MECHANICAL TECHNOLOGY INC
Form 10-Q
November 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2012

OR

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

FOR THE TRANSITION PERIOD FROM ______________________ TO ______________________

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Mechanical Technology, Incorporated

(Exact name of registrant as specified in its charter)

New York	**0-6890**	**14-1462255**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

325 Washington Avenue Extension, Albany, New York 12205

(Address of registrant s principal executive office)

(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 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 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 smaller reporting company. See definition of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

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

Smaller reporting company x

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

The number of shares of common stock, par value of $0.01 per share, outstanding as of November 2, 2012 was 5,256,883.

MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES

INDEX

1

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Mechanical Technology, Incorporated and Subsidiaries

Condensed Consolidated Balance Sheets as of September 30, 2012 (Unaudited) and December 31, 2011

(Dollars in thousands, except per share)	September 30, 2012	December 31, 2011
Assets		
Current Assets:		
Cash	$531	$1,669
Accounts receivable, less allowances of $2 thousand in 2012 and $0 in 2011	444	1,881
Inventories	1,433	957
Deferred income taxes, net	17	20
Prepaid expenses and other current assets	116	102
Total Current Assets	2,541	4,629
Deferred income taxes, net	1,518	1,515
Property, plant and equipment, net	155	258
Total Assets	$4,214	$6,402
Liabilities and Equity		
Current Liabilities:		
Accounts payable	$277	$191
Accrued liabilities	1,368	1,238
Deferred revenue	20	58
Total Current Liabilities	1,665	1,487
Commitments and Contingencies (Note 11)		
Equity:		
Common stock, par value $0.01 per share, authorized 75,000,000; 6,261,975 and 6,259,975 issued in 2012 and 2011, respectively	63	63
Additional paid-in capital	135,553	135,389
Accumulated deficit	(122,637)	(120,097)
Common stock in treasury, at cost, 1,005,092 shares in both 2012 and 2011	(13,754)	(13,754)

Total MTI stockholders (deficit) equity	(775)	1,601
Non-controlling interest	3,324	3,314
Total Equity	2,549	4,915
Total Liabilities and Equity	$4,214	$6,402

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 and Nine Months Ended September 30, 2012 and 2011

(Dollars in thousands, except per share)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Product revenue	$ 1,083	$ 2,326	$ 3,653	$ 7,005
Funded research and development revenue				13
Total revenue	1,083	2,326	3,653	7,018
Operating costs and expenses:				
Cost of product revenue	620	861	1,938	2,650
Research and product development expenses:				
Funded research and product development				25
Unfunded research and product development	327	371	1,037	1,129
Total research and product development expenses	327	371	1,037	1,154
Selling, general and administrative expenses	1,308	1,305	3,378	3,931
Operating loss	(1,172)	(211)	(2,700)	(717)
Gain on derivatives				73
Other (expense) income, net	(7)		176	(24)
Loss before income taxes and non-controlling interest	(1,179)	(211)	(2,524)	(668)
Income tax expense	(6)		(6)	
Net loss	(1,185)	(211)	(2,530)	(668)
Plus: Net loss (income) attributed to non-controlling interest	36	110	(10)	664
Net loss attributed to MTI	$ (1,149)	$ (101)	$ (2,540)	$ (4)
Loss per share attributable to MTI (Basic and Diluted)	$ (.22)	$ (.02)	$ (.48)	$
Weighted average shares outstanding (Basic and Diluted)	5,256,883	5,202,029	5,256,007	4,916,691

