

PERFORMANCE TECHNOLOGIES INC \DE\
Form 10-Q
November 09, 2007

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 September 30, 2007

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.)

205 Indigo Creek Drive, Rochester, New York

14626

(Address of principal executive offices)

(Zip Code)

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer: Large accelerated filer Accelerated filer Non-accelerated filer

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 outstanding of the registrant's common stock was 11,801,672 as of October 31, 2007.

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES**INDEX**

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PART I. FINANCIAL INFORMATION
ITEM 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

ASSETS

	September 30, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	\$14,417,000	\$10,518,000
Investments	18,625,000	24,675,000
Accounts receivable, net	6,864,000	9,561,000
Inventories	5,026,000	5,678,000
Prepaid income taxes	728,000	
Prepaid expenses and other assets	594,000	767,000
Deferred taxes	2,373,000	2,495,000
Total current assets	48,627,000	53,694,000
Property, equipment and improvements, net	2,136,000	2,213,000
Software development costs, net	3,106,000	3,185,000
Deferred taxes	973,000	1,026,000
Goodwill	4,143,000	4,143,000
Total assets	\$58,985,000	\$64,261,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 1,345,000	\$ 1,460,000
Accrued expenses	4,813,000	4,302,000
Income taxes payable		232,000
Total current liabilities	6,158,000	5,994,000
Income taxes payable	726,000	
Total liabilities	6,884,000	5,994,000
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 and 13,277,201 shares issued, 11,801,672 and 13,277,201 shares outstanding	133,000	133,000
Additional paid-in capital	15,324,000	14,699,000
Retained earnings	44,060,000	43,435,000
Treasury stock - at cost; 1,502,924 and no shares held at September 30, 2007 and December 31, 2006	(7,416,000)	
Total stockholders' equity	52,101,000	58,267,000
Total liabilities and stockholders' equity	\$58,985,000	\$64,261,000

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Sales	\$10,786,000	\$10,828,000	\$29,745,000	\$36,048,000
Cost of goods sold	4,682,000	5,615,000	13,923,000	17,715,000
Software capitalization write-offs in 2007 and non RoHS inventory charge in 2006	45,000		520,000	801,000
Gross profit	6,059,000	5,213,000	15,302,000	17,532,000
Operating expenses:				
Selling and marketing	1,676,000	1,581,000	4,952,000	4,404,000
Research and development	2,230,000	2,561,000	7,552,000	8,342,000
General and administrative	1,220,000	1,452,000	3,725,000	4,198,000
Restructuring charges	26,000	792,000	240,000	1,786,000
Total operating expenses	5,152,000	6,386,000	16,469,000	18,730,000
Income (loss) from operations	907,000	(1,173,000)	(1,167,000)	(1,198,000)
Note receivable recovery			143,000	
Other income, net	453,000	385,000	1,659,000	1,090,000
Income (loss) before income taxes	1,360,000	(788,000)	635,000	(108,000)
Income tax (benefit)	(331,000)	(408,000)	(8,000)	(346,000)
Net income (loss)	\$ 1,691,000	\$ (380,000)	\$ 643,000	\$ 238,000
Basic earnings (loss) per share	\$ 0.14	\$ (0.03)	\$ 0.05	\$ 0.02
Diluted earnings per share	\$ 0.13		\$ 0.05	\$ 0.02
Weighted average number of common shares used in basic earnings per share	12,505,870	13,252,012	12,857,418	13,178,107
Potential common shares	42,194		46,167	166,900
Weighted average number of common shares used in diluted earnings per share	12,548,064		12,903,585	13,345,007

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

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

	Nine Months Ended	
	September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 643,000	\$ 238,000
Non-cash adjustments:		
Depreciation and amortization	2,260,000	1,713,000
Tax benefit from stock option exercises	15,000	231,000
Stock-based compensation expense	499,000	482,000
Deferred income taxes	175,000	(223,000)
Loss on disposal of assets		102,000
Changes in operating assets and liabilities:		
Accounts receivable	2,697,000	1,334,000
Inventories	652,000	159,000
Prepaid expenses and other assets	173,000	65,000
Accounts payable and accrued expenses	396,000	120,000
Prepaid income taxes and income taxes payable	(237,000)	(288,000)
Net cash provided by operating activities	7,273,000	3,933,000
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(540,000)	(945,000)
Capitalized software development costs	(1,564,000)	(1,353,000)
Purchases of investments	(81,150,000)	(75,175,000)
Proceeds from sales of investments	87,200,000	72,900,000
Net cash provided (used) by investing activities	3,946,000	(4,573,000)
Cash flows from financing activities:		
Purchases of treasury stock	(7,478,000)	
Tax windfall benefit from stock option exercises	4,000	25,000
Exercise of stock options	154,000	605,000
Net cash (used) provided by financing activities	(7,320,000)	630,000
Net increase (decrease) in cash and cash equivalents	3,899,000	(10,000)
Cash and cash equivalents at beginning of period	10,518,000	11,803,000
Cash and cash equivalents at end of period	\$ 14,417,000	\$ 11,793,000

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash financing activity:

Exercise of stock options in 2006 using 57,484 shares of common stock	\$ 426,000
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The accompanying notes are an integral part of these consolidated financial statements.

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note A Basis of Presentation

The unaudited Consolidated Financial Statements of Performance Technologies, Incorporated and Subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information 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 generally accepted accounting principles 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 year. The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company as of December 31, 2006, as reported in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Note B Stock-Based Compensation and Earnings Per Share

The Company has stock options outstanding from three stock-based employee compensation plans: the Amended and Restated 1986 Incentive Stock Option Plan, the 2001 Incentive Stock Option Plan, and the 2003 Omnibus Incentive Plan.

The Company recognizes compensation expense in the financial statements for stock option awards based on the grant-date fair value of those awards, estimated using the Black-Scholes-Merton option pricing model. The table below summarizes the impact of outstanding stock options and restricted stock on the results of operations for the three and nine month periods ended September 30, 2007 and 2006, respectively, under the provis