

MECHANICAL TECHNOLOGY INC  
Form 10-Q  
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q  
\_\_\_\_\_

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 \_\_\_\_\_

Mechanical Technology, Incorporated

(Exact name of registrant as specified in its charter)

\_\_\_\_\_

<u>New York</u> (State or other jurisdiction of incorporation or organization)	<u>000-06890</u> (Commission File Number)	<u>14-1462255</u> (I.R.S. Employer Identification No.)
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325 Washington Avenue Extension, Albany, New York 12205

(Address of principal executive offices)

(Zip Code)

**(518) 218-2550**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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

Smaller reporting company

(Do not check if a 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

The number of shares of common stock, par value of \$0.01 per share, outstanding as of July 27, 2017 was 9,145,768.

**MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Mechanical Technology, Incorporated and Subsidiaries****Condensed Consolidated Balance Sheets****As of June 30, 2017 (Unaudited) and December 31, 2016**

(Dollars in thousands, except per share)	<b>June 30, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash	\$ 3,398	\$ 3,381
Accounts receivable	1,075	881
Inventories	697	676
Prepaid expenses and other current assets	64	82
Total Current Assets	5,234	5,020
<b>Property, plant and equipment, net</b>	133	160
<b>Total Assets</b>	<b>\$ 5,367</b>	<b>\$ 5,180</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 356	\$ 124
Accrued liabilities	855	906
Total Current Liabilities	1,211	1,030
<b>Commitments and Contingencies (Note 8)</b>		
<b>Stockholders' Equity:</b>		
Common stock, par value \$0.01 per share, authorized 75,000,000; 10,161,261 issued in 2017 and 10,026,136 issued in 2016	102	100
Additional paid-in capital	138,899	138,794
Accumulated deficit	(121,081 )	(120,980 )
Common stock in treasury, at cost, 1,015,493 shares	(13,764 )	(13,764 )
Total Stockholders' Equity	4,156	4,150
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 5,367</b>	<b>\$ 5,180</b>

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 Six Months Ended June 30, 2017 and 2016**

(Dollars in thousands, except per share)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Product revenue	\$ 1,893	\$ 1,808	\$ 3,190	\$ 3,033
Operating costs and expenses:				
Cost of product revenue	537	608	1,041	1,245
Research and product development expenses	296	310	610	644
Selling, general and administrative expenses	747	781	1,635	1,616
Operating income (loss)	313	109	(96 )	(472 )
Other expense, net	—	(1 )	(5 )	(6 )
Net income (loss)	\$ 313	\$ 108	\$ (101 )	\$ (478 )
Income (loss) per share (Basic)	\$ .03	\$ .02	\$ (.01 )	\$ (.09 )
Income (loss) per share (Diluted)	\$ .03	\$ .02	\$ (.01 )	\$ (.09 )
Weighted average shares outstanding (Basic)	9,137,497	5,248,482	9,081,451	5,250,892
Weighted average shares outstanding (Diluted)	9,398,330	5,422,842	9,081,451	5,250,892

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





**MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES****Condensed Consolidated Statements of Changes in Equity****For the Year Ended December 31, 2016****and the Six Months Ended June 30, 2017 (Unaudited)**(Dollars in thousands,  
except per share)

	Common Stock				Treasury Stock		Total Stockholders' Equity (Deficit)
	Shares	Amount	Additional		Shares	Amount	
			Paid-in Capital	Accumulated Deficit			
<b>January 1, 2016</b>	6,263,975	\$ 63	\$ 135,839	\$ (120,621)	1,005,092	\$ (13,754)	\$ 1,527
Net loss	-	-	-	(359 )	-	-	(359 )
Stock based compensation	-	-	449	-	-	-	449
Issuance of shares – stock purchase	3,750,000	37	2,700	-	-	-	2,737
Costs of stock purchase	-	-	(201)	-	-	-	(201 )
Issuance of shares – option exercises	12,161	-	7	-	-	-	7
Purchase of common stock for treasury	-	-	-	-	10,401	(10 )	(10 )
<b>December 31, 2016</b>	10,026,136	\$ 100	\$ 138,794	\$ (120,980)	1,015,493	\$ (13,764)	\$ 4,150
Net loss	-	-	-	(101)	-	-	(101 )
Stock based compensation	-	-	31	-	-	-	31
Costs of stock purchase	-	-	(25 )	-	-	-	(25 )
Issuance of shares – option exercises	135,125	2	99	-	-	-	101
<b>June 30, 2017</b>	10,161,261	\$ 102	\$ 138,899	\$ (121,081 )	1,015,493	\$ (13,764 )	\$ 4,156

