OLD POINT FINANCIAL CORP
Form 10-Q
August 08, 2017
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 quarterly period ended June 30, 2017

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: 000-12896

OLD POINT FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

VIRGINIA	54-1265373
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 West Mellen Street, Hampton, Virginia 23663
(Address of principal executive offices) (Zip Code)

(757) 728-1200
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

4,987,646 shares of common stock ($5.00 par value) outstanding as of July 31, 2017

OLD POINT FINANCIAL CORPORATION

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	June 30, 2017	December 31, 2016
	(dollars in thousands except per share data)	
	(unaudited)	
Assets		
Cash and due from banks	$27,121	$21,885
Interest-bearing due from banks	1,708	1,667
Federal funds sold	1,543	2,302
Cash and cash equivalents	30,372	25,854
Securities available-for-sale, at fair value	167,586	199,365
Restricted securities	3,102	970
Loans held for sale	1,600	0
Loans held for investment, net of allowance for loan losses of $8,710 and $8,245	671,079	595,637
Premises and equipment, net	38,370	39,324
Bank-owned life insurance	25,604	25,206
Other real estate owned, net of valuation allowance of $0 and $1,026	0	1,067
Other assets	14,805	15,543
Total assets	$952,518	$902,966
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$224,785	$228,641
Savings deposits	348,223	344,452
Time deposits	204,172	211,409
Total deposits	777,180	784,502
Overnight repurchase agreements	23,221	18,704
Federal Home Loan Bank advances	50,000	0
Accrued expenses and other liabilities	5,209	5,770
Total liabilities	855,610	808,976
Commitments and contingencies		
Stockholders' equity:		
Common stock, $5 par value, 10,000,000 shares authorized; 4,984,151 and 4,961,258 shares issued and outstanding	24,921	24,806
Additional paid-in capital	16,758	16,427
Retained earnings	57,973	56,965
Accumulated other comprehensive loss, net	(2,744)	(4,208)
Total stockholders' equity	96,908	93,990

Total liabilities and stockholders' equity	$952,518	$902,966

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(unaudited, dollars in thousands except per share data)			
Interest and Dividend Income:				
Interest and fees on loans	$ 7,110	$ 6,560	$ 13,890	$ 12,973
Interest on due from banks	3	1	8	5
Interest on federal funds sold	2	1	5	2
Interest on securities:				
Taxable	491	471	987	1,019
Tax-exempt	420	376	847	760
Dividends and interest on all other securities	35	26	49	41
Total interest and dividend income	8,061	7,435	15,786	14,800
Interest Expense:				
Interest on savings deposits	73	54	137	109
Interest on time deposits	520	517	1,039	1,034
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	8	8	13	14
Interest on Federal Home Loan Bank advances	72	10.80	5.76	

Fiscal Year Ended December 31, 2008

First Quarter	$ 7.44	$ 3.77
Second Quarter	7.80	1.11
Third Quarter	5.50	.79
Fourth Quarter	1.93	.75

Item 6: Selected Financial Data

The following table sets forth our summary consolidated financial data for the fiscal years ended December 31, 2006, 2007, and 2008, which was derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. We derived our summary consolidated financial data for the years ended December 31, 2004 and 2005 set forth in the following table from our audited consolidated financial statement not included in this report. You should read the following summary consolidated financial data together with the information under Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, including the related notes thereto.

(In thousands, except per share data)	Years Ended December 31,				
	2004	2005	2006	2007	20
Statement of Operations Data					
Product revenue	$ 7,530	$ 6,012	$ 7,667	$ 9,028	$ 6
Funded research and development revenue	1,040	1,829	489	1,556	1
Gain (loss) on derivatives	614	(10,407)	182	2,967	
Net gain (loss) on sale of securities available for sale	3,626	10,125	4,289	2,549	1
(Loss) income from continuing operations before income taxes, equity in holdings losses and minority interest	(9,121)	(14,949)	(12,980)	(7,609)	(10
Income tax (expense) benefit	3,564	(1,587)	(1,895)	(2,548)	(2
Minority interests in losses of consolidated subsidiary	1,366	1,442	1,208	582	

Loss from continuing operations	(4,191)	(15,094)	(13,667)	(9,575)	(12
Net (loss) income	$ (4,191)	$ (15,094)	$ (13,667)	$ (9,575)	$ (12
Basic and Diluted (Loss) Earnings Per Share					
Loss from continuing operations	$ (1.15)	$ (3.93)	$ (3.46)	$ (2.01)	$ (
(Loss) earnings per share	$ (1.15)	$ (3.93)	$ (3.46)	$ (2.01)	$ (
Balance Sheet Data (as of period end):					
Working capital	$ 33,663	$ 33,045	$ 23,076	$ 11,347	$
Securities available for sale	17,678	18,947	10,075	4,492	
Securities available for sale — restricted	16,497	—	—	—	
Total assets	66,830	41,267	33,811	18,716	5
Total long-term obligations	1,149	—	3,664	904	
Total stockholders' equity	55,584	32,916	22,871	13,803	1

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related notes included elsewhere in this Annual Report. This discussion contains forward-looking statements, which involve risk and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including those discussed in Item 1A: "Risk Factors" and elsewhere in this Annual Report.

Overview

We are developing and commercializing off-the-grid rechargeable power sources for portable electronics. We have developed a patented, proprietary direct methanol fuel cell technology platform called Mobion, which generates electrical power using up to 100% methanol as fuel. Our proprietary fuel cell power solution consists of two primary components integrated in an easily manufactured device: the direct methanol fuel cell power engine, which we refer to as our Mobion Chip, and methanol replacement cartridges. Our Mobion Chip weighs less than one ounce and is small enough to fit in the palm of one's hand. The methanol used by the technology is fully biodegradable. We have demonstrated power density of over 62 mW/cm^2 while producing more than 1,800 Wh/kg of energy from the direct methanol fuel feed. For these reasons, we believe our technology offers a compelling alternative to current lithium-ion and similar rechargeable battery systems currently used by original equipment manufacturers and branded partners, or OEMs, in many handheld electronic devices, such as mobile phones (including smart phones) and mobile phone accessories, digital cameras, portable media players, PDAs, and GPS devices. We believe our platform will facilitate the development of numerous product advantages, including small size, environmental friendliness, and simplicity of design, all critical for commercialization in the consumer market, and can be implemented as three different product options: a compact external charging device, a snap-on or attached power accessory, or a lithium-ion battery replacement embedded fuel cell power solution. With adequate funding, we intend to commercialize the Mobion platform in 2009.

Our Mobion technology eliminates the need for active water recirculation pumps or the inclusion of water as a fuel dilutant. The water required for the electrochemical process is transferred internally within the Mobion Chip from the site of water generation on the air-side of the cell. This internal flow of water takes place without the need for any pumps, complicated re-circulation loops or other micro-plumbing tools. Our Mobion technology is protected by a patent portfolio that includes over 110 U.S. patent applications covering five key technologies and manufacturing areas.

We also design, manufacture, and sell high-performance test and measurement instruments and systems serving several global markets. These products consist of: electronic, computerized gauging instruments for position, displacement and vibration applications for the design, manufacturing and test markets; wafer characterization tools for the semiconductor and solar markets; and engine balancing and vibration analysis systems for military and commercial aircraft.

Our cash requirements depend on numerous factors, including completion of our portable power source products development activities, our ability to commercialize our portable power source products, market acceptance of our portable power source products, and other factors. We expect to pursue the expansion of our operations through internal growth and strategic partnerships.

