many handheld electronic devices for the military and consumer markets. Although MTI Micro continues to believe in the potential of its Mobion® based power solutions, operations continue to remain suspended at MTI Micro until such time as market demand and other deciding factors, including obtaining additional external financing, the successful completion of customer trials, a new development program with a government agency, and/or a customer order, come to fruition. MTI Micro will continue to seek additional capital from external sources to resume operations and fund future development, as warranted. If MTI Micro is unable to secure additional financing, a new development program or customer order, the MTI Micro Board of Directors will assess other options for MTI Micro, including the sale of its intellectual property portfolio and/or remaining assets. As of June 30, 2013, the Company owned approximately 47.6% of MTI Micro's outstanding common stock.

Liquidity

The Company has incurred significant losses primarily due to its past efforts to fund MTI Micro's direct methanol fuel cell product development and commercialization programs, and has an accumulated deficit of approximately \$122.0 million and working capital of approximately \$1.7 million at June 30, 2013.

The Company restructured the operations of the Company during the second half of 2012, which included the departure of its then CEO, staffing adjustments to its MTI Instrument's sales force and reduction in MTI Instrument's production and development personnel. This restructuring is expected to yield cash flow savings of approximately \$1.0 million annually.

Based on the Company's projected cash requirements for operations and capital expenditures for 2013, its current available cash of \$784 thousand (excluding MTI Micro available cash), current cash flow requirements and revenue and expense projections, management believes it will have adequate resources to fund its active operations and capital expenditures for at least the next twelve months.

However, the Company may need to do one or more of the following to raise additional resources, or reduce its cash requirements:

- 1) Reduce its current expenditure run rate;
- 2) Defer its capital expenditures;
- 3) Defer its hiring plans; and
- 4) Secure additional debt or equity financing.

There is no guarantee that such resources will be available to the Company on terms acceptable to it, or at all, or that such resources will be received in a timely manner, if at all, or that the Company will be able to reduce its expenditure run-rate, defer its capital expenditures or hiring plans without materially and adversely affecting its business.

The Company suspended operations at MTI Micro in late 2011 and, as of June 30, 2013, MTI Micro's available cash is approximately \$51 thousand.

2. Basis of Presentation

In the opinion of management, the Company's condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair statement of the results for the periods presented in accordance with United States of America Generally Accepted Accounting Principles (U.S. GAAP) and with the instructions to Form 10-Q in Article 10 of the Securities and Exchange Commission's (SEC) Regulation S-X. The results of operations for the interim periods presented are not necessarily indicative of results for the full year.

Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

The information presented in the accompanying condensed consolidated balance sheet as of December 31, 2012 has been derived from the Company's audited consolidated financial statements. All other information has been derived from the Company's unaudited condensed consolidated financial statements for the three and six months ended June 30, 2013 and June 30, 2012.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, MTI Instruments and its VIE, MTI Micro. The Company is the primary beneficiary of the VIE. All inter-company balances and transactions are eliminated in consolidation. The Company reflects the impact of the equity securities issuances in its investment in a VIE and additional paid-in-capital accounts for the dilution or anti-dilution of its ownership interest in the VIE.

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The Company has performed an analysis under the VIE model and determined that MTI Micro is a VIE. One of the criteria for determining whether an entity is a VIE is determining if the entity, MTI Micro, has equity at risk. Management has concluded that MTI Micro does not have equity at risk to fund operations into its next phase of development. Further, the Company has determined that it is the primary beneficiary of MTI Micro, and therefore should include MTI Micro's results of operations in the Company's consolidated financial statements.