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 Six Months Ended June 30, 2017 and 2016**

(Dollars in thousands)	<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating Activities</b>		
Net loss	\$ (101 )	\$ (478 )
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	41	42
Loss on disposal of equipment	—	6
Bad debt recovery	—	(21 )
Stock based compensation	31	90
Provision for excess and obsolete inventories	(36 )	152
Changes in operating assets and liabilities:		
Accounts receivable	(194 )	355
Inventories	15	(336 )
Prepaid expenses and other current assets	18	11
Accounts payable	232	145
Accrued liabilities	(51 )	189
Net cash (used in) provided by operating activities	(45 )	155
<b>Investing Activities</b>		
Purchases of equipment	(14 )	(78 )
Net cash used in investing activities	(14 )	(78 )
<b>Financing Activities</b>		
Costs of stock purchase	(25 )	—
Purchases of common stock for treasury	—	(10 )
Proceeds from stock option exercises	101	—
Net cash provided by (used in) financing activities	76	(10 )
Increase in cash	17	67
Cash – beginning of period	3,381	462
Cash – end of period	\$ 3,398	\$ 529

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



## Notes to Condensed Consolidated Financial Statements (Unaudited)

### 1. Nature of Operations

#### *Description of Business*

Mechanical Technology, Incorporated (MTI or the Company), a New York corporation, was incorporated in 1961. The Company's core business is conducted through MTI Instruments, Inc. (MTI Instruments), a wholly-owned subsidiary.

MTI Instruments was incorporated in New York on March 8, 2000 and is a supplier of precision linear displacement sensors, instruments and system solutions, vibration measurement and system balancing solutions, precision tensile measurement systems and wafer inspection tools, serving markets that require 1) the precise measurements and control of products and processes in automated manufacturing, assembly, and consistent operation of complex machinery, 2) engine balancing and vibration analysis systems for both military and commercial aircraft, 3) metrology tools for semiconductor and solar wafer characterization, and 4) tensile stage systems for materials testing and precision linear displacement gauges all for use in academic and industrial research and development settings.

#### *Liquidity*

The Company has historically incurred significant losses primarily due to its past efforts to fund direct methanol fuel cell product development and commercialization programs, and had an accumulated deficit of approximately \$121.1 million as of June 30, 2017. As of June 30, 2017, we had working capital of approximately \$4.0 million, no debt, \$22 thousand in commitments for capital expenditures and approximately \$3.4 million of cash available to fund our operations.

Based on the Company's projected cash requirements for operations and capital expenditures, its available cash of approximately \$3.4 million and our projected 2017 and 2018 cash flows pursuant to management's plans, management believes it will have adequate resources to fund operations and capital expenditures for the year ending December 31, 2017 and through the end of the third quarter of 2018. If cash generated from operations is insufficient to satisfy the Company's operational working capital and capital expenditure requirements, the Company may be required to obtain credit facilities, if available, to fund these initiatives. The Company has no other formal commitments for funding its future needs at this time and any additional financing during 2017 and through the end of the third quarter of 2018, if required, may not be available to us on acceptable terms or 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 and Exchange Commission's (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, 2016.

The information presented in the accompanying condensed consolidated balance sheet as of December 31, 2016 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 six months ended June 30, 2017 and June 30, 2016.

### ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, MTI Instruments. All intercompany balances and transactions are eliminated in consolidation.