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

3

MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Equity

For the Year Ended December 31, 2011

and the Nine Months Ended September 30, 2012 (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
December 31, 2010	5,776,750	$ 58	$ 134,733	$ (122,483)	1,005,092	$ (13,754)	$ (1,446)	$ 3,405	$ 1,959
Net income attributed to MTI	-	-	-	2,386	-	-	2,386	-	2,386
Stock based compensation	-	-	360	-	-	-	360	-	360
Issuance of shares restricted stock	483,225	5	296	-	-	-	301	-	301
Net loss attributed to NCI	-	-	-	-	-	-	-	(738)	(738)
Equity contribution to NCI	-	-	-	-	-	-	-	647	647
December 31, 2011	6,259,975	$ 63	$ 135,389	$ (120,097)	1,005,092	$ (13,754)	$ 1,601	$ 3,314	$ 4,915
Net loss attributed to MTI	-	-	-	(2,540)	-	-	(2,540)	-	(2,540)
Stock based compensation	-	-	163	-	-	-	163	-	163
Issuance of shares common stock	2,000	-	1	-	-	-	1	-	1
Net income attributed to NCI	-	-	-	-	-	-	-	10	10
September 30, 2012	6,261,975	$ 63	$ 135,553	$ (122,637)	1,005,092	$ (13,754)	$ (775)	$ 3,324	$ 2,549

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 Nine Months Ended September 30, 2012 and 2011

(Dollars in thousands)	Nine Months Ended September 30, 2012	2011
Operating Activities		
Net loss	$ (2,530)	$ (668)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Gain on derivatives		(73)
Depreciation	102	251
(Gain) loss on disposal of equipment	(130)	35
Stock based compensation	164	599
Provision for excess and obsolete inventories	86	(135)
Bad debt expense	2	
Changes in operating assets and liabilities:		
Accounts receivable	1,435	48
Inventories	(562)	(151)
Prepaid expenses and other current assets	(14)	(6)
Accounts payable	86	87
Deferred revenue	(38)	37
Accrued liabilities	130	6
Net cash (used in) provided by operating activities	(1,269)	30
Investing Activities		
Purchases of equipment	(12)	(125)
Proceeds from sale of equipment	143	
Net cash provided by (used in) investing activities	131	(125)
Financing Activities		
Proceeds from the sale of subsidiary equity and warrants issued		563
Net cash provided by financing activities		563
(Decrease) increase in cash and cash equivalents	(1,138)	468
Cash - beginning of period	1,669	1,118
Cash - end of period	$ 531	$ 1,586

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

MECHANICAL TECHNOLOGY, INCORPORATED

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. MTI operates in two segments, the Test and Measurement Instrumentation segment, which is conducted through MTI Instruments, Incorporated (MTI Instruments), a wholly-owned subsidiary, and the New Energy segment, which is conducted through MTI MicroFuel Cells Incorporated (MTI Micro), a variable interest entity (VIE) that is included in these condensed consolidated financial statements and described further below in Note 2.

MTI Instruments was incorporated in New York on March 8, 2000 and is a worldwide supplier of precision non-contact physical measurement solutions, portable balancing equipment, wafer inspection tools, and tensile stage systems for material testing. MTI Instruments products use a comprehensive array of technologies to solve complex, real world applications in numerous industries including manufacturing, semiconductor, solar, commercial and military aviation, automotive and data storage. MTI Instruments products consist of electronic gauging instruments for position, displacement and vibration application within the design, manufacturing/production, test and research market; wafer characterization of semi-insulating and semi-conducting wafers within both the semiconductor and solar industries; tensile stage systems for materials testing at academic and industrial settings; and engine vibration analysis systems for both military and commercial aircraft.

MTI Micro was incorporated in Delaware on March 26, 2001, and has been developing Mobion®, 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. Mobion® handheld generators are based on direct methanol fuel cell (DMFC) technology, which has been recognized as an enabling technology for advanced portable power sources by the scientific community and industry analysts. As the need for advancements in portable power increases, MTI Micro has been developing Mobion® as a solution for advancing current and future electronic device power needs of the portable electronics market. As of September 30, 2012, the Company owned approximately 47.6% of MTI Micro s outstanding common stock. Although MTI Micro continues to believe in the potential of its Mobion® based power solutions, it has suspended its MTI Micro operations until such time as market demand and other deciding factors, including obtaining additional external financing, the successful completion of customer trials, a new development program with a government agency, and/or a customer order, come to fruition. MTI Micro will continue to seek additional capital from external sources to resume operations and fund future development, if any. If MTI Micro is unable to secure additional financing, a new development program or customer order, the MTI Micro Board of Directors will assess other options for MTI Micro, including the sale of its intellectual property portfolio and/or remaining assets.