Liquidity

Several key indicators of our liquidity are summarized in the following table:

(Dollars in thousands)	Years ended December 31,		
	2006	**2007**	**2008**
Cash and cash equivalents	$ 14,545	$ 7,650	$ 1,662
Securities available for sale	10,075	4,492	—
Working capital	20,820	11,347	252
Net loss	(13,667)	(9,575)	(12,504)
Net cash used in operating activities	(12,706)	(11,683)	(10,346)
Purchase of property, plant and equipment	(1,574)	(414)	(181)

From inception through December 31, 2008, we have incurred an accumulated deficit of $117.6 million and we expect to incur losses for the foreseeable future as we continue micro fuel cell product development and commercialization programs. We expect that losses will fluctuate from year to year and that such fluctuations may be substantial as a result of, among other factors, operating results of our businesses.

At present, the Company does not expect to continue to fund MTI Micro’s development and commercialization of its portable power source products. Based on MTI Micro’s projected cash requirements for 2009 and their current cash and cash equivalents of $0.7 million at December 31, 2008, plus a $0.5 million bridge loan in February 2009, we believe MTI Micro will have adequate resources to fund operations into the month of April 2009. MTI Micro will be required to raise additional funds through issuance of its equity or debt, government funding and/or explore other strategic alternatives including but not limited to the sale of assets and/or the company. If MTI Micro is unable to raise additional financing, it may be required to discontinue its business operations. Based upon projected cash requirements and current cash and cash equivalents for MTI Instruments, along with cash necessary to operate the public parent company, we believe that we will have adequate resources to fund MTI Instruments and the public parent company at least through December 2009.

Restructuring

In March 2007, the Company announced the suspension of MTI Micro’s high power direct methanol fuel cell program in response to decreased funding and sales opportunities in the military market. In connection with this action, the Company accrued restructuring charges of $344,000 pre-tax, consisting primarily of cash-based employee severance and benefit costs related to the reduction of 23 positions within its New Energy segment and Corporate staff. Restructuring expenses were classified as selling, general and administrative expenses within the Company’s Consolidated Statements of Operations for the period. All amounts under this plan were settled by March 31, 2008.

In August 2008, the Board of Directors approved a restructuring plan (the “Restructuring”), which was designed to help the Company reduce expenses and preserve cash. As part of the Restructuring, a total of 29 positions across the Company and its subsidiaries were eliminated. The Company accrued and at present expects to incur total severance and other benefit charges of approximately $342,000 in connection with this plan. Through December 31, 2008, the Company incurred cash expenditures to implement this plan of $273,000, and incurred the remaining cash expenditures in the first quarter of 2009.

Results of Operations

Results of Operations for the Year Ended December 31, 2008 Compared to December 31, 2007.

Product Revenue: Product revenue in our test and measurement instrumentation business for 2008 decreased by $2.8 million, or 31.1%, to $6.2 million for the fiscal year ended December 31, 2008 from $9.0 million for the fiscal year ended December 31, 2007. The revenue decrease was primarily the result of a $1.5 million decrease in general dimensional gauging sales from significantly lower sales to a Japanese OEM. Aviation sales also decreased $1.4 million due to lower sales to the U.S. Air Force and commercial engine balancing system revenues decreased by $0.3 million. These declines were partially offset by an increase in semiconductor/solar equipment sales of $0.4 million.

In our test and measurement instrumentation business during 2008, the U.S. Air Force accounted for $1.0 million, or 15.7%, of product revenue while during 2007, the U.S. Air Force accounted for $2.4 million, or 26.3%, of product revenue. Additionally, during 2008, Koyo Precision, our Japanese distributor, represented $0.9 million, or 13.9%, of product revenue while during 2007, Koyo Precision represented $2.5 million, or 22.9%, of product revenue.

Information regarding government contracts included in product revenue is as follows:

(Dollars in thousands) Contract[1]	Expiration	Revenue Year Ended December 31, 2007	Revenue Year Ended December 31, 2008	Revenue Contract to Date Dec. 31, 2008	Total Contract Orders Received to Date Dec. 31, 2008
$2.3 million Air Force New PBS-4100 Systems	07/28/2010(2)	$1,596	$ 0	$ 1,596	$ 1,881
$8.8 million Air Force Retrofit and Maintenance of PBS-4100 Systems	06/19/2008(3)	$ 738	$ 594	$ 7,959	$ 7,959

(1) Contract values represent maximum potential values and may not be representative of actual results.
(2) Date represents expiration of contract, including all three potential option extensions.
(3) The contract expiration date has passed, however, three delivery orders remain open under the contract.

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Funded Research and Development Revenue: Funded research and development revenue in our portable power, or new energy business decreased by $0.4 million, or 25%, to $1.2 million for the year ended December 31, 2008 from $1.6 million for the year ended December 31, 2007. The decrease in revenue was primarily the result of the completion of the Samsung alliance, the SAFT contract and the NCMS contract in 2007. All revenues for 2008 were a result of reimbursement for research and development costs under the DOE contract with the final billing occurring in January of 2009. The DOE funding was suspended in 2006, and was reinstated during May 2007, thus only eight months of funding was recognized in 2007, or $675,000. Revenue during 2007 also included $418,000 from the SAFT contract, for which revenue recognition had been deferred until the delivery under the contract was accepted during the first quarter of 2007, revenue recognized under the Samsung alliance agreement of $448,000 and revenue from the NCMS contract of $15,000.

(Dollars in thousands)		Revenue Year Ended December 31, 2007		Revenue Year Ended December 31, 2008		Revenue Contract to Date Dec. 31, 2008
Contract	Expiration[1]	Revenue	Percent	Revenue	Percent	
$3.0 million DOE[2]	03/31/09	$ 675	43.4%	$ 1,154	100%	$ 3,000
$1.0 million Samsung[3]	07/31/07	448	28.8			875
$418,000 SAFT[4]	12/31/06	418	26.9			418
$15,000 NCMS[5]	06/30/07	15	0.9			15
Total		$ 1,556	100.0%	$ 1,154	100%	$ 4,308

(1) Dates represent expiration of contract, not date of final billing.
(2) The DOE contract is a cost share contract. DOE funding for this contract was suspended during January 2006 and reinstated during May 2007. During 2007, we received notifications from the DOE of funding releases totaling $1.0 million and also received an extension of the termination date for the contract from July 31, 2007 to September 30, 2008. During 2008, we received notification from the DOE of a funding release of $325,000, and an extension of the termination date for the contract from September 30, 2008 to March 31, 2009.
(3) The Samsung contract is a research and prototype contract. This contract included one up-front payment of $750,000 and two milestone payments of $125,000 each for the delivery of prototypes. The contract was amended on October 22, 2007 as we agreed to issue a credit in the amount of the last invoice in recognition of our continuing collaboration with Samsung. Therefore, revenue under this contract totaled $875,000.
(4) The SAFT contract is a fixed price contract. This is a subcontract with SAFT under the U.S. Army CECOM contract. The purchase order received in connection with this subcontract was revised on November 14, 2006 eliminating one milestone. As a result, the contract value was reduced from $470,000 to $418,000 and the expiration date was extended from September 30, 2006 to December 31, 2006.
(5) This contract was a cost plus catalyst research contract with the National Center for Manufacturing Sciences, or NCMS.

Cost of Product Revenue: Cost of product revenue in our test and measurement instrumentation business decreased by $0.2 million, or 6%, to $3.2 million during the year ended December 31, 2008 from $3.4 million during the year ended December 31, 2007. The decrease primarily resulted from a change in product sales mix to a higher concentration of standard products, partially offset by higher inventory reserves for potentially obsolete inventory.

Gross profit as a percentage of product revenue decreased by 13.1% to 48.9% for the year ended December 31, 2008. The decrease resulted from a change in the product sales mix to a higher concentration of standard products which yielded a lower gross margin as well as the increase in inventory reserves for potentially obsolete inventory.