The Company's analysis to determine the primary beneficiary of MTI Micro focused primarily on determining which variable interest holder has the power to direct the activities that would have the most significant impact on the financial performance of MTI Micro. MTI Micro is governed by its own board of directors and significant decisions are determined by a majority vote of this board. MTI does not have control of the MTI Micro board of directors; however, at this time, the Company's board of directors and the MTI Micro board of directors consist of the same members. Under the Articles of Incorporation of MTI Micro, each share of MTI Micro stock is entitled to a vote, and further, holders of a majority of the shares of MTI Micro's common stock have the ability to reconstitute the board. As of June 30, 2013, MTI, Counter Point Ventures Fund II, LP (Counter Point) and Dr. Walter L. Robb, a member of the Company's and MTI Micro's board of directors own 47.6%, 45.2% and 5.1% of the common shares of MTI Micro, respectively. Counter Point is a venture capital fund sponsored and managed by Dr. Robb. Since no entity of the related parties has power but, as a group, the Company and its related parties have the power, then the party within the related party group that is most closely associated with the VIE, MTI Micro, is the primary beneficiary. Even though Dr. Robb and Counterpoint combined control a majority of the outstanding common stock, and they have the ability to elect the directors of MTI Micro and decide whether to continue to seek business opportunities for MTI Micro or instead seek opportunities to sell the intellectual property, they have not elected to do so. The Company continues to oversee the day to day operations, exercise management decision making, seek opportunities to sell intellectual property, and has a vested interest in the commercialization of MTI Micro's fuel cell technology. Since inception in 2001, the Company has made the largest investment and been the principal funder of MTI Micro. The Company has also been exposed to losses and has the ability to benefit from MTI Micro. Considering the facts and circumstances, management believes the Company is most closely associated with the VIE, MTI Micro, and therefore, it is the primary beneficiary.

Should there be a change in the facts and circumstances (such as undertaking additional activities, a change in governance or a change to the related party group) in the future, management will reassess whether the Company remains the primary beneficiary and should continue to consolidate MTI Micro in the Company's consolidated financial statements.

Non-controlling interests (NCI) are classified as equity in the consolidated financial statements. The consolidated statement of operations presents net income (loss) for both the Company and the non-controlling interests. The calculation of earnings per share is based on net income (loss) attributable to the Company.

3. Accounts Receivable

Accounts receivables consist of the following at:

(Dollars in thousands)	June 30, 2013	December 31, 2012
U.S. and State Government	\$ 203	\$ 874
Commercial	889	800
Total	\$ 1,092	\$ 1,674

For the six months ended June 30, 2013 and 2012, the largest commercial customer represented 8.4% and 9.6%, respectively, and a U.S. governmental agency represented 31.7% and 14.7%, respectively, of the Company's Test and Measurement Instrumentation segment product revenue. As of June 30, 2013 and December 31, 2012, the largest commercial customer represented 7.9% and 9.7%, respectively, and a U.S. governmental agency represented 15.8% and 51.3%, respectively, of the Company's Test and Measurement Instrumentation segment accounts receivable.

As of June 30, 2013 and December 31, 2012, there were no outstanding receivables for the New Energy segment.

As of June 30, 2013 and December 31, 2012, the Company had no allowance for doubtful trade accounts receivable.

4. Inventories

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Inventories consist of the following at:

(Dollars in thousands)	June 30, 2013	December 31, 2012
Finished goods	\$ 265	\$ 265
Work in process	225	482
Raw materials	349	371
Total	\$ 839	\$ 1,118

5. Property, Plant and Equipment

Property, plant and equipment consist of the following at:

(Dollars in thousands)	June 30, 2013	December 31, 2012
Leasehold improvements	\$954	\$ 954
Computers and related software	1,749	1,709
Machinery and equipment	1,383	1,390
Office furniture and fixtures	270	271
	4,356	4,324
Less: Accumulated depreciation	4,232	4,195
	\$124	\$ 129

Depreciation expense was \$46 thousand and \$129 thousand for the six months ended June 30, 2013 and the year ended December 31, 2012, respectively. In conjunction with the suspension of MTI Micro operations in late 2011, sales of certain surplus equipment on hand were made during 2013 and 2012. This resulted in a net gain on sale of \$9 thousand and \$130 thousand for the six months ended June 30, 2013 and 2012. As of June 30, 2013 and December 31, 2012, all \$9 thousand and \$143 thousand, respectively in sales proceeds have been received.

6. Income Taxes

During the three months ended June 30, 2013, the Company's effective income tax rate was 64.7%. The projected annual effective tax rate is more than the Federal statutory rate of 35%, primarily due to permanent differences, the change in the valuation allowance and changes to estimated taxable income for 2013. For the three months ended June 30, 2012, the Company's effective income tax rate was 0%.

During the six months ended June 30, 2013, the Company's effective income tax rate was 50.6%. The projected annual effective tax rate is more than the Federal statutory rate of 35%, primarily due to permanent differences and the change in the valuation allowance. For the six months ended June 30, 2012, the Company's effective income tax rate was 0%.