Liquidity

The Company has historically incurred significant losses, the majority stemming from the direct methanol fuel cell product development and commercialization programs of MTI Micro, and had a consolidated accumulated deficit of $122.6 million as of September 30, 2012. During the nine months ended September 30, 2012, the Company generated a net loss attributed to MTI of $2.5 million and cash used in operating activities totaling $1.3 million, which included a $562 thousand build up of inventory. As of September 30, 2012, the Company had approximately $531 thousand of cash available to fund future operations and working capital of approximately $876 thousand, a $2.3 million decrease from $3.1 million at December 31, 2011. Subsequent to September 30, 2012, the Company utilized $100 thousand under the MTI Instruments line of credit to fund its operations.

During the third quarter of 2012, the Company implemented personnel reductions throughout the organization and scaled back on discretionary spending to reduce future cash burn. However, in conjunction with the termination of Peng K. Lim as the Company s Chief Executive Officer in September 2012, the Company may potentially be obligated over the next twelve months for severance payments related to Mr. Lim s employment agreement.

While it cannot be assured, management believes that, due in part to our backlog at September 30, 2012 of $1.5 million, continued cost control initiatives and recent sales staff additions, the Company will resume positive cash flows in 2013 to fund the Company s operations for the foreseeable future.

The Company expects to continue funding its operations from current cash, its projected 2012 cash flow pursuant to management s current plan, and additional draw downs from its existing line of credit at MTI Instruments. The Company may also seek to supplement its resources through the sales of additional assets, including its investment in MTI Micro. Besides the line of credit at MTI Instruments, the Company has no other commitments for funding future needs of the organization at this time and such additional financing during 2012 may not be available to the Company on acceptable terms, if at all.

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 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, 2011.

The information presented in the accompanying condensed consolidated balance sheet as of December 31, 2011 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 and nine months ended September 30, 2012 and September 30, 2011.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, MTI Instruments and its VIE, MTI Micro. The Company is the primary beneficiary of the VIE. All intercompany balances and transactions are eliminated in consolidation. The Company reflects the impact of the equity securities issuances in its investment in the VIE and additional paid-in-capital accounts for the dilution or anti-dilution of its ownership interest in the VIE.

The Company has performed an analysis under the VIE accounting model and determined that MTI Micro is a VIE. One of the criteria for determining whether an entity is a VIE is determining if the entity, MTI Micro, has equity at risk. Management has concluded that MTI Micro does not have equity at risk to fund operations into its next phase. Further, the Company has determined that it is the primary beneficiary of MTI Micro, and therefore should include MTI Micro s results of operations in the Company s consolidated financial statements.