Funded Research and Product Development Expenses: Funded research and development expenses in our new energy business increased $0.5 million, or 26%, to $2.4 million for the year ended December 31, 2008 from $1.9 million for the year ended December 31, 2007. This is a result of a full year of recognition of costs associated with the DOE contract, with reimbursement also increasing by $0.5 million for 2008.

Unfunded Research and Product Development Expenses: Unfunded research and product development expenses decreased $4.0 million, or 41%, to $5.9 million for the year ended December 31, 2008 from $9.9 million for the year ended December 31, 2007. This decrease is attributable to three factors (a) a $0.5 million decrease in development costs that were related to the DOE contract that was in effect for the entire year, which relates to the increase in funded research and product development expenses, (b) the maturity of development of our principle product for the new energy business line and (c) continued cost reductions by management due to decreases in funding.

Selling, General and Administrative Expenses: Selling, general and administrative expenses decreased by $0.3 million, or 4%, to $8.4 million for the year ended December 31, 2008 from $8.7 million for the year ended December 31, 2007. This decrease was primarily the result of (a) a $756,000 decrease in payroll costs due to staff reductions in 2007, with a full year impact in 2008, and further layoffs in 2008 (b) $605,000 in corresponding decreases in benefit related costs, bonuses and commissions (c) a $715,000 decrease in stock compensation related expenses and (d) a $583,000 decrease in general operating expenses representing management efforts to reduce expenditures due to decreases in funding sources. These decreases in expenditures were offset by increases in outside fees, including audit legal, and consulting fees of $248,000 and a $2,000,000 increase related to a decrease in allocations of expense from SG&A to funded and unfunded research and development costs for overhead and other costs allocable to research and development programs.

Operating Loss: Operating loss for the year ended December 31, 2008 compared with the operating loss for the year ended December 31, 2007 decreased by $0.9 million to $12.5 million, a 7% decrease, as a result of the factors noted above.

Gain on Sale of Securities Available for Sale: The gain on sale of securities available for sale for the year ended December 31, 2008 was $1.0 million compared with a gain of $2.5 million for the year ended December 31, 2007. During 2008, we sold 1,137,166 shares of Plug Power common stock at a weighted average price of $2.67 per share, with gross proceeds to us of $3.3 million. As of December 31, 2008, we no longer own any Plug Power common stock.

Gain (loss) on Derivatives: We recorded a gain on derivative accounting of $0.7 million for the year ended December 31, 2008 and a gain of $3.0 on derivative accounting for the year ended December 31, 2007. Both the 2008 and 2007 gains are the result of derivative treatment of the freestanding warrants issued to investors in conjunction with our December 2006 capital raise.

Income Tax (Expense) Benefit: Our income tax rate for the year ended December 31, 2008 was 19%, while the income tax rate for the year ended December 31, 2007 was 33%. These tax rates were primarily the result of losses generated by operations, changes in the valuation allowance, state true-ups upon tax return filings, permanent deductible differences for the derivative valuation, and disproportionate effects of reclassification of gains on Plug Power security sales included in operating loss.

The valuation allowance against our deferred tax assets at December 31, 2008 was $27.5 million and at December 31, 2007 was $22.3 million. We determined that it was more likely than not that the ultimate recognition of certain deferred tax assets would not be realized.

Results of Operations for the Year Ended December 31, 2007 Compared to December 31, 2006.

Product Revenue: Product revenue in our test and measurement instrumentation business for 2007 increased by $1.4 million, or 17.8%, to $9.0 million for the fiscal year ended December 31, 2007 from $7.7 million for the fiscal year ended December 31, 2006. This performance was primarily the result of a $602,000 increase in activity by the U.S. Air Force, driven by the New PBS-4100 systems contract. Also contributing were increased purchases by our Japanese distributor (particularly OEM capacitance), as well as increased volume in semiconductor product shipments. Total product revenue for general dimensional gauging products increased by $298,000, or 7.2%, to $4.5 million, while total product revenue for semiconductor products increased by $364,000, or 71.2%, to $875,000.

In our test and measurement instrumentation business during 2007, the U.S. Air Force accounted for $2.4 million, or 26.3%, of product revenue while during 2006, the U.S. Air Force accounted for $1.8 million, or 23.1%, of product revenue. Additionally, during 2007, Koyo Precision, our Japanese distributor, represented $2.5 million, or 27.7%, of product revenue while during 2006, Koyo Precision represented $1.8 million, or 22.9%, of product revenue.

Information regarding government contracts included in product revenue is as follows:

(Dollars in thousands)		Revenue			Total Contract Orders
		Year Ended		Revenue Contract	Received
		December 31,		to Date Dec. 31,	to Date Dec. 31,
Contract[1]	Expiration	2006	2007	2007	2007
$2.3 million Air Force New PBS-4100 Systems	07/28/2010(2)	$ —	$ 1,596	$ 1,596	$ 1,596
$8.8 million Air Force Retrofit and Maintenance of PBS-4100 Systems	05/19/2008(3)	$ 1,417	$ 738	$ 7,365	$ 7,365

(1) Contract values represent maximum potential values and may not be representative of actual results.
(2) Date represents expiration of contract, including all three potential option extensions.
(3) Expiration date was extended during December 2007 from December 20, 2007 to May 19, 2008, and in May 2008 it was extended from May 19, 2008 to June 19, 2008.

Funded Research and Development Revenue: Funded research and development revenue in our new energy business during 2007 increased by $1.1 million, or 218.2%, to $1.6 million for the year ended December 31, 2007 from $489,000 for the year ended December 31, 2006. The increase in revenue was primarily the result of billings under the DOE contract, which had its funding reinstated during May 2007 after it had been suspended during 2006. This DOE funding resumption contributed an additional $613,000 to revenue during 2007. Revenue during 2007 also included $418,000 from the SAFT contract, for which revenue recognition had been deferred until the delivery under the contract was accepted during the first quarter of 2007. Revenue recognized under the Samsung alliance agreement increased by $21,000 during 2007 over 2006.

(Dollars in thousands)

Contract	Expiration[1]	Revenue Year Ended December 31, 2006 Revenue	Percent	Revenue Year Ended December 31, 2007 Revenue	Percent	Revenue Contract to Date Dec. 31, 2007
$3.0 million DOE[2]	09/30/08	$ 62	12.7%	$ 675	43.4%	$ 1,846
$1.0 million Samsung[3]	07/31/07	427	87.3	448	28.8	875
$418,000 SAFT[4]	12/31/06	—	—	418	26.9	418
$15,000 NCMS[5]	06/30/07	—	—	15	0.9	15
Total		$ 489	100.0%	$ 1,556	100.0%	$ 3,154

(1) Dates represent expiration of contract, not date of final billing.
(2) The DOE contract is a cost share contract. DOE funding for this contract was suspended during January 2006 and reinstated during May 2007. During 2007, we received notifications from the DOE of funding releases totaling $1.0 million and also received an extension of the termination date for the contract from July 31, 2007 to September 30, 2008. During February 2008, we received notification from the DOE of a funding release of $500,000, and during May2008 we received notification of a funding release of $325,000.
(3) The Samsung contract is a research and prototype contract. This contract included one up-front payment of $750,000 and two milestone payments of $125,000 each for the delivery of prototypes. The contract was amended on October 22, 2007 as we agreed to issue a credit in the amount of the last invoice in recognition of our continuing collaboration with Samsung. Therefore, revenue under this contract totaled $875,000.
(4) The SAFT contract is a fixed price contract. This is a subcontract with SAFT under the U.S. Army CECOM contract. The purchase order received in connection with this subcontract was revised on November 14, 2006 eliminating one milestone. As a result, the contract value was reduced from $470,000 to $418,000 and the expiration date was extended from September 30, 2006 to December 31, 2006.
(5) This contract was a cost plus catalyst research contract with the National Center for Manufacturing Sciences, or NCMS.