The Company provides for recognition of deferred tax assets if the realization of such assets is more likely than not to occur in accordance with accounting standards that address income taxes. Significant management judgment is required in determining the period in which the reversal of a valuation allowance should occur. The Company has considered all available evidence, both positive and negative, such as historical levels of income and future forecasts of taxable income amongst other items, in determining our valuation allowance. In addition, the Company's assessment requires us to schedule future taxable income in accordance with accounting standards that address income taxes to assess the appropriateness of a valuation allowance which further requires the exercise of significant management judgment.

The Company released a portion of our valuation allowance against its deferred tax assets causing an incremental tax benefit of \$1.5 million that was recognized in the fourth quarter of 2011. The release of a portion of the valuation allowance was based upon a recent cumulative income history for MTI and its subsidiary exclusive of MTI Micro (MTI Micro files separate federal and state tax returns) causing the Company to evaluate what portion of the Company's deferred tax assets it believes are more likely than not to be realized. The Company has recognized a deferred tax expense of \$156 thousand for the second quarter of 2013, which represents the anticipated use of net operating losses to offset current tax liabilities due to the Company being in a net earnings position. The Company has determined that it continues to expect to generate sufficient levels of pre-tax earnings in the future to realize the remaining net deferred tax assets recorded on the balance sheet at June 30, 2013. The Company has projected such pre-tax earnings utilizing a combination of historical and projected results, taking into consideration existing levels of permanent differences, non-deductible expense and the reversal of significant temporary differences. The Company needs to generate approximately \$225 thousand of taxable income in each year over the next twenty years to ensure the realizability of the approximately \$1.4 million of deferred tax assets recorded on the condensed consolidated balance sheet at June 30, 2013.

The Company believes that the accounting estimate for the valuation of deferred tax assets is a critical accounting estimate, because judgment is required in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns. The Company based the estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, the Company may need to adjust the recorded valuation allowance, which could materially impact our financial position and results of operations. The valuation allowance was \$17.8 million at June 30, 2013 and December 31, 2012. The Company will continue to evaluate the ability to realize its deferred tax assets and related valuation allowances on a quarterly basis.

7. Stockholders' Equity

Common Stock

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The Company has one class of common stock, par value \$.01. Each share of the Company's common stock is entitled to one vote on all matters submitted to stockholders. As of June 30, 2013 and December 31, 2012, there were 5,256,883 shares of common stock issued and outstanding.

Changes in common shares issued and treasury stock outstanding are as follows:

	Six Months Ended	Year Ended
	June 30, 2013	December 31, 2012
Common Shares		
Balance, beginning	6,261,975	6,259,975
Issuance of shares for common stock grants		2,000
Balance, ending	6,261,975	6,261,975
Treasury Stock		
Balance, beginning	1,005,092	1,005,092
Balance, ending	1,005,092	1,005,092

Reservation of Shares

The Company had reserved common shares for future issuance as follows as of June 30, 2013:

Stock options outstanding	464,256
Common stock available for future equity awards or issuance of options	262,500
Number of common shares reserved	726,756

Earnings (Loss) per Share

The Company computes basic income (loss) per common share by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted income (loss) per share reflects the potential dilution, if any, computed by dividing income (loss) by the combination of dilutive common share equivalents, comprised of shares issuable under outstanding investment rights, warrants and the Company's share-based compensation plans, and the weighted average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money stock options, which are calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of a stock option, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the amount of windfall tax benefits that would be recorded in additional paid-in capital, if any, when the stock option is exercised are assumed to be used to repurchase shares in the current period.

Not included in the computation of earnings per share, assuming dilution, for the three and six months ended June 30, 2013, were options to purchase 454,256 and 464,256 shares, respectively of the Company's common stock. These potentially dilutive items were excluded even though the average market price of the common stock exceeded the exercise prices for a portion of the options because the calculation of incremental shares resulted in an anti-dilutive effect.

Not included in the computation of loss per share, assuming dilution, for the three and six months ended June 30, 2012, were options to purchase 412,555 shares of the Company's common stock. These potentially dilutive items were excluded because the Company incurred a loss for this period and their inclusion would be anti-dilutive.

8. Issuance of Common Stock, Warrants and Stock Options by MTI Micro

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As of June 30, 2013, the Company owned approximately 47.6% of MTI Micro's outstanding common stock, or 75,049,937 shares, and 53.3% of common stock and warrants issued, which includes 32,904,136 outstanding warrants. The number of shares of MTI Micro common stock authorized for issuance is 240,000,000 as of June 30, 2013.

