PERFORMANCE TECHNOLOGIES INC \DE\
Form 10-Q
August 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the Quarter Ended **June 30, 2011**

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 or organization)	*(I.R.S. Employer Identification No.)*

205 Indigo Creek Drive
Rochester, New York 14626

(Address of principal executive offices) (zip code)

(585) 256-0200

(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 [X] 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 [X] No [ ]

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

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

The number of shares outstanding of the registrant's common stock was 11,116,397 as of July 31, 2011.

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

ASSETS

	June 30, 2011	December 31, 2010
Current assets:		
Cash and cash equivalents	$ 11,222,000	$ 12,796,000
Investments	1,395,000	3,753,000
Accounts receivable, net	5,571,000	5,478,000
Inventories	6,623,000	7,787,000
Prepaid expenses and other assets	1,513,000	940,000
Prepaid income taxes	183,000	31,000
Fair value of foreign currency hedge contracts	10,000	17,000
Total current assets	26,517,000	30,802,000
Investments	1,060,000	2,677,000
Property, equipment and improvements, net	2,592,000	2,162,000
Software development costs, net	4,148,000	3,995,000
Purchased intangible assets, net	4,940,000	804,000
Total assets	$ 39,257,000	$ 40,440,000

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2011	December 31, 2010
Current liabilities:		
Accounts payable	$ 823,000	$ 2,756,000
Other payable	986,000	
Deferred revenue	3,908,000	1,946,000
Accrued expenses	2,133,000	2,919,000
Total current liabilities	7,850,000	7,621,000
Deferred income taxes	49,000	51,000
Total liabilities	7,899,000	7,672,000
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	17,210,000	17,042,000
Retained earnings	23,850,000	25,400,000
Accumulated other comprehensive income	(17,000)	11,000
Treasury stock - at cost; 2,188,199 shares	(9,818,000)	(9,818,000)
Total stockholders' equity	31,358,000	32,768,000
Total liabilities and stockholders' equity	$ 39,257,000	$ 40,440,000

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, 2011	2010	Six Months Ended June 30, 2011	2010
Sales	$ 8,453,000	$ 7,449,000	$ 18,125,000	$ 14,804,000
Cost of goods sold	4,786,000	4,170,000	9,965,000	7,627,000
Gross profit	3,667,000	3,279,000	8,160,000	7,177,000
Operating expenses:				
Selling and marketing	1,458,000	2,034,000	3,381,000	4,407,000
Research and development	1,569,000	1,892,000	3,749,000	3,882,000
General and administrative	1,117,000	1,364,000	2,609,000	2,672,000
Restructuring charges	60,000	64,000	182,000	127,000
Total operating expenses	4,204,000	5,354,000	9,921,000	11,088,000
Loss from operations	(537,000)	(2,075,000)	(1,761,000)	(3,911,000)
Other income, net	15,000	41,000	90,000	104,000
Loss before income taxes	(522,000)	(2,034,000)	(1,671,000)	(3,807,000)
Income tax (benefit) provision	(70,000)	(74,000)	(121,000)	53,000
Net loss	$ (452,000)	$ (1,960,000)	$ (1,550,000)	$ (3,860,000)
Basic loss per share	$ (.04)	$ (.18)	$ (.14)	$ (.35)
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.

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

	Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net loss	$ (1,550,000)	$ (3,860,000)
Non-cash adjustments:		
Depreciation and amortization	1,384,000	1,373,000
Amortization of purchased intangible assets	532,000	
Stock-based compensation expense	168,000	286,000
Loss on disposal of property, equipment and improvements	28,000	
Realized loss on sale of investment	5,000	
Non-cash interest expense	13,000	
Deferred income taxes		9,000
Changes in operating assets and liabilities:		
Accounts receivable	(93,000)	1,414,000
Inventories	1,242,000	(324,000)
Prepaid expenses and other assets	(573,000)	(144,000)
Accounts payable and accrued expenses	(2,728,000)	283,000
Deferred revenue	1962,000	(111,000)
Income taxes payable and prepaid income taxes	(148,000)	23,000
Net cash provided (used) by operating activities	242,000	(1,051,000)
Cash flows from investing activities:		
Purchase of equipment, inventory and intangible assets	(4,377,000)	
Purchases of property, equipment and improvements	(215,000)	(491,000)
Capitalized software development costs	(1,171,000)	(1,242,000)
Proceeds from sales of investments	3,943,000	4,040,000
Purchases of investments		(2,908,000)
Proceeds from sales of property, equipment and improvements	4,000	
Net cash used by investing activities	(1,816,000)	(601,000)

Net decrease in cash and cash equivalents	(1,574,000)	(1,652,000)
Cash and cash equivalents at beginning of period	12,796,000	17,563,000
Cash and cash equivalents at end of period	$ 11,222,000	$ 15,911,000
Supplemental Disclosure of Cash Flow Information:		
Other payable incurred for the purchase of assets	$ 986,000	

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 and Changes in Significant Accounting Policies

The interim unaudited Consolidated Financial Statements of Performance Technologies, Incorporated and Subsidiaries (collectively “PT,” “the Company," “we,” “us,” or “our”) 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 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 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, 2010, as reported in its Annual Report on Form 10-K filed with the Securities and Exchange Commission. Certain reclassifications have been made to the December 31, 2010 financial information in order to conform to the current period presentation.