Cost of Product Revenue: Cost of product revenue in our test and measurement instrumentation business increased by $0.5 million, or 18.3%, to $3.4 million during the year ended December 31, 2007 from $2.9 million during the year ended December 31, 2006. As a percentage of product revenue, the annual cost of product revenue remained relatively consistent with 2006, and this increase was consistent with the higher revenue during 2007.

Gross profit as a percentage of product revenue decreased by 0.2% to 62.0% for the year ended December 31, 2007, remaining relatively consistent with 2006.

Funded Research and Product Development Expenses: Funded research and development expenses in our new energy business increased $0.7 million, or 64.1%, to $1.9 million for the year ended December 31, 2007 from $1.2 million for the year ended December 31, 2006. While the active contracts were relatively consistent between periods, costs for the DOE contract increased $1.3 million, reflecting its reinstatement during May 2007, while costs for the Samsung contract increased by $22,000. These increases were partially offset by a decrease in costs for the SAFT contract of $576,000, as that contract was completed during the first quarter of 2007.

Unfunded Research and Product Development Expenses: Unfunded research and product development expenses decreased $1.9 million, or 16.1%, to $9.9 million for the year ended December 31, 2007 from $11.8 million for the year ended December 31, 2006. This decrease reflects a $2.2 million decrease in development costs related to (a) the DOE contract that resumed during May 2007, which related increase is reflected in funded research and product development expenses, and (b) cost savings from the decision to suspend work on our high power program during March 2007. This decrease was partially offset by a $317,000 increase in product development

expenses in our test and measurement instrumentation business reflecting increased staffing and external product development costs focused on the development of the division's new stand-alone measurement and data acquisition solution, stand-alone laser head, as well as other precision measurement solutions.

Selling, General and Administrative Expenses: Selling, general and administrative expenses decreased by $1.3 million, or 13.2%, to $8.7 million for the year ended December 31, 2007 from $10.1 million for the year ended December 31, 2006. This decrease was primarily the result of (a) a $387,000 decrease in non-cash stock-based compensation charges reflecting the difference between sign on and promotion grants during 2006 compared with primarily annual compensation grants during 2007 and the reversal of expense during 2007 related to certain cancelled executive stock-based performance grants where performance goals were not met, (b) a $528,000 decrease in outside services, including audit, legal, and consulting fees, (c) a $345,000 decrease in recruiting and relocation costs, (d) a $178,000 increase in severance costs attributable to employees terminated as a result of our March 2007 restructuring, (e) a $632,000 decrease in wages and benefits, which was also attributable to our March 2007 restructuring, (f) a $227,000 decrease in other operating expenses, primarily insurance and laboratory operating fees, (g) a $647,000 increase related to a decrease in allocations of expense from SG&A to funded and unfunded research and development costs for overhead and other costs allocable to research and development programs, and (h) a $40,000 decrease in other expenses, net.

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Operating Loss: Operating loss for the year ended December 31, 2007 compared with the operating loss for the year ended December 31, 2006 decreased by $4.4 million to $13.3 million, a 24.7% decrease, as a result of the factors noted above.

Gain on Sale of Securities Available for Sale: The gain on sale of securities available for sale for the year ended December 31, 2007 was $2.5 million compared with a gain of $4.3 million for the year ended December 31, 2006. During 2007, we sold 1,452,770 shares of Plug Power common stock at a weighted average price of $3.53 per share, with gross proceeds to us of $5.1 million.

Gain (loss) on Derivatives: We recorded a gain on derivative accounting of $3.0 million for the year ended December 31, 2007 and a gain of $0.2 million on derivative accounting for the year ended December 31, 2006. Both the 2007 and 2006 gains are the result of derivative treatment of the freestanding warrants issued to investors in conjunction with our December 2006 capital raise.

Income Tax (Expense) Benefit: Our income tax rate for the year ended December 31, 2007 was 33%, while the income tax rate for the year ended December 31, 2006 was 15%. These tax rates were primarily the result of losses generated by operations, changes in the valuation allowance, state true-ups upon tax return filings, permanent deductible differences for the derivative valuation, and disproportionate effects of reclassification of gains on Plug Power security sales included in operating loss.

The valuation allowance against our deferred tax assets at December 31, 2007 was $22.3 million and at December 31, 2006 was $18.9 million. We determined that it was more likely than not that the ultimate recognition of certain deferred tax assets would not be realized.

Liquidity and Capital Resources

We have incurred significant losses as we continue to fund the development and commercialization of our portable power source business. We expect that losses will fluctuate from year to year and that such fluctuations may be substantial as a result of, among other factors, our operating results, the availability of equity financing, including warrants issued in connection with the December 2006 capital raise, and the ability to attract government funding resources to offset research and development costs. As of December 31, 2008, we had an accumulated deficit of $117.6 million. During the year ended December 31, 2008, our results of operations resulted in a net loss of $12.5 million and cash used in operating activities totaling $10.3 million. This cash use in 2008 was funded primarily by cash and cash equivalents on hand as of December 31, 2007 of $7.7 million and proceeds from the sales of securities available for sale of $3.0 million.

We expect to continue to incur losses during this global economic slowdown, and we expect to continue funding our operations from current cash and cash equivalents, proceeds, if any, from debt or equity financings and government funding. We expect to spend approximately $1.2 million in research and development on MTI

Instruments products during 2009.

In September 2008, MTI Micro closed on $1.5 million of funding in the form of convertible secured notes (the Bridge Notes) from an investor group (the Bridge Investors) that included Dr. Walter L. Robb, a member of our Board of Directors. We agreed to convert $0.7 million of our prior advances to MTI Micro into these Bridge Notes. In February 2009, MTI Micro and the Bridge Investors agreed to, among other things, amend the Bridge Notes (Amendment No. 1) to permit MTI Micro to sell additional Bridge Notes with an additional principal amount of up to $0.5 million to additional investors, and to extend the maturity date from March 31, 2009 to May 31, 2009 (the Maturity Date). No other terms of the Bridge Notes were amended. Following the effectiveness of the Amendment No. 1, MTI Micro borrowed an additional $0.5 million from an existing Bridge Investor, a fund managed by Dr. Walter L. Robb, a member of our Board of Directors, bringing the aggregate outstanding principal amount borrowed under the Bridge Notes, as amended, to $2.7 million, including conversion of outstanding debt totaling $0.7 million owed to the Company. The Bridge Notes carry an annual interest rate of 10%. If a qualified financing event (expected to be Series A Preferred Stock) occurs prior to the maturity of the Bridge Notes, all note holders will exchange their principal and interest amounts for MTI Micro securities issued during the qualified financing event (at then-issued prices). If no such qualifying financing event occurs before the Maturity Date, the Bridge Notes will either be repaid or converted into securities of MTI Micro at a mutually agreeable price among all note holders. These Bridge Notes are secured by all of the assets of MTI Micro, including intellectual property. Lastly, five-year warrants to purchase additional securities were issued to all investors, having an aggregate exercise price equal to 10% of the outstanding principal amounts under the Bridge Notes. These warrants will be priced in a manner similar to the conversion of the Bridge Notes.

We have no other commitments for funding future needs of the organization at this time and financing during 2009 may not be available to us on acceptable terms, if at all. We may also seek to supplement our resources through additional debt or equity financings, sales of assets (including MTI Micro or MTI Instruments), and additional government funding.

Working capital was $0.2 million at December 31, 2008, a $11.1 million decrease from $11.3 million at December 31, 2007. This decrease was primarily the result of the use of cash in operations and sales of securities available for sale securities.

