

PERFORMANCE TECHNOLOGIES INC \DE\  
Form 10-Q  
August 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 June 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)

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**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 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 12,666,823 as of July 31, 2007.

**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**

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Current assets:		
Cash and cash equivalents	\$ 9,252,000	\$10,518,000
Investments	26,025,000	24,675,000
Accounts receivable, net	6,845,000	9,561,000
Inventories	4,564,000	5,678,000
Prepaid income taxes	869,000	
Prepaid expenses and other assets	704,000	767,000
Deferred taxes	2,289,000	2,495,000
Total current assets	50,548,000	53,694,000
Property, equipment and improvements, net	2,187,000	2,213,000
Software development costs, net	3,047,000	3,185,000
Deferred taxes	1,010,000	1,026,000
Goodwill	4,143,000	4,143,000
Total assets	\$60,935,000	\$64,261,000

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 805,000	\$ 1,460,000
Accrued expenses	4,201,000	4,302,000
Income taxes payable		232,000
Total current liabilities	5,006,000	5,994,000
Income taxes payable	1,094,000	
Total liabilities	6,100,000	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, respectively; 12,731,452 and 13,277,201 shares outstanding, respectively	133,000	133,000
Additional paid-in capital	15,151,000	14,699,000
Retained earnings	42,380,000	43,435,000
Treasury stock - at cost; 573,144 and no shares held at June 30, 2007 and December 31, 2006, respectively	(2,829,000)	
Total stockholders' equity	54,835,000	58,267,000
Total liabilities and stockholders' equity	\$60,935,000	\$64,261,000

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

**PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006**  
**(unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Sales	\$ 9,603,000	\$13,052,000	\$18,959,000	\$25,220,000
Cost of goods sold	4,540,000	6,143,000	9,241,000	12,100,000
Software capitalization write-off in 2007 and non RoHS inventory charge in 2006	475,000	801,000	475,000	801,000
Gross profit	4,588,000	6,108,000	9,243,000	12,319,000
Operating expenses:				
Selling and marketing	1,673,000	1,453,000	3,276,000	2,823,000
Research and development	2,413,000	2,981,000	5,323,000	5,781,000
General and administrative	1,184,000	1,462,000	2,504,000	2,746,000
Restructuring charges	214,000	559,000	214,000	994,000
Total operating expenses	5,484,000	6,455,000	11,317,000	12,344,000
Loss from operations	(896,000)	(347,000)	(2,074,000)	(25,000)
Note receivable recovery	143,000		143,000	
Other income, net	773,000	371,000	1,206,000	705,000
Income (loss) before income taxes	20,000	24,000	(725,000)	680,000
Income tax provision (benefit)	450,000	(48,000)	323,000	62,000
Net (loss) income	\$ (430,000)	\$ 72,000	\$(1,048,000)	\$ 618,000
Basic (loss) earnings per share	\$ (0.03)	\$ 0.01	\$ (0.08)	\$ 0.05
Diluted earnings per share		\$ 0.01		\$ 0.05
Weighted average number of common shares used in basic earnings per share	12,864,215	13,181,034	13,036,106	13,141,358
Potential common shares		175,385		203,107
Weighted average number of common shares used in diluted earnings per share		13,356,419		13,344,465

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

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Net (loss) income	\$ (1,048,000)	\$ 618,000
Non-cash adjustments:		
Depreciation and amortization	1,622,000	1,156,000
Tax benefit from stock option exercises	15,000	233,000
Stock-based compensation expense	326,000	289,000
Deferred income taxes	222,000	(151,000)
Other		15,000
Changes in operating assets and liabilities:		
Accounts receivable	2,716,000	(1,649,000)
Inventories	1,114,000	697,000
Prepaid expenses and other assets	63,000	57,000
Accounts payable and accrued expenses	(756,000)	(869,000)
Prepaid income taxes and income taxes payable	(10,000)	78,000
Net cash provided by operating activities	4,264,000	474,000
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(367,000)	(588,000)
Capitalized software development costs	(1,091,000)	(948,000)
Purchases of investments	(61,425,000)	(41,425,000)
Proceeds from sales of investments	60,075,000	41,500,000
Net cash used by investing activities	(2,808,000)	(1,461,000)
Cash flows from financing activities:		
Purchases of treasury stock	(2,844,000)	
Tax windfall benefit from stock option exercises	4,000	24,000
Exercise of stock options	118,000	595,000
Net cash (used) provided by financing activities	(2,722,000)	619,000
Net decrease in cash and cash equivalents	(1,266,000)	(368,000)
Cash and cash equivalents at beginning of period		