Common Stock MTI Micro

The following table represents changes in ownership between the Company and non-controlling interests (NCI) in common shares of MTI Micro:

		MTI		Non Controlling Interest (NCI)		
	Average		Ownership		Ownership	Total
	Price	Shares	%	Shares	%	Shares
Balance at 12/31/12	\$0.07	75,049,937	47.61	82,573,107	52.39	157,623,044
Balance at 6/30/13	\$0.07	75,049,937	47.61	82,573,107	52.39	157,623,044

Warrants Issued MTI Micro

On December 9, 2009, MTI Micro issued warrants to the then current shareholders of MTI Micro, including the Company, without consideration, to purchase 32,779,310 shares of MTI Micro Common Stock at an exercise price of \$0.07 per share. The warrants became exercisable on December 9, 2010 and expire on December 8, 2017. The warrants have been accounted for as an equity distribution of \$2.0 million, including warrants to the Company with a value of \$2.0 million, which were eliminated in consolidation.

On December 9, 2009, MTI Micro issued warrants to the Bridge Investors of MTI Micro, including the Company, to purchase 5,081,237 shares of MTI Micro Common Stock at an exercise price of \$0.07 per share. The MTI Micro Warrants became exercisable on December 9, 2009 and will expire on the earlier of: (i) April 15, 2014; (ii) immediately prior to a change in control; or (iii) immediately prior to an initial public offering of MTI Micro. The MTI Micro Warrants were issued without consideration and were accounted for as equity and a loss on extinguishment of debt was recorded in the amount of \$289 thousand, including warrants to the Company with a value of \$57 thousand, which were eliminated in consolidation.

Under the Purchase Agreement entered into on January 11, 2010, MTI Micro issued 5,714,286 MTI Micro Warrants to Counter Point to purchase shares of MTI Micro Common Stock at an exercise price of \$0.07 per share. The MTI Micro Warrants became exercisable on the date of issuance and will expire on the earlier of: (a) the five (5) year anniversary of the Date of Issuance of the Warrant; (b) immediately prior to a change in control; or (c) the closing of a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act. The MTI Micro Warrants were accounted for as equity.

Under Amendment No. 1 entered into on February 9, 2011, MTI Micro issued 1,285,715 MTI Micro Warrants to Counter Point to purchase shares of MTI Micro Common Stock at an exercise price of \$0.07 per share. The MTI Micro Warrants became exercisable on the date of issuance and will expire on the earlier of: (a) the five (5) year anniversary of the Date of Issuance of the Warrant; (b) immediately prior to a change in control; or (c) the closing of a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act. The MTI Micro Warrants were accounted for as equity.

Under Amendment No. 2 entered into on September 23, 2011, MTI Micro issued 240,000 MTI Micro Warrants to Counter Point to purchase shares of MTI Micro Common Stock at an exercise price of \$0.07 per share. The MTI Micro Warrants became exercisable on the date of issuance and will expire on the earlier of: (a) the five (5) year anniversary of the Date of Issuance of the Warrant; (b) immediately prior to a change in control; or (c) the closing of a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act. The MTI Micro Warrants were accounted for as equity.

Reservation of Shares MTI Micro

MTI Micro has reserved common shares for future issuance, broken down between the Company and NCI, as follows as of June 30, 2013:

	MTI	NCI	Total
Stock options outstanding		1,140,240	1,140,240
Warrants outstanding	32,904,136	12,196,411	45,100,547
Number of shares reserved for outstanding options and warrants	32,904,136	13,336,651	46,240,787

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During the six months ended June 30, 2013, there were 389,800 option cancellations. MTI Micro has 36,861,760 stock options available for issuance as of June 30, 2013.

As of June 30, 2013, the Company owned an aggregate of approximately 47.6% of the outstanding shares of MTI Micro or 53.3% of the outstanding common stock and warrants issued of MTI Micro, and Counter Point and Dr. Robb owned approximately 45.2% and 5.1%, respectively of the outstanding shares of MTI Micro or 40.3% and 4.3%, respectively of the outstanding common stock and warrants issued of MTI Micro.

9. Fair Value Measurement

The Company performs a detailed analysis of financial assets and liabilities in determining the appropriate levels of classification. At each reporting period, all assets and liabilities for which the fair value measurements are based upon significant unobservable inputs are classified as Level 3. The Company had no Level 1, Level 2 or Level 3 assets and liabilities as of June 30, 2013 and December 31, 2012.