At December 31, 2008, the Companys order backlog was $1,372,000, compared to $445,000 at December 31, 2007.

Our inventory turnover ratios and average accounts receivable days sales outstanding for the years ended December 31, 2007 and 2008 and their changes are as follows:

	Years Ended December 31,		
	2007	**2008**	**Change**
Inventory turnover	2.3	1.5	(0.8)
Average accounts receivable days sales outstanding	58	48	(10)

The decline in inventory turnover stemmed from an increase in inventory balances of $136,000 at December 31, 2008, as compared to December 31, 2007, to support a higher level of subassemblies necessary for two large orders expected to ship during the first quarter of 2009.

The decrease in average accounts receivable days sales outstanding in 2008 compared with 2007 was primarily attributable to our decision to grant our largest commercial customer 90-day payment terms during 2007. This customer accounted for 28% of our total product revenue in 2007, but only 14% of total sales in 2008. These extended payment terms were eliminated in conjunction with the expiration of our formal distribution agreement in September 2008 and the customer is now back to net 30 payment terms.

Cash flow used by operating activities was $10.3 million during 2008 compared with $11.7 million during 2007. This cash use decrease of $1.4 million reflects a net decrease in cash expenditures to fund operations of $0.9 million, together with net balance sheet changes which decreased cash expenditures by $0.5 million, reflecting

the timing of cash payments and receipts, particularly a reduction of accounts receivable of $0.8 million and the recognition of deferred revenue.

Capital expenditures were $0.2 million during 2008, a decrease of $0.2 million from the prior year. This decrease was attributable to lower laboratory equipment expenditures to support our micro fuel cell business. Capital expenditures in 2008 included manufacturing, laboratory and demonstration equipment. We had no outstanding commitments for capital expenditures as of December 31, 2008.

During 2008, we sold our remaining 1,137,166 shares of Plug Power common stock with proceeds totaling $3.0 million and gains totaling $1.0 million. These proceeds reflect our previously announced strategy to raise additional capital through the sale of Plug Power stock to fund our micro fuel cell operations. We expect the net gains to be offset by our operating losses for purposes of computing taxable income. We estimate that as of December 31, 2008, our remaining net operating loss carry forwards were approximately $64.0 million.

Off-Balance Sheet Arrangements

Pursuant to a financing transaction between us and certain investors on December 15, 2006, we issued warrants to purchase up to an aggregate 378,472 shares of our common stock exercisable at any time until December 19, 2011 at an exercise price per share of $18.16. The shares issuable upon exercise of these warrants would be issued under a shelf registration statement covering the resale of such shares. The terms of the warrant agreement permit a cash settlement with the holders of the warrants if we are acquired by, or merge with, a private company. Because of the possibility of such a settlement, we have classified this agreement as an asset/liability derivative in accordance with SFAS No. 133 and EITF 00-19.

Contractual Payment Obligations

We have entered into various agreements that result in contractual payment obligations in future years. These contracts include financing arrangements for the Bridge Notes and leases. The following table summarizes cash payments that we are committed to make under the existing terms of contracts to which we are a party as of December 31, 2008. This table does not include contingencies.

Contractual Payment Obligations (in thousands)	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Convertible Notes:					
Principal (1)	$ 1,500	$	$	$	$ 1,500
Interest	44				44
Operating Leases (2)	601	19			620
Uncertain Tax Position Liability	213				213
Total Contractual Payment Obligations	$ 2,358	$ 19	$	$	$ 2,377

(1) Reflects amounts outstanding with respect to the Bridge Notes. In February 2009, MTI Micro issued an additional $500,000 of Bridge Notes due on May 31, 2009.
(2) Reflects payment obligations under certain manufacturing, laboratory and office facility lease agreements.

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Market Risk

Market risk is the risk that changes in market conditions will adversely affect earnings or cashflow. We categorize our market risks as interest rate risk and credit risk. Immediately below are detailed descriptions of the market risks and explanations as to how each of these risks are managed.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates could adversely affect earnings or cashflows. The Company's cash equivalents are sensitive to changes in interest rates. Interest rate changes would result in a change in interest income due to the difference between the current interest rates on cash. Interest rate risk sensitivity analysis is used to measure interest rate risk by computing estimated changes in cashflows as

a result of assumed changes in market interest rates. A 10% decrease in 2008 interest rates would be immaterial the Company□s consolidated financial statements.

Our Bridge Notes have fixed interest rates. Changes in the current market rates for the Bridge Notes would not result in a change in interest expense due to the fixed rate.

Credit Risk. Credit risk is the risk of loss we would incur if counterparties fail to perform their contractual obligations. Financial instruments that subject the Company to concentrations of credit risk principally consist of cash equivalents, marketable securities, trade accounts receivable and unbilled contract costs.

Our trade accounts receivable and unbilled contract costs and fees are primarily from sales to commercial customers, the U.S. government and state agencies. We do not require collateral and have not historically experienced significant credit losses related to receivables or unbilled contract costs and fees from individual customers or groups of customers in any particular industry or geographic area.

Our deposits its cash and invests in marketable securities primarily through commercial banks and investment companies. Credit exposure to any one entity is limited by Company policy.

Critical Accounting Policies and Significant Judgments and Estimates

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. Note 2 to the consolidated audited financial statements includes a summary of our most significant accounting policies. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses, and related disclosure of assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, inventories, securities available for sale, income taxes, share-based compensation and derivatives. We base our estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Periodically, we review our critical accounting estimates with the Audit Committee of our Board of Directors.

The significant accounting policies that we believe are most critical to aid in fully understanding and evaluating our financial statements include the following:

Revenue Recognition. We recognize revenue from development contracts based upon the relationship of actual costs to estimated costs to complete the contract. These types of contracts typically provide development services to achieve a specific scientific result relating to direct methanol fuel cell technology. Some of these contracts require us to contribute to the development effort. The customers for these contracts are commercial customers and various state and federal government agencies. While government agencies are providing revenue, we do not expect the government to be a significant end user of the resulting products. Therefore, we do not reduce funded research and product development expense by the funding received. When it appears probable that estimated costs will exceed available funding on fixed price contracts and we are not successful in securing additional funding, we record the estimated additional expense before it is incurred.

We apply the guidance in SAB No. 104, Revenue Recognition, in the evaluation of commercially funded fuel cell research and prototype agreements to determine when to properly recognize income. Payments received in connection with commercial research and prototype agreements are deferred and recognized on a straight-line basis over the term of the agreement for service-related payments. For milestone and prototype delivery payments, if and when achieved, revenue is deferred and recognized on a straight-line basis over the remaining term of the agreement. When revenue qualifies for recognition it will be recorded as funded research and development revenue. The costs associated with research and prototype-producing activities are expensed as incurred. Expenses in an amount equal to revenue recognized are reclassified from unfunded research and product development to funded research and product development.

We also recognize revenue from product sales in accordance with SAB No. 104. We recognize product revenue when there is persuasive evidence of an arrangement, delivery of the product to the customer or distributor has occurred, at which time title generally is passed to the customer or distributor, and we have determined that collection of a fixed fee is probable, all of which occur upon shipment of the product. If the product requires installation to be performed by us, all revenue related to the product is deferred and recognized upon the completion of the installation.

Inventory. Inventory is valued at the lower of cost or the current estimated market value of the inventory. We periodically review inventory quantities on hand and record a provision for excess or obsolete inventory based primarily on our estimated forecast of product demand, as well as based on historical usage. Demand and usage for products and materials can fluctuate significantly. A significant decrease in demand for our products could result in a short-term increase in the cost of inventory purchases and an increase of excess inventory quantities on hand. Therefore, although we make every effort to assure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and our reported operating results.