The Company's analysis to determine the primary beneficiary of MTI Micro focused primarily on determining which variable interest holder has the power to direct the activities that would have the most significant impact on the financial performance of MTI Micro. MTI Micro is governed by its own Board of Directors and significant decisions are made by a majority vote of this board. MTI does not have control of the MTI Micro Board of Directors; however, as of September 30, 2012, the MTI Micro Board of Directors was comprised entirely of the same members of the Company s Board of Directors. Under the Articles of Incorporation of MTI Micro, each share of MTI Micro stock is entitled to a vote, and further, holders of a majority of the shares of MTI Micro's common stock have the ability to reconstitute the board. As of September 30, 2012, MTI, Counter Point Ventures Fund II, LP (Counter Point) and Dr. Walter L. Robb, a member of the Company s and MTI Micro s Board of Directors own 47.6%, 45.2% and 5.1% of the common shares of MTI Micro, respectively. Counter Point is a venture capital fund sponsored and managed by Dr. Robb. Since no entity of the related parties has power but, as a group, the Company and its related parties have the power, then the party within the related party group that is most closely associated with the VIE, MTI Micro, is the primary beneficiary. Even though Dr. Robb and Counterpoint combined control a majority of the outstanding common stock, and they have the ability to elect the directors of MTI Micro and decide whether to continue to seek business opportunities for MTI Micro or instead seek opportunities to sell the intellectual property, they have not elected to do so. The Company continues to oversee the day to day operations, exercise management decision making, seek opportunities to sell intellectual property, and has a vested interest in the commercialization of MTI Micro s fuel cell technology. Since inception in 2001, the Company has made the largest investment and been the principal funder of MTI Micro. The Company has also been exposed to losses and has the ability to benefit from MTI Micro. Considering the facts and circumstances, management believes the Company is most closely associated with the VIE, MTI Micro, and therefore, it is the primary beneficiary.

Should there be a change in the facts and circumstances (such as undertaking additional activities, a change in governance or a change to the related party group) in the future, management will reassess whether the Company remains the primary beneficiary and should continue to include MTI Micro in the Company s condensed consolidated financial statements.

Non-controlling interests (NCI) are classified as equity in the condensed consolidated financial statements. The condensed consolidated statement of operations presents condensed 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.

Reclassifications

It is the Company s policy to reclassify prior year consolidated financial statements to conform to current year presentation, if applicable. Prior period amounts related to prototype evaluation agreements have been reclassified. The three months ended September 30, 2011 and the nine months ended September 30, 2011 were adjusted by $0 thousand and $100 thousand, respectively. The financial statement lines impacted in the Condensed Consolidated Statements of Operations were reductions to Unfunded research and product development expenses, Total research and product development expenses, and Operating loss and increased expenses to Other (expense) income, net.

3. Accounts Receivable

Receivable balances consist of the following at:

(Dollars in thousands)	Test and Measurement Instrumentation	New Energy	Consolidated Totals
September 30, 2012			
U.S. Government	$ 94	$	$ 94
Commercial	352		352
	446		446
Less: Allowance for Doubtful Account	(2)		(2)
Total	$ 444	$	$ 444
December 31, 2011			
U.S. Government	$ 990	$	$ 990
Commercial	887	4	891
Total	$ 1,877	$ 4	$ 1,881

For the nine months ended September 30, 2012 and 2011, the largest commercial customer represented 8.7% and 11.4%, respectively, and a U.S. governmental agency represented 18.0% and 12.2%, respectively, of the Company s Test and Measurement Instrumentation segment product revenue. As of September 30, 2012 and December 31, 2011, the largest commercial customer represented 3.9% and 10.0%, respectively, and a U.S. governmental agency represented 21.1% and 52.7%, respectively, of the Company s Test and Measurement Instrumentation segment accounts receivable.

As of September 30, 2012, there were no outstanding receivables for the New Energy segment. The balance as of December 31, 2011 represents minimal amounts due for service contracts.

As of September 30, 2012 and December 31, 2011, the Company had an allowance for doubtful account receivable of $2 thousand and $0 thousand, respectively.

4. Inventories

Inventories consist of the following at:

(Dollars in thousands)	September 30, 2012	December 31, 2011
Finished goods	$ 714	$ 386
Work in process	327	211
Raw materials	721	603
	1,762	1,200
Less: Inventory reserve	(329)	(243)
	$ 1,433	$ 957

5. Property, Plant and Equipment

Property, plant and equipment consist of the following at:

(Dollars in thousands)	**September 30, 2012**	**December 31, 2011**
Leasehold improvements	$ 954	$ 1,213
Computers and related software	1,719	2,130
Machinery and equipment	1,394	3,541
Office furniture and fixtures	277	457
	4,344	7,341
Less accumulated depreciation	4,189	7,083
	$ 155	$ 258

Depreciation expense was $102 thousand and $307 thousand for the nine months ended September 30, 2012 and the year ended December 31, 2011, respectively. In conjunction with the suspension of MTI Micro operations in late 2011, sales of certain surplus equipment on hand were made during the three months ended June 30, 2012. This resulted in a net gain on sale of $130 thousand. As of September 30, 2012, all $143 thousand in sales proceeds have been received.

