MECHANICAL TECHNOLOGY INC
Form 10-Q
May 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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)

New York	-	000-06890	-	14-1462255
(State or other jurisdiction of incorporation or organization)		**(Commission File Number)**		**(I.R.S. Employer Identification No.)**

325 Washington Avenue Extension, Albany, New York 12205

(Address of principal executive offices) (Zip Code)

(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 T 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 T 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Smaller reporting company T

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

The number of shares of common stock, par value of $0.01 per share, outstanding as of May 1, 2014 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 March 31, 2014 (Unaudited) and December 31, 2013

(Dollars in thousands, except per share)	March 31, 2014		December 31, 2013	
Assets				
Current Assets:				
Cash	$	739	$	1,211
Accounts receivable		827		824
Inventories		701		742
Deferred income taxes, net		22		25
Prepaid expenses and other current assets		110		111
Total Current Assets		2,399		2,913
Deferred income taxes, net		1,478		1,475
Property, plant and equipment, net		125		146
Total Assets	$	4,002	$	4,534
Liabilities and Equity				
Current Liabilities:				
Accounts payable	$	205	$	149
Accrued liabilities		822		993
Total Current Liabilities		1,027		1,142
Commitments and Contingencies (Note 9)				
Equity:				
Common stock, par value $0.01 per share, authorized 75,000,000; 6,261,975 issued in both 2014 and 2013		63		63
Additional paid-in capital		135,627		135,612
Accumulated deficit		(118,961)		(118,529)
Common stock in treasury, at cost, 1,005,092 shares in both 2014 and 2013		(13,754)		(13,754)
Total MTI stockholders equity		2,975		3,392
Total Liabilities and Equity	$	4,002	$	4,534

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 Months Ended March 31, 2014 and 2013

(Dollars in thousands, except per share)	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Product revenue	$	1,382	$	2,200
Operating costs and expenses:				
Cost of product revenue		578		976
Unfunded research and product development expenses		361		340
Selling, general and administrative expenses		875		819
Operating (loss) income		(432)		65
Income tax benefit				1
Net (loss) income		(432)		66
Plus: Net loss attributed to non-controlling interest				20
Net (loss) income attributed to MTI	$	(432)	$	86
(Loss) income per share attributable to MTI (Basic and Diluted)	$	(.08)	$	.02
Weighted average shares outstanding (Basic and Diluted)		5,256,883		5,256,883

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, 2013

and the Three Months Ended March 31, 2014 (Unaudited)

	Common Stock				**Treasury Stock**				
	Shares	**Amount**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Shares**	**Amount**	**Total MTI Stockholders Equity (Deficit)**	**Non-Controlling Interest (NCI)**	**Total Equity**
January 1, 2013	6,261,975	$ 63	$ 135,561	$ (122,183)	1,005,092	$ (13,754)	$ (313)	$ 3,311	$ 2,998
Net income attributed to MTI	-	-	-	3,654	-	-	3,654	-	3,654
Stock based compensation	-	-	51	-	-	-	51	-	51
Net loss attributed to NCI	-	-	-	-	-	-	-	(75)	(75)
Equity contribution to NCI	-	-	-	-	-	-	-	25	25
Variable interest entity deconsolidation	-	-	-	-	-	-	-	(3,261)	(3,261)
December 31, 2013	6,261,975	$ 63	$ 135,612	$ (118,529)	1,005,092	$ (13,754)	$ 3,392	$ -	$ 3,392
Net loss attributed to MTI	-	-	-	(432)	-	-	(432)	-	(432)
Stock based compensation	-	-	15	-	-	-	15	-	15
March 31, 2014	6,261,975	$ 63	$ 135,627	$ (118,961)	1,005,092	$ (13,754)	$ 2,975	$ -	$ 2,975

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 Three Months Ended March 31, 2014 and 2013