Share-Based Payments. We grant options to purchase our common stock and award restricted stock to our employees and directors under our equity incentive plans. The benefits provided under these plans are share-based payments subject to the provisions of SFAS No. 123R, Share-Based Payment, and SEC Staff Accounting Bulletin 107, Share-Based Payments. Effective January 1, 2006, we use the fair value method to apply the provisions of FAS 123R with the modified prospective application, which provides for certain changes to the method for valuing share-based compensation. The valuation provisions of FAS 123R apply to new awards and to awards that are outstanding on the effective date and subsequently modified. Under the modified prospective application, prior periods are not revised for comparative purposes. Share-based compensation expense recognized under FAS 123R for the year ended December 31, 2008 was $0.8 million. At December 31, 2008, total unrecognized estimated compensation expense related to non-vested awards granted prior to that date was $0.7 million, which is expected to be recognized over a weighted average period of .98 years.

Upon adoption of FAS 123R, we began estimating the value of share-based awards on the date of grant using a Black-Scholes option-pricing model. Prior to the adoption of FAS 123R, the value of each share-based award was estimated on the date of grant using the Black-Scholes model for the pro forma information required to be disclosed under FAS 123. The determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate, and expected dividends.

If factors change and we employ different assumptions in the application of FAS 123R during future periods, the compensation expense that we record under FAS 123R may differ significantly from what we have recorded in the current period. Therefore, we believe it is important for investors to be aware of the high degree of subjectivity involved when using option-pricing models to estimate share-based compensation under FAS 123R. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions, are fully transferable and do not cause dilution. Because our share-based payments have characteristics significantly different from those of freely traded options, and because changes in the subjective input assumptions can materially affect our estimates of fair values, in our opinion, existing valuation models, including the Black-Scholes Option Pricing model, may not provide reliable measures of the fair values of our share-based compensation. Consequently, there is a risk that our estimates of the fair values of our share-based compensation awards on the grant dates may bear little resemblance to the intrinsic values realized upon the exercise, expiration, cancellation, or forfeiture of those share-based payments in the future. Certain share-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and expensed in our financial statements. Alternatively, value may be realized from these instruments that are significantly in excess of the fair values originally estimated on the grant date and expensed in our financial statements. There currently is neither a market-based mechanism nor other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor a way to compare and adjust the estimates to actual values. Although the fair value of employee share-based awards is determined in accordance with FAS 123R and SAB 107 using a qualified option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction. Estimates of share-based compensation expenses are significant to our financial statements, but these expenses are based on the aforementioned option valuation model and will never result in the payment of cash by us.

The guidance in FAS 123R and SAB 107 is still relatively new, and best practices are not well established. The application of these principles may be subject to further interpretation and refinement over time. There are significant differences among valuation models, and there is a possibility that we will adopt different valuation models in the future. This may result in a lack of consistency in future periods and materially affect the fair value estimate of share-based payments. It may also result in a lack of comparability with other companies that use different models, methods, and assumptions.

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Theoretical valuation models and market-based methods are evolving and may result in lower or higher fair value estimates for share-based compensation. The timing, readiness, adoption, general acceptance, reliability, and testing of these methods is uncertain. Sophisticated mathematical models may require voluminous historical information, modeling expertise, financial analyses, correlation analyses, integrated software and databases, consulting fees, customization, and testing for adequacy of internal controls.

For purposes of estimating the fair value of stock options granted during the three months ended December 31, 2008 using the Black-Scholes model, we used the historical volatility of our stock for the expected volatility assumption input to the Black-Scholes model, consistent with the guidance in FAS 123R and SAB 107. The risk-free interest rate is based on the risk-free zero-coupon rate for a period consistent with the expected option term at the time of grant. We do not currently pay nor do we anticipate paying dividends, but we are required to assume a dividend yield as an input to the Black-Scholes model. As such, we use a zero dividend rate. The expected option term is estimated using both historical term measures and projected termination estimates.

Income Taxes. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves the estimation of our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. Included in this assessment is the determination of net operating loss carry forwards. These differences result in a net deferred tax asset. We must assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent that we believe that recovery is not likely, we must establish a valuation allowance.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance as a result of uncertainties in our ability to realize certain net deferred tax assets, primarily consisting of net operating losses being carried forward. 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 have recorded a full valuation allowance against our net deferred tax assets of $27.5 million as of December 31, 2008. In the event actual results differ from these estimates or we adjust these estimates in future periods, we may need to adjust our valuation allowance which could materially impact our financial position and results of operations.

During June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 or FIN 48, which became effective for us beginning in fiscal 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The impact of our reassessment of our tax positions in accordance with FIN 48 did not have a material impact on our results of operations, financial condition, or liquidity.

Derivative Instruments. We account for derivative instruments and embedded derivative instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The amended standard requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure these instruments at fair value. Fair value is estimated using the Black-Scholes Pricing model. We also follow EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock, which requires freestanding contracts that are settled in a company's own stock, including common stock warrants, to be designated as an equity instrument, asset or a liability. Under the provisions of EITF Issue No. 00-19, a contract designated as an asset or a liability must be

carried at fair value, with any changes in fair value recorded in the results of operations. A contract designated as an equity instrument can be included in equity, with no fair value adjustments are required.

The asset/liability derivatives are valued on a quarterly basis using the Black-Scholes Pricing model. Significant assumptions used in the valuation included exercise dates, closing prices for our common stock, volatility of our common stock, and a proxy risk-free interest rate. Gains (losses) on derivatives are included in Gain (loss) on derivatives in our consolidated statement of operations.

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New Accounting Pronouncements

Effect of Recent Accounting Pronouncements:

In June 2008, the FASB Staff Position EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (EITF No. 03-6-1). EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS No. 128, Earnings per Share. EITF No. 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. It is effective for calendar-year companies beginning January 1, 2009. The Company is currently assessing the potential impact of implementing this standard.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP14-1). This staff position applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FSP 14-1 requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuers nonconvertible debt borrowing rate on the instruments issuance date when interest cost is recognized. This staff position is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not allowed. The Company expects that the adoption of FSP 14-1 will not have a material effect on the financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (FASB No. 162). This standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The standard is effective 60 days following the SECs approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company is currently assessing the potential impact of implementing this standard.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The objective of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and GAAP. FSP FAS 142-3 is effective for financial statements issued for years beginning after December 15, 2008, and interim periods within those years and applied prospectively to intangible assets acquired after the effective date. Since the Companys consolidated financial statements presently do not include any intangible assets, it does not expect the adoption of FSP FAS 142-3 to have a material impact on its financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedging items are

accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedging items affect an entity's financial position, financial performance, and cash flows. This statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2008. This statement will be effective for the Company for its fiscal year beginning January 1, 2009. The Company has not yet determined the impact, if any, of this statement on its Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations—a replacement of FASB Statement No. 141* ("SFAS No. 141R"), which significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. This statement will be effective for the Company for its fiscal year beginning January 1, 2009. The Company has not yet determined the impact, if any, of this statement on its Consolidated Financial Statements.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("SFAS No. 160"). SFAS No. 160 requires that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective as of the beginning of an entity's first fiscal year beginning after December 15, 2008. This statement will be effective for the Company for its fiscal year beginning January 1, 2009. Based upon the December 31, 2008 balance sheet, the impact of adopting SFAS No. 160 would be to reclassify $11,000 from minority interests in consolidated subsidiaries to the Company's stockholders' equity section as a separate component of stockholders' equity. In addition, the exercise of existing convertible notes could result in a change of ownership structure of MTI Micro and in the related accounting.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The adoption of this statement on January 1, 2008 did not have a material effect on the Company's Consolidated Financial Statements as the Company did not elect to implement the fair value option for its marketable equity securities.