6. Income Taxes

During the quarter ended September 30, 2012, the Company s effective income tax rate was 0%. The projected annual effective tax rate is less than the Federal statutory rate of 35%, primarily due to the permanent difference related to the stock-based compensation expense for employees of MTI Micro who transferred to MTI. For the quarter ended September 30, 2011, the Company s effective income tax rate was also 0%. The difference between the annual effective tax rate and the Federal statutory rate was the result of the change in the valuation allowance and the gain on derivative.

During the nine months ended September 30, 2012, the Company s effective income tax rate was 0%. The projected annual effective tax rate is less than the Federal statutory rate of 35%, primarily due to the permanent difference related to the stock-based compensation expense for employees of MTI Micro who transferred to MTI. For the nine months ended September 30, 2011, the Company s effective income tax rate was also 0%. The difference between the annual effective tax rate and the Federal statutory rate was the result of the change in the valuation allowance and the gain on derivative.

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 whether a full or partial release of our valuation allowance is required. In addition, the Company s assessment requires it 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 September 30, 2012. 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 expenses and the reversal of significant temporary differences. The Company needs to generate approximately $225 thousand of taxable income in each year over the next twenty years to ensure the realizability of the approximately $1.5 million of deferred tax assets recorded on the condensed consolidated balance sheet at September 30, 2012.

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 approximately $19 million at September 30, 2012 and $20 million at December 31, 2011, respectively. This decrease was primarily the result of a one-time adjustment in the deferred tax asset related to stock compensation expense for options that have lapsed or been voluntarily surrendered to the Company. 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 September 30, 2012 and December 31, 2011, there were 5,256,883 and 5,254,883 shares of common stock issued and outstanding, respectively.

Changes in common shares issued and treasury stock outstanding are as follows:

	Nine Months Ended September 30, 2012	Year Ended December 31, 2011
Common Shares		
Balance, beginning	6,259,975	5,776,750
Issuance of shares for common stock grants	2,000	
Issuance of shares for restricted stock grants		483,225
Balance, ending	6,261,975	6,259,975
Treasury Stock		
Balance, beginning	1,005,092	1,005,092
Balance, ending	1,005,092	1,005,092

Warrants Issued

On December 20, 2006, the Company issued warrants to investors to purchase 378,472 shares of the Company s common stock at an exercise price of $18.16 per share. These warrants were fair valued by the Company until their expiration on December 19, 2011.

The Company recognized these derivatives as liabilities in the statement of financial position and measured these instruments at fair value. The fair value of the derivative was recorded in the Derivative liability line on the financial statements, and was valued quarterly using the Black-Scholes Option Pricing Model. Gains and losses on derivatives are included in Gain / Loss on derivatives in the Condensed Consolidated Statement of Operations. During the three and nine month periods ended September 30, 2011, the Company recognized a gain on derivatives of $0 and $73 thousand, respectively.

Reservation of Shares

The Company had reserved common shares for future issuance as of September 30, 2012 as follows:

Stock options outstanding	579,646
Common stock available for equity awards or issuance of options	420,000
Number of common shares reserved	999,646

10

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 loss per share, assuming dilution, for the three and nine months ended September 30, 2012, were options to purchase 579,646 shares of the Company s common stock. These potentially dilutive items were excluded because the Company incurred a loss for this period and their inclusion would be anti-dilutive.

Not included in the computation of loss per share, assuming dilution, for the three and nine months ended September 30, 2011, were options to purchase 849,111 shares of the Company s common stock and warrants to purchase 378,472 shares of the Company s common stock. These potentially dilutive items were excluded because the Company incurred a loss for this period and their inclusion would be anti-dilutive.