10. Segment Information

The Company operates in two business segments, Test and Measurement Instrumentation and New Energy. The Test and Measurement Instrumentation segment designs, manufactures, markets and services high performance test and measurement instruments and systems, wafer characterization tools for the semiconductor and solar industries, tensile stage systems for materials testing at academic and industrial settings, and computer-based balancing systems for aircraft and industrial power engines. The New Energy segment is focused on commercializing direct methanol fuel cells. The Company's principal operations are located in North America.

The accounting policies of the Test and Measurement Instrumentation and New Energy segments are similar to those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K (Note 2). The Company evaluates performance based on profit or loss from operations before income taxes. Inter-segment sales and expenses are not significant.

Summarized financial information concerning the Company's reportable segments is shown in the following tables. The "Other" column includes corporate related items and items such as income taxes or unusual items, which are not allocated to reportable segments. The "Reconciling Items" column includes non-controlling interests in a consolidated entity. In addition, segments' non-cash items include any depreciation in reported profit or loss. The New Energy segment figures include the Company's direct micro fuel cell operations. As a result of the suspension of the MTI Micro operations in late 2011, the New Energy segment will continue to be included in these tables as long as they remain in our consolidated operations.

(Dollars in thousands)

	Test and Measurement Instrumentation	New Energy	Other	Reconciling Items	Condensed Consolidated Totals
<u>Three Months Ended June 30, 2013</u>					
Product revenue	\$ 2,267	\$	\$	\$	\$ 2,267
Unfunded research and product development expenses	307				307
Selling, general and administrative expenses	501	17	409		927
Segment profit (loss) from operations before non-controlling interest	499	(28)	(386)		85
Segment profit (loss)	499	(28)	(386)	15	100
Total assets	1,985	53	2,321		4,359
Capital expenditures					
Depreciation	20	1	1		22

(Dollars in thousands)

	Test and Measurement Instrumentation	New Energy	Other	Reconciling Items	Condensed Consolidated Totals
<u>Three Months Ended June 30, 2012</u>					
Product revenue	\$ 1,366	\$	\$	\$	\$ 1,366
Unfunded research and product development expenses	337				337
Selling, general and administrative expenses	433	60	485		978
Segment (loss) profit from operations before non-controlling interest	(345 )	) 116	(280)		(509)
Segment (loss) profit	(345 )	) 116	(280)	(61)	(570)
Total assets	1,984	199	2,931		5,114
Capital expenditures	7				7
Depreciation	24	10			34

(Dollars in thousands)

New Other

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	Test and Measurement Instrumentation	Energy	Reconciling Items	Condensed Consolidated Totals
<u>Six Months Ended June 30, 2013</u>				
Product revenue	\$ 4,467	\$	\$	\$ 4,467
Unfunded research and product development expenses	647			647
Selling, general and administrative expenses	1,010	41	695	1,746
Segment profit (loss) from operations before non-controlling interest	753	(66)	(535)	152
Segment profit (loss)	753	(66)	(535) 34	186
Total assets	1,985	53	2,321	4,359
Capital expenditures	41			41
Depreciation	41	4	1	46

(Dollars in thousands)

	Test and Measurement Instrumentation	New Energy	Other	Reconciling Items	Condensed Consolidated Totals
<u>Six Months Ended June 30, 2012</u>					
Product revenue	\$ 2,570	\$	\$	\$	\$ 2,570
Unfunded research and product development expenses (income)	711	(1)			710
Selling, general and administrative expenses	951	96	1,023		2,070
Segment (loss) profit from operations before non-controlling interest	(823	) 88	(610)		(1,345)
Segment (loss) profit	(823	) 88	(610)	(46)	(1,391)
Total assets	1,984	199	2,931		5,114
Capital expenditures	10				10
Depreciation	49	24			73

The following table presents the details of Other segment loss:

(Dollars in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Corporate and other (expenses) income:				
Salaries and benefits	\$ (189)	\$ (260)	\$ (267)	\$ (612)
Income tax expense	(156)		(155)	
Other (expense) income, net	(41)	(20)	(113)	2
Total Other segment loss	\$ (386)	\$ (280)	\$ (535)	\$ (610)

11. Commitments and Contingencies

Commitments:

Leases

The Company and its subsidiary lease certain manufacturing, laboratory and office facilities. The leases generally provide for the Company to pay either an increase over a base year level for taxes, maintenance, insurance and other costs of the leased properties or the Company's allocated share of insurance, taxes, maintenance and other costs of leased properties. The leases contain renewal provisions.