Item 7A. Quantitative And Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in interest rates and credit risk, which could affect its future results of operations and financial condition. We manage our exposure to these risks through regular operating and financing activities. (See "Market Risk", included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations above.)

Item 8: Financial Statements and Supplementary Data

The financial statements filed herewith are set forth on the Index to Consolidated Financial Statements on Page F-1 of the separate financial section, which follows page 45 of this report and are incorporated herein by reference.

Selected Quarterly Financial Data

(Unaudited and in thousands except per share amounts)	Q1	Q2	Q3	Q4
2007				
Product revenue	$ 1,701	$ 2,275	$ 2,196	$ 2,856

Funded research and development revenue	615	353	357	231
Gross profit product revenue	963	1,459	1,348	1,828
Gross profit (loss) funded research and development	391	(151)	(334)	(241)
Net loss	$ (3,156)	$ (2,487)	$ (2,481)	$ (1,451)
Loss per Share (Basic and Diluted):				
Net loss	$ (0.66)	$ (0.52)	$ (0.52)	$ (0.31)
2008				
Product revenue	$ 1,980	$ 1,720	$ 1,400	$ 1,124
Funded research and development revenue	173	309	399	273
Gross profit product revenue	1,140	894	565	444
Gross loss funded research and development	(183)	(325)	(420)	(327)
Net loss	$ (3,187)	$ (3,278)	$ (4,016)	$ (2,023)
Loss per Share (Basic and Diluted):				
Net loss	$ (0.67)	$ (0.69)	$ (0.84)	$ (0.42)

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A: Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures: Our management, with the participation of our chief executive officer, who is also our acting principal financial officer, evaluated the effectiveness of MTIs disclosure controls and procedures as of December 31, 2008. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SECs rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the companys management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. We recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and we necessarily apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the valuation of our disclosure controls and procedures as of December 31, 2008, our chief executive officer, who is also our acting principal financial officer, concluded that, as of such date, our disclosure controls and procedures were not effective due to staffing turnover and a lack of adequate resources within the accounting and finance department. In August 2008, the Board of Directors approved a restructuring plan (the August 2008 Restructuring), which was designed to help the Company reduce expenses and preserve cash. As part of the Restructuring, the Companys Chief Financial Officer transitioned out of the Company along with other several other accounting and Information Technology personnel. Prior to the August 2008 Restructuring, the Companys Controller left the Company to pursue other opportunities. Additionally, effective December 1, 2008 the Companys Interim Chief Financial and Director of Financial Reporting resigned from the Company. In response to the turnover, the Company has retained an outside consulting firm to provide controllership and chief financial officer related services.

Changes in Internal Control over Financial Reporting: Except as described in the paragraph above, there have been no changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our fiscal quarter ended December 31, 2008 that have materially affected, or are reasonable likely to materially affect our internal control over financial reporting.

(b) Management's Report on Internal Control Over Financial Reporting
Management of our Company is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including the principal executive officer, who is also our acting principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation using the criteria set forth in *Internal Control—Integrated Framework,* Management has concluded that our internal control over financial reporting was not effective as of December 31, 2008 as a result of the matters referred to in section (a) of this Item 9A above.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As of December 31, 2008, management determined the turnover of its accounting and Information Technology staff and resulting lack of resources is a material weakness. Management believes the cost savings resulting from the August 2008 Restructuring outweighs any increase in control risk.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Our report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only Management's report in this annual report.

/s/ Peng K. Lim
Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

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Item 9B: Other Information

None.

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PART III

Item 10: Directors, Executive Officers and Corporate Governance

(a) Directors
Incorporated herein by reference is the information appearing under the captions "Information about our Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC.

(b) Executive Officers
Incorporated herein by reference is the information appearing under the captions "Executive Officers" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC.

Incorporated herein by reference is the information appearing under the caption Board of Director Meetings and Committees Audit Committee in our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC.

Code of Ethics: We have adopted a Code of Ethics for employees, officers and directors. The Code of Ethics is intended to comply with Item 406 of Regulation S-K of the Exchange Act and with applicable rules of Nasdaq. A copy may be obtained at no charge by written request to the attention of our Secretary at 431 New Karner Road, Albany, New York 12205. A copy of the Code of Ethics is also available on our website at http://www.mechtech.com.

Item 11: Executive Compensation

Incorporated herein by reference is the information appearing under the caption Executive Compensation in the Companys definitive Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated herein by reference is the information appearing under the caption Principal Stockholders in our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC.

Equity Compensation Plans

As of December 31, 2008, we have three equity compensation plans, each of which has been approved by our stockholders; the Mechanical Technology, Incorporated 1996 Stock Incentive Plan (the 1996 Plan), 1999 Employee Stock Incentive Plan (the 1999 Plan) and 2006 Equity Incentive Plan (the 2006 Plan), to which we refer collectively as the Plans. See Note 13 to the Consolidated Financial Statements referred to in Item 8 for a description of these Plans.

The following table presents information regarding these plans:

Plan Category	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants, Rights[1] (a)	Weighted Average Exercise Price of Outstanding Options, Warrants, Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	780,340	$ 21.56	68,641

(1) Under the 1996, 1999 and 2006 Plans, the securities available under the Plans for issuance and issuable pursuant to exercises of outstanding options may be adjusted in the event of a change in outstanding stock by reason of stock dividend, stock splits, reverse stock splits, etc.

Item 13: Certain Relationships and Related Transactions, and Director Independence

Incorporated herein by reference is the information appearing under the caption Certain Relationships and Related Transactions in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed with the SEC.

Item 14: Principal Accountant Fees and Services

Incorporated herein by reference is the information appearing under the caption Independent Accountants in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

PART IV

Item 15: Exhibits, Financial Statement Schedules

15(a) (1) Financial Statements: The financial statements filed herewith are set forth on the Index to Consolidated Financial Statements on page F-1 of the separate financial section which accompanies this Report, which is incorporated herein by reference.

15(a) (2) Financial Statement Schedules: The following consolidated financial statement schedule for the years ended December 31, 2006, 2007, and 2008 is included pursuant to Item 15(d):

Report of Independent Registered Public Accounting Firm on Financial Statements Schedule;
Schedule II - Valuation and Qualifying Accounts.

All other financial statement schedules not listed have been omitted because they are either not required, not applicable, or the information has been included elsewhere in the consolidated financial statements or notes thereto.

15(a) (3) Exhibits: The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Annual Report on Form 10-K.

The following exhibits are filed as part of this Report:

Exhibit Number	Description
3.1	Certificate of Incorporation of the registrant, as amended and restated. (22)
3.2	Certificate of Amendment of the Certificate of Incorporation of the registrant. (23)
3.3	By-Laws of the registrant, as amended and restated. (21)
4.1	Form of Common Stock Purchase Warrant to be issued by the Company. (17)
10.14	Mechanical Technology, Incorporated 1996 Stock Incentive Plan. (1)
10.30	Mechanical Technology, Incorporated 1999 Employee Stock Incentive Plan. (2)
10.38	Lease dated August 10, 1999 between Carl E. Touhey and Mechanical Technology, Inc. (3)
10.43	Lease dated April 2, 2001 between Kingfisher LLC and Mechanical Technology, Inc. (4)
10.44	First Amendment to lease dated March 13, 2003 between Kingfisher LLC and Mechanical Technology, Inc. (5)
10.119	Strategic Alliance Agreement, dated as of September 19, 2003, between The Gillette Company and MTI MicroFuel Cells Inc (terminated September 3, 2008). (6)
10.123	Amendment to the Strategic Alliance Agreement between The Gillette Company and MTI MicroFuel Cells Inc. dated August 18, 2004 (terminated September 3, 2008). (8)