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

Revenue Recognition for Arrangements with Multiple Deliverables –

In September 2009, the Financial Accounting Standards Board (“FASB”) amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product’s essential functionality from the scope of industry-specific software revenue recognition guidance. As a result, these arrangements are accounted for in accordance with new, “non-software” guidance for arrangements with multiple deliverables. The FASB also amended the accounting standards for revenue recognition for arrangements with multiple deliverables. The new authoritative guidance for arrangements with multiple deliverables requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. It also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes: (1) vendor-specific objective evidence (“VSOE”) if available;

(2) third-party evidence (“TPE”) if vendor-specific objective evidence is not available; and (3) best estimated selling price (“BESP”) if neither vendor-specific nor third-party evidence is available. The new guidance eliminates the residual method of allocation for multiple-deliverable revenue arrangements which we used historically when we applied the software revenue recognition guidance to our multiple element arrangements.

We have adopted this guidance as of January 1, 2011. As most of our signaling products include both tangible products and software elements that function together to deliver the tangible product’s essential functionality, the existing software revenue recognition guidance no longer applies to these transactions. The adoption of the new, non-software revenue recognition guidance did not have a material impact on the timing, pattern, or amount of revenue recognized in the first or second quarter of 2011. Based on currently available information, we anticipate that the impact of adopting this guidance on revenue recognition in future periods will not be material. However, this assessment may change because such impacts depend on terms and conditions of arrangements in effect in those future periods.

The new guidance does not generally change the units of accounting for our revenue transactions. For our multiple deliverable arrangements, our products and services qualify as separate units of accounting. Our multiple deliverable arrangements generally include a combination of our telecommunications hardware and software products, services including installation and training, and support services. These arrangements typically have both software and non-software components that function together to deliver the product's essential functionality. Our arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue.

For substantially all of our multiple deliverable arrangements, we defer support and services revenue, and recognize revenue for delivered products in an arrangement when persuasive evidence of an arrangement exists and delivery of the last product has occurred, provided the fee is fixed or determinable, and collection is deemed probable. In instances where final acceptance of the product is based on customer specific criteria, revenue is deferred until the earlier of the receipt of customer acceptance or the expiration of acceptance period. Support revenue is recognized ratably over the term of the support period. Services revenue is typically recognized upon completion of the services for fixed-fee service arrangements, as these services are relatively short-term in nature (typically several weeks, or in limited cases, several months). For service arrangements that are billed on a time and material basis, we recognize revenue as the services are performed.

For multiple deliverable arrangements entered into prior to January 1, 2011 and not materially modified after that date, we recognize revenue based on the existing software revenue recognition guidance, which require the entire fee from the arrangement to be allocated to each respective element based on its relative selling price using VSOE. For such arrangements, when we are unable to establish VSOE for the delivered telecommunications products, we utilize the residual method to allocate revenue to each of the elements of an arrangement. Under this method, we allocate the total fee in an arrangement first to the undelivered elements (typically support and services) based on VSOE of those elements, and the remaining, or residual portion of the fee to the delivered elements (typically the product or products).

For multiple deliverable arrangements entered into after January 1, 2011, we recognize revenue based on the new non-software revenue recognition guidance. We allocate consideration to each deliverable in an arrangement based on its relative selling price. We follow a hierarchy to allocate the selling price of VSOE, then TPE and finally BESP. Because we rarely sell such products on a stand-alone basis or without support, we are not able to establish VSOE for these products. Additionally, we generally expect that we will not be able to establish TPE due to the nature of our products and the markets in which we compete. Accordingly, we expect the selling price of our proprietary hardware and software products to be based on our BESP. We have established VSOE for our support and services and, therefore, we utilize VSOE for these elements.

Since the adoption of the new guidance, we have primarily used the same information used to set pricing strategy to determine BESP. The Company has corroborated the BESP with our historical sales prices, the anticipated margin on the deliverable, the selling price and profit margin for similar deliverables and the characteristics of the geographical markets in which the deliverables are sold. We plan to analyze the selling prices used in our allocation of arrangement consideration at least semi-annually. Selling prices will be analyzed more frequently if a significant change in our business necessitates a more timely analysis.

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 is effective retrospectively for fiscal years (and interim periods within those years) beginning after December 15, 2011 (an effective date of January 1, 2012 for the Company). The guidance requires changes in presentation only and will have no significant impact on the Company's consolidated financial statements.

In May 2011, the issued authoritative guidance that amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This guidance is effective prospectively for interim and annual periods beginning after December 15, 2011 (an effective date of January 1, 2012 for the Company). The Company does not expect that the adoption of this guidance will have a significant impact on its consolidated financial statements.

Note B - **Asset Purchase**

In January 2011, the Company entered into an asset purchase agreement with GENBAND to acquire GENBAND's Universal Signaling Platform (“USP”) and SP2000 signaling technology which GENBAND acquired in its May 2010 acquisition of Nortel's Carrier VoIP and Application Solutions business. In connection with this transaction, the Company acquired software, equipment, inventories, and intellectual property including a signaling-related patent, a license under GENBAND's signaling patent portfolio and an assignment of certain signaling technology conveyed to GENBAND under license from Nortel. Certain of these licensed property rights are not transferable without GENBAND's consent. In additi