(Dollars in thousands)	**Three Months Ended March 31,**	
	2014	2013
Operating Activities		
Net (loss) income	$ (432)	$ 66
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	24	24
Stock based compensation	15	5
Provision for excess and obsolete inventories	16	
Changes in operating assets and liabilities:		
Accounts receivable	(3)	782
Inventories	25	204
Prepaid expenses and other current assets	1	8
Accounts payable	56	257
Deferred revenue		(511)
Accrued liabilities	(171)	(150)
Net cash (used in) provided by operating activities	(469)	685
Investing Activities		
Purchases of equipment	(3)	(41)
Net cash used in investing activities	(3)	(41)
(Decrease) increase in cash	(472)	644
Cash beginning of period	1,211	289
Cash end of period	$ 739	$ 933

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. The Company s core business is conducted through MTI Instruments, Inc. (MTI Instruments), a wholly-owned subsidiary and the sole component of the Company s Test and Measurement Instrumentation segment. Through the year ended December 31, 2013, the Company also operated in a New Energy segment with business conducted through MTI MicroFuel Cells, Inc. (MTI Micro). On December 31, 2013, as a result of a stock warrant exercise, the Company transferred management of MTI Micro to Dr. Walter L. Robb (a member of the Company s and MTI Micro s board of directors) and his new management team. The Company is consequently no longer reporting MTI Micro as a variable interest entity (VIE) as of the close of business on December 31, 2013 (date of MTI Micro deconsolidation).

MTI Instruments was incorporated in New York on March 8, 2000 and is a supplier of: precision linear displacement solutions, vibration measurement and system balancing systems, and wafer inspection tools, consisting of electronic gauging instruments for position, displacement and vibration application within the industrial manufacturing/production markets, as well as the research, design and process development market; tensile stage systems for materials testing at academic and industrial research settings; and engine vibration analysis systems for both military and commercial aircraft. These tools, systems and solutions are developed for markets and applications that require the precise measurements and control of products, processes, and the development and implementation of automated manufacturing, assembly, and consistent operation of complex machinery.

MTI Micro was incorporated in Delaware on March 26, 2001, and, until its operations were suspended in late 2011, had been developing 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.

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 $119.0 million and working capital of approximately $1.4 million at March 31, 2014.

Based on the Company s projected cash requirements for operations and capital expenditures for 2014, its current available cash of approximately $739 thousand, the $400 thousand available from its existing line of credit at MTI Instruments, current cash flow requirements and revenue and expense projections, management believes it will have adequate resources to fund 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 effecting its business.

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 Commissions (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, 2013.

The information presented in the accompanying condensed consolidated balance sheet as of December 31, 2013 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 months ended March 31, 2014 and March 31, 2013.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, MTI Instruments. The consolidated financial statements also include the accounts of a former VIE, MTI Micro, through December 31, 2013. The Company was considered the primary beneficiary of the VIE until December 31, 2013, when the Company transferred management of MTI Micro to Dr. Robb and his new management team. For purposes of these consolidated financial statements, the deconsolidation of MTI Micro was effective as of the close of business on December 31, 2013. All intercompany balances and transactions are eliminated in consolidation. The Company reflected 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.

The Company determined that the effect of the deconsolidation of the VIE was to remove MTI Micro in the consolidated balance sheet as of December 31, 2013 but include MTI Micro s activity in the consolidated statement of operations for the year ended December 31, 2013. The following assets and liabilities of MTI Micro were not included in the consolidated balance sheet as of December 31, 2013 as a result of the VIE deconsolidation:

(dollars in thousands)		**2013**
Cash	$	25
Prepaid expenses and other current assets		1
Accounts payable		3
Related party note payable (see Note 12 for more detail)		380

The fair value of the Company s current non-controlling interest (NCI) in MTI Micro has been determined to be $0 as of March 31, 2014 and December 31, 2013 (date of MTI Micro deconsolidation), based on MTI Micro s net position and expected cash flows. The Company records its investment in MTI Micro using the equity method of accounting. As of March 31, 2014, the Company owned an aggregate of approximately 47.5% of MTI Micro s outstanding common stock, or 75,049,937 shares, and 53.3% of the common stock and warrants issued, which includes 32,904,136 warrants outstanding.