8. Issuance of Common Stock, Warrants and Stock Options by MTI Micro

As of September 30, 2012, the Company owned approximately 47.6% of MTI Micro s outstanding common stock, or 75,049,937 shares, and 53.3% of common stock and warrants issued, which includes 32,904,136 outstanding warrants. The number of shares of MTI Micro common stock authorized for issuance is 240,000,000 as of September 30, 2012.

Common Stock Issued MTI Micro

On January 11, 2010, MTI Micro entered into a Purchase Agreement with Counter Point. Counter Point is a venture capital fund sponsored and managed by Dr. Walter L. Robb, a member of the Board of Directors of the Company and MTI Micro, and a current stockholder of MTI Micro. Pursuant to the Purchase Agreement, MTI Micro issued and sold to Counter Point 28,571,429 shares of common stock, par value $0.01 per share (the MTI Micro Common Stock), at a purchase price per share of $0.07, over a period of twelve months, and warrants (MTI Micro Warrants) to purchase shares of MTI Micro Common Stock equal to 20% of the shares of MTI Micro Common Stock purchased under the Purchase Agreement at an exercise price of $0.07 per share. The sale and issuance of the MTI Micro Common Stock and MTI Micro Warrants occurred over multiple closings (each, a Closing). Nine Closings occurred through December 31, 2010, with MTI Micro raising $1.9 million from the sale of 26,952,386 shares of MTI Micro Common Stock and MTI Micro Warrants to purchase 5,390,477 shares of MTI Micro Common Stock to Counter Point. The final Closing occurred on January 5, 2011, with MTI Micro raising $113 thousand from the sale of 1,619,043 shares of MTI Micro Common Stock and MTI Micro Warrants to purchase 323,809 shares of MTI Micro Common Stock to Counter Point.

On February 9, 2011, Amendment No. 1 was entered into between MTI Micro and Counter Point. Pursuant to Amendment No. 1, MTI Micro issued and sold to Counter Point 6,428,574 shares of MTI Micro Common Stock at a purchase price per share of $0.07, through December 31, 2011, and MTI Micro Warrants to purchase shares of MTI Micro Common Stock equal to 20% of the shares of MTI Micro Common Stock purchased under Amendment No. 2 at an exercise price of $0.07 per share. The sale and issuance of the MTI Micro Common Stock and MTI Micro Warrants occurred over multiple closings (each, a Closing) occurring over four one-month closing periods (each, a Closing Period). Four Closings occurred through September 30, 2011, with MTI Micro raising $450 thousand from the sale of 6,428,574 shares of MTI Micro Common Stock and MTI Micro Warrants to purchase 1,285,715 shares of MTI Micro Common Stock to Counter Point.

On September 23, 2011, Amendment No. 2 was entered into between MTI Micro and Counter Point. Pursuant to Amendment No. 2, MTI Micro issued and sold to Counter Point 1,200,000 shares of MTI Micro Common Stock at a purchase price per share of $0.07, through December 31, 2011, and MTI Micro Warrants to purchase shares of MTI Micro Common Stock equal to 20% of the shares of MTI Micro Common Stock purchased under Amendment No. 2 at an exercise price of $0.07 per share. The sale and issuance of the MTI Micro Common Stock and MTI Micro Warrants occurred over multiple closings (each, a Closing) occurring over three one-month closing periods (each, a Closing Period). Three Closings occurred through December 31, 2011, with MTI Micro raising $84 thousand from the sale of 1,200,000 shares of MTI Micro Common Stock and MTI Micro Warrants to purchase 240,000 shares of MTI Micro Common Stock to Counter Point.

The following table represents changes in ownership between the Company and non-controlling interests (NCI) in common shares of MTI Micro:

	MTI	Non Controlling Interest (NCI)
Average Price	Ownership	Ownership