

PERFORMANCE TECHNOLOGIES INC \DE\
Form 10-Q
November 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 2008

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

(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 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 Small reporting company

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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 11,612,897 as of October 31, 2008.

**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)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,948,000	\$ 15,592,000
Investments	3,509,000	14,150,000
Accounts receivable, net	6,577,000	7,933,000
Inventories	5,511,000	4,783,000
Prepaid income taxes	671,000	713,000
Prepaid expenses and other assets	559,000	916,000
Deferred taxes	1,963,000	2,037,000
Total current assets	46,738,000	46,124,000
Investments	3,960,000	2,500,000
Property, equipment and improvements, net	2,208,000	2,260,000
Software development costs, net	3,748,000	3,297,000
Deferred taxes	774,000	1,196,000
Goodwill	4,143,000	4,143,000
Total assets	\$ 61,571,000	\$ 59,520,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,638,000	\$ 1,392,000
Accrued expenses	5,224,000	4,425,000
Total current liabilities	6,862,000	5,817,000
Income taxes payable	453,000	807,000
Total liabilities	7,315,000	6,624,000
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, 11,612,897 and 11,684,816 shares outstanding	133,000	133,000
Additional paid-in capital	16,024,000	15,483,000
Retained earnings	46,511,000	45,231,000
Accumulated other comprehensive loss	(189,000)	
Treasury stock - at cost; 1,691,699 and 1,619,780 shares held at September 30, 2008 and December 31, 2007	(8,223,000)	(7,951,000)
Total stockholders' equity	54,256,000	52,896,000
Total liabilities and stockholders' equity	\$ 61,571,000	\$ 59,520,000

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

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Sales	\$ 9,181,000	\$ 10,786,000	\$ 31,387,000	\$ 29,745,000
Cost of goods sold	4,172,000	4,682,000	13,874,000	13,923,000
Software capitalization write-off		45,000		520,000
Gross profit	5,009,000	6,059,000	17,513,000	15,302,000
Operating expenses:				
Selling and marketing	1,907,000	1,676,000	6,147,000	4,952,000
Research and development	2,210,000	2,230,000	6,894,000	7,552,000
General and administrative	1,165,000	1,220,000	3,660,000	3,725,000
Unsuccessful acquisition expenses	229,000		229,000	
Restructuring charges		26,000		240,000
Total operating expenses	5,511,000	5,152,000	16,930,000	16,469,000
Income (loss) from operations	(502,000)	907,000	583,000	(1,167,000)
Note receivable recovery				143,000
Other income, net	156,000	453,000	814,000	1,659,000
Income (loss) before income taxes	(346,000)	1,360,000	1,397,000	635,000
Income tax (benefit)	(602,000)	(331,000)	(86,000)	(8,000)
Net income	\$ 256,000	\$ 1,691,000	\$ 1,483,000	\$ 643,000
Basic earnings per share	\$ 0.02	\$ 0.14	\$ 0.13	\$ 0.05
Diluted earnings per share	\$ 0.02	\$ 0.13	\$ 0.13	\$ 0.05
Weighted average number of common shares used in				
basic earnings per share	11,604,137	12,505,870	11,661,953	12,857,418
Potential common shares	2,964	42,194	14,092	46,167
Weighted average number of common shares used in				
diluted earnings per share	11,607,101	12,548,064	11,676,045	12,903,585

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,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 1,483,000	\$ 643,000
Non-cash adjustments:		
Depreciation and amortization	1,706,000	2,260,000
Tax benefit from stock option exercises	27,000	15,000
Gain on disposal of equipment	(11,000)	
Stock-based compensation expense	514,000	499,000
Deferred income taxes	602,000	175,000
Changes in operating assets and liabilities:		
Accounts receivable	1,356,000	2,697,000
Inventories	(728,000)	652,000
Prepaid expenses and other assets	357,000	173,000
Accounts payable and accrued expenses	1,045,000	396,000
Prepaid income taxes and income taxes payable	(312,000)	(237,000)
Net cash provided by operating activities	6,039,000	7,273,000
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(539,000)	(540,000)
Proceeds from disposal of fixed assets	17,000	
Capitalized software development costs	(1,563,000)	(1,564,000)
Purchases of investments	(9,323,000)	(81,150,000)
Proceeds from sales of investments	18,200,000	87,200,000
Net cash provided by investing activities	6,792,000	3,946,000
Cash flows from financing activities:		
Purchases of treasury stock	(1,063,000)	(7,478,000)
Tax windfall benefit from stock option exercises		4,000
Exercise of stock options	588,000	154,000
Net cash used by financing activities	(475,000)	(7,320,000)
Net increase in cash and cash equivalents	12,356,000	3,899,000
Cash and cash equivalents at beginning of period	15,592,000	10,518,000
Cash and cash equivalents at end of period	\$ 27,948,000	\$ 14,417,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Non-cash financing activity - Exercise of stock options in 2008 using 23,030 shares of common stock	\$ 105,000	

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

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, 2007, as reported in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Note B Stock-Based Compensation

The Company has stock options outstanding from two stock-based employee compensation plans: 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 on the results of operations for the three and nine month periods ended September 30, 2008 and 2007, respectively, under the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Stock-based compensation expense - stock options	\$ 194,000	\$ 173,000	\$ 514,000	\$ 499,000
Income tax benefit	(62,000)	(56,000)	(162,000)	(163,000)
Net decrease in net income	\$ 132,000	\$ 117,000	\$ 352,000	\$ 336,000
Decrease in earnings per share - Basic	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.03
Diluted	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.03

Note C Earnings Per Share

Basic earnings per share is computed by dividing net income or loss by the weighted average number of common shares outstanding for the period. Diluted earnings per share calculations reflect the assumed exercise and conversion of dilutive stock options, using the treasury stock method. The diluted earnings per share calculation excludes the effect of approximately 1,596,000 and 1,396,000 options for the three and nine months ended September 30, 2008, and 1,508,000 and 1,385,000 options for the three and nine months ended September 30, 2007, since such options had an exercise price in excess of the average market price of the Company's common stock for the quarter.

Note D Inventories, net

Inventories consisted of the following:

	September 30, 2008	December 31, 2007
Purchased parts and components	\$ 3,311,000	\$ 2,620,000
Work in process	1,837,000	1,674,000
Finished goods	363,000	489,000
Net	\$ 5,511,000	\$ 4,783,000

Note E Software Development Costs

Software development costs consisted of the following:

	September 30, 2008	December 31, 2007
Capitalized software development costs	\$ 15,026,000	\$ 13,463,000
Less: accumulated amortization	(11,278,000)	