As of December 31, 2013, NCI is 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)	March 31, 2014		December 31, 2013	
U.S. and State Government	$	42	$	37
Commercial		785		787
Total	$	827	$	824

For the three months ended March 31, 2014 and 2013, the largest commercial customer represented 14.5% and 8.1%, respectively, and the largest governmental agency represented 11.0% and 30.7%, respectively, of the Company s Test and Measurement Instrumentation segment product revenue. As of March 31, 2014 and December 31, 2013, the largest commercial receivable represented 24.3% and 12.8%, respectively, and the largest governmental receivable represented 5.1% and 3.9%, respectively, of the Company s Test and Measurement Instrumentation segment accounts receivable.

As of March 31, 2014 and December 31, 2013, the Company had no allowance for doubtful trade accounts receivable.

4. Inventories

Inventories consist of the following at:

(Dollars in thousands)		March 31, 2014		December 31, 2013
Finished goods	$	275	$	287
Work in process		181		188
Raw materials		245		267
Total	$	701	$	742

5. Property, Plant and Equipment

Property, plant and equipment consist of the following at:

(Dollars in thousands)	**March 31, 2014**	**December 31, 2013**
Leasehold improvements	$ 32	$ 32
Computers and related software	1,279	1,281
Machinery and equipment	813	810
Office furniture and fixtures	125	125
	2,249	2,248
Less: Accumulated depreciation	2,124	2,102
	$ 125	$ 146

Depreciation expense was $24 thousand and $91 thousand for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively. In conjunction with the suspension of MTI Micro operations in late 2011, sales of certain surplus equipment on hand were made during 2013. This resulted in a net gain on sale of $13 thousand for the year ended December 31, 2013. As of December 31, 2013, all $13 thousand in sales proceeds have been received.

6. Income Taxes

During the three months ended March 31, 2014, the Company s effective income tax rate was 0.0%. The projected annual effective tax rate is less than the Federal statutory rate of 34%, primarily due to permanent differences, the change in the valuation allowance and changes to estimated taxable income for 2014. For the three months ended March 31, 2013, 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 its 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.

As a result of our analyses in 2011, the Company released a portion of our valuation allowance against its deferred tax assets. The partial release of the valuation allowance caused 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 determined that it expects to generate sufficient levels of pre-tax earnings in the future to realize the net deferred tax assets recorded on the balance sheet at March 31, 2014. 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. We project that our taxable income for the next three years is adequate to ensure the realizability of the $1.5 million of deferred tax assets recorded on our balance sheet at March 31, 2014. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to adjust the recorded valuation allowance, which could materially impact our financial position and results of operations. We will continue to evaluate the ability to realize our deferred tax assets and related valuation allowance on a quarterly basis.

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 $17.0 million at March 31, 2014 and $16.8 million at December 31, 2013. 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

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 March 31, 2014 and December 31, 2013, there were 5,256,883 shares of common stock issued and outstanding.

Reservation of Shares

The Company had reserved common shares for future issuance as follows as of March 31, 2014:

Stock options outstanding	716,662
Common stock available for future equity awards or issuance of options	2,000
Number of common shares reserved	718,662

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 months ended March 31, 2014, were options to purchase 716,662 shares of the Company s common stock. These potentially dilutive items were excluded because the Company incurred a loss during this period and their inclusion would be anti-dilutive.

Not included in the computation of earnings per share, assuming dilution, for the three months ended March 31, 2013, were options to purchase 293,119 shares of the Company s common stock. These potentially dilutive items were excluded because the average market price of the common stock did not exceed the exercise prices of the options during this period.

8. Segment Information

During 2013, the Company operated in two business segments**,** Test and Measurement Instrumentation and New Energy. As a result of the deconsolidation of MTI Micro operations on December 31, 2013 (see Note 2), the New Energy segment will no longer remain in our consolidated operations. 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 engines. The New Energy segment was 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 deconsolidation of MTI Micro operations on December 31, 2013 (see Note 2), the New Energy segment will no longer remain in our consolidated operations.

As of January 1, 2014, the Company operates in one segment and therefore segment information is not presented.

(Dollars in thousands)	Test and Measurement Instrumentation	New Energy	Other	Reconciling Items	Condensed Consolidated Totals
Three Months Ended March 31, 2013					
Product revenue	$ 2,200	$	$	$	$ 2,200
Unfunded research and product development expenses	340				340
Selling, general and administrative expenses	509	24			