Future minimum rental payments required under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) are (dollars in thousands): \$141 thousand remaining in 2013 and \$263 thousand in 2014.

Warranties

Product warranty liabilities are included in Accrued liabilities in the Condensed Consolidated Balance Sheets. Below is a reconciliation of changes in product warranty liabilities:

(Dollars in thousands)	Six Months Ended	
	June 30, 2013	2012
Balance, January 1	\$ 20	\$ 26
Accruals for warranties issued	14	6
Settlements made (in cash or in kind)	(9)	(4)
Balance, end of period	\$ 25	\$ 28

Licenses

MTI Micro has residual royalty agreements with NYSERDA in conjunction with two contracts from 2002 and 2010. With operations currently suspended at MTI Micro, these licensing agreements are currently immaterial, and there are no amounts accrued in the condensed consolidated balance sheets as of June 30, 2013 and December 31, 2012 related to these royalty provisions.

Employment Agreement

The Company has an employment agreement with one employee that provides certain payments upon termination of employment under certain circumstances, as defined in the applicable agreement. As of June 30, 2013, the Company's potential minimum obligation to this employee was approximately \$65 thousand.

Contingencies:

Legal

We are subject to legal proceedings, claims and liabilities which arise in the ordinary course of business. We accrue for losses associated with legal claims when such losses are probable and can be reasonably estimated. These accruals are adjusted as additional information becomes available or circumstances change. Legal fees are charged to expense as they are incurred.

12. Line of Credit

On September 20, 2011, MTI Instruments entered into a working capital line of credit with First Niagara Bank, N.A. Pursuant to the Demand Grid Note, MTI Instruments may borrow from time to time up to \$400 thousand to support its working capital needs. The note is payable upon demand, and the interest rate on the note is equal to the prime rate with a floor of 4.0% per annum. The note is secured by a lien on all of the assets of MTI Instruments and is guaranteed by the Company. The line of credit is subject to a review date of August 31, 2013. Under the line of credit, MTI Instruments is required to hold a line balance of \$0 for 30 consecutive days out during each consecutive year. As of June 30, 2013 and December 31, 2012, there were no amounts outstanding under the line of credit.

13. Stock Based Compensation

The Mechanical Technology Incorporated 2012 Equity Incentive Plan (the 2012 Plan) was adopted by the Company's Board of Directors on April 14, 2012 and approved by stockholders on June 14, 2012. The 2012 Plan provides an initial aggregate number of 600,000 shares of common stock which may be awarded or issued. The number of shares which may be awarded under the 2012 Plan and awards outstanding can be subject to adjustment on account of any recapitalization, reclassification, stock split, reverse stock split and other dilutive changes in Common Stock. Under the 2012 Plan, the Board of Directors is authorized to issue stock options (incentive and nonqualified), stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to employees, officers, directors, consultants and advisors of the Company and its subsidiaries. Incentive stock options may only be granted to employees of the Company and its subsidiaries.

During 2013, the Company granted 175,000 options to purchase the Company's common stock from the 2012 Plan, which generally vest 25% on each of the first four anniversaries of the date of the award. The exercise price of these grants was from \$0.46 to \$0.52 per share and was based on the closing market price of the Company's common stock on the dates of grant. Using a Black-Scholes Option Pricing Model, the weighted average fair value of these options was \$0.47 per share and was estimated at the date of grant.

During 2012, the Company granted 2,000 shares of the Company's common stock from the 2006 Plan, which immediately vested and the stock was issued to the holder. The shares were granted from the 2006 Plan before the 2012 Plan was approved by the shareholders. The fair value of this grant was \$0.31 per share and was based on the closing market price of the Company's common stock on the date of grant.

During 2012, the Company granted 224,500 options to purchase the Company's common stock from the 2012 Plan, which generally vest 25% on each of the first four anniversaries of the date of the award. The exercise price of these grants was \$0.29 per share and was based on the closing market price of the Company's common stock on the dates of grant. Using a Black-Scholes Option Pricing Model, the weighted average fair value of these options was \$0.27 per share and was estimated at the date of grant. During 2012, 62,000 options of the 2012 grants were cancelled before vesting occurred.

14. New Accounting Pronouncements

There are no recently issued accounting standards or standards with pending adoptions that the Company's management currently anticipates will have any material impact upon its financial statements.