10.131	Amendment No. 2 to the Strategic Alliance Agreement between The Gillette Company and MTI MicroFuel Cells Inc. dated June 20, 2005 (terminated September 3, 2008). (9)
10.132	Second Amendment to lease dated December 12, 2005 between Kingfisher, LLC and Mechanical Technology, Incorporated. (10)
10.136	Employment Agreement dated September 25, 2002 between Cynthia A. Scheuer and Mechanical Technology, Incorporated and MTI MicroFuel Cells Inc. (11)
10.137	Employment Agreement dated November 19, 2004 between Juan Becerra and MTI MicroFuel Cells Inc (terminated March 4, 2008, no Separation Agreement). (11)

10.139	Employment Agreement dated May 4, 2006 between Peng K. Lim and MTI MicroFuel Cells Inc (amended and restated on December 31, 2008). (13)
10.140	Form of Restricted Stock Agreement for the 1996 and 1999 Mechanical Technology, Inc. Stock Incentive Plans. (14)
10.141 (A)	Alliance Agreement dated May 16, 2006 between MTI MicroFuel Cells Inc. and Samsung Electronics Co., Ltd. (15)
10.142	Third Amendment to lease dated August 7, 2006 between Kingfisher, LLC and Mechanical Technology, Incorporated. (15)
10.143 (A)	Amendment No. 3 to the Strategic Alliance Agreement dated September 13, 2006, between MTI MicroFuel Cells Inc. and The Gillette Company (terminated September 3, 2008). (16)
10.144	Form of Subscription Agreement. (17)
10.145	Mechanical Technology, Incorporated 2006 Equity Incentive Plan. (12)
10.147	Employment Agreement dated March 27, 2007 between Robert Kot and MTI Instruments, Inc (terminated January 2009). (18)
10.148	Fourth Amendment to lease dated August 6, 2007 between Kingfisher LLC and Mechanical Technology, Incorporated. (19)
10.150	Future Collaboration Agreement dated October 22, 2007 between MTI MicroFuel Cells Inc. and Samsung Electronics Co., Ltd. (20)
10.151	Employment Agreement dated April 3, 2006 between James K. Prueitt and MTI MicroFuel Cells Inc (amended and restated on December 31, 2008) (22).
10.152	Separation Agreement dated September 4, 2008 between Cynthia A. Scheuer and Mechanical Technology, Incorporated (24)
10.153	Form of Convertible Note and Warrant Purchase Agreement dated September 18, 2008 (24)
10.154	Amended and Restated Employment Agreement dated December 30, 2008 between James K. Prueitt and MTI MicroFuel Cells Inc.
10.155	Amended and Restated Employment Agreement dated December 31, 2008 between Peng K. Lim and Mechanical Technology, Inc.

10.156	Amendment to Employment Agreement dated March 27, 2007 between Robert Kot and MTI Instruments, Inc.
10.157	Separation Agreement and Release Agreement dated January 16, 2009 between Robert Kot and MTI Instruments, Inc.
10.158	Amendment No. 1 to Convertible Note and Warrant Purchase Agreement dated February 20, 2009
10.159	Letter Agreement dated February 24, 2009 between Peng K. Lim and Mechanical Technology, Inc.
10.160	Letter Agreement dated February 24, 2009 between James K. Prueitt and MTI MicroFuel Cells Inc.
14.1	Code of Ethics. (11)
21	Subsidiaries of the Registrant. (7)
23.2	Consent of Independent Registered Public Accounting Firm PricewaterhouseCoopers LLP.
31	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer and Principal Financial Officer.
32	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer.

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Certain exhibits were previously filed (as indicated below) and are incorporated herein by reference. All other exhibits for which no other filing information is given are filed herewith:

(1) Filed as Appendix A to the registrants Definitive Proxy Statement Schedule 14A filed November 19, 1996.
(2) Filed as an Exhibit to the registrants Proxy Statement, Schedule 14A, dated February 13, 1999.
(3) Filed as an Exhibit to the registrants Form 10-K Report for the fiscal year ended September 30, 1999.
(4) Filed as an Exhibit to our Form 10-K Report for the fiscal year ended September 30, 2001.
(5) Filed as an Exhibit to the registrants Form 10-K Report for the year ended December 31, 2002.
(6) Filed as an Exhibit to the registrants Form 10-Q Report for the fiscal quarter ended September 30, 2003.
(7) Filed as an Exhibit to the registrants Form 10-K Report for the year ended December 31, 2003.
(8) Filed as an Exhibit to the registrants Form 10-Q Report for the quarter ended September 30, 2004.
(9) Filed as an Exhibit to the registrants Form 8-K Report dated June 20, 2005.
(10) Filed as an Exhibit to the registrants Form 8-K Report dated December 12, 2005.
(11) Filed as an Exhibit to the registrants Form 10-K Report for the year ended December 31, 2005.
(12) Filed as an Exhibit to the registrants Proxy Statement, Schedule 14A, dated April 3, 2006.
(13) Filed as an Exhibit to the registrants Form 8-K Report dated May 4, 2006.
(14) Filed as an Exhibit to the registrants Form 8-K Report dated May 18, 2006.
(15) Filed as an Exhibit to the registrants Form 10-Q Report for the quarter ended June 30, 2006.
(16) Filed as an Exhibit to the registrants Form 10-Q Report for the quarter ended September 30, 2006.
(17) Filed as an Exhibit to the registrants Form 8-K Report dated December 15, 2006.
(18) Filed as an Exhibit to the registrants Form 8-K Report dated March 28, 2007.
(19) Filed as an Exhibit to the registrants Form 10-Q Report for the quarter ended June 30, 2007.
(20) Filed as an Exhibit to the registrants Form 8-K Report dated October 25, 2007.
(21) Filed as an Exhibit to the registrants Form 8-K Report dated December 14, 2007.
(22) Filed as an Exhibit to the registrants Form 10-K Report for the year ended December 31, 2007.
(23) Filed as an Exhibit to the registrants Form 8-K Report dated May 15, 2008.
(24) Filed as an Exhibit to the registrants Form 10-Q Report for the quarter ended September 30, 2008.

(A)

Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MECHANICAL TECHNOLOGY, INCORPORATED

Date: March 27, 2009	By:	/s/ Peng K. Lim Peng K. Lim Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Peng K. Lim Peng K. Lim	Chairman, Chief Executive Officer, Principal Executive Officer, Principal Financial Officer and Director	March 27, 2009
/s/ Thomas J. Marusak Thomas J. Marusak	Director	March 27, 2009
/s/ William P. Phelan William P. Phelan	Director	March 27, 2009
/s/ E. Dennis OConnor E. Dennis OConnor	Director	March 27, 2009
/s/ Walter L. Robb Dr. Walter L. Robb	Director	March 27, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders
of Mechanical Technology, Incorporated:

Our audits of the consolidated financial statements referred to in our report dated March 27, 2009 appearing on page F-2 of this Form 10-K of Mechanical Technology, Incorporated, also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/PricewaterhouseCoopers LLP

Buffalo, New York
March 27, 2009

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MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN THOUSANDS)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Period
Allowance for doubtful accounts (accounts receivable) for the years ended:					
December 31, 2006	$ □	$ □	$ □	$ □	$ □
December 31, 2007	$ □	$ □	$ □	$ □	$ □
December 31, 2008	$ □	$ □	$ □	$ □	$ □

Includes accounts written off as uncollectible and recoveries.

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Period
Valuation allowance for deferred tax assets for the years ended:					
December 31, 2006	$ 10,923	$ 7,915	$ (23)	$ □	$ 18,815
December 31, 2007	$ 18,815	$ 3,518	$ □	$	