**3. Accounts Receivable**

Accounts receivables consist of the following at:

(Dollars in thousands)	<b>June 30, 2017</b>	<b>December 31, 2016</b>
U.S. and State Government	\$ 191	\$ 103
Commercial	884	778
Allowance for doubtful accounts	—	—
<b>Total</b>	<b>\$ 1,075</b>	<b>\$ 881</b>

For the six months ended June 30, 2017 and 2016, the largest commercial customer represented 8.6% and 14.0%, respectively, and the largest governmental agency represented 27.6% and 1.3%, respectively, of the Company's product revenue. As of June 30, 2017 and December 31, 2016, the largest commercial receivable represented 13.6% and 23.0%, respectively, and the largest governmental receivable represented 17.8% and 11.6%, respectively, of the Company's accounts receivable.

**4. Inventories**

Inventories consist of the following at:

(Dollars in thousands)	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Finished goods	\$ 237	\$ 244
Work in process	120	143
Raw materials	340	289
<b>Total</b>	<b>\$ 697</b>	<b>\$ 676</b>

**5. Property, Plant and Equipment**

Property, plant and equipment consist of the following at:

(Dollars in thousands)	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Leasehold improvements	\$ 39	\$ 39
Computers and related software	1,075	1,068
Machinery and equipment	885	892
Office furniture and fixtures	25	25

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		2,024		2,024
Less: Accumulated depreciation		1,891		1,864
	\$	133	\$	160

Depreciation expense was \$41 thousand and \$85 thousand for the six months ended June 30, 2017 and the year ended December 31, 2016, respectively.

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## 6. Income Taxes

We have adopted the provisions of accounting standard update (ASU) 2016-09 as of the beginning of the current fiscal year, which requires recognition through opening retained earnings of any pre-adoption date net operating loss (NOL) carryforwards from nonqualified stock options for excess tax benefits that were not previously recognized because the related tax deduction had not reduced taxes payable and other employee share-based payments, as well as recognition of all income tax effects from share-based payments arising on or after January 1, 2017 (our adoption date) in income tax expense. As a result, we recognized through opening retained earnings \$1.3 million of pre-adoption date NOL carryforwards with remaining carryforward periods of more than 10 years (the corresponding deferred tax asset is \$457 thousand). We recorded a full valuation allowance for this deferred tax asset. In addition, we realized shortfall tax expense of \$19 thousand during the three months ended June 30, 2017 and windfall tax benefits of \$2 thousand during the three months ended March 31, 2017, which we recognized as discrete period income tax and benefit, respectively, as required by the ASU.

During the three and six months ended June 30, 2017, the Company's effective income tax rate was 0%. The projected annual effective tax rate is less than the Federal statutory rate of 34%, primarily due to the change in the valuation allowance, as well as changes to estimated taxable income for 2017 and permanent differences. For the three and six months ended June 30, 2016, the Company's effective income tax rate was 0%. There was no income tax expense for the three and six months ended June 30, 2017 or June 30, 2016.

The Company provides for recognition of deferred tax assets if the realization of such assets is more likely than not to occur in accordance with accounting standards that address income taxes. Significant management judgment is required in determining the period in which the reversal of a valuation allowance should occur. The Company has considered all available evidence, both positive and negative, such as historical levels of income and future forecasts of taxable income amongst other items, in determining its valuation allowance. In addition, the Company's assessment requires us to schedule future taxable income in accordance with accounting standards that address income taxes to assess the appropriateness of a valuation allowance which further requires the exercise of significant management judgment.

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 Company has recorded a full valuation allowance at June 30, 2017 and December 31, 2016 for its deferred tax assets. The valuation allowance was \$19.1 million at June 30, 2017 and \$18.6 million at December 31, 2016. We will continue to evaluate the ability to realize our deferred tax assets and related valuation allowance 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 June 30, 2017 and December 31, 2016, there were 9,145,768 and 9,010,643 shares of common stock, respectively, issued and outstanding.

***Reservation of Shares***

The Company had reserved common shares for future issuance as follows as of June 30, 2017:

Stock options outstanding	985,553
Common stock available for future equity awards or issuance of options	67,161
Number of common shares reserved	1,052,714

### *Income (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 for the periods presented prior to the adoption of ASU 2016-09 on January 1, 2017, if any, when the stock option is exercised are assumed to be used to repurchase shares in the current period.

Not included in the computation of earnings per share, assuming dilution, for the six months ended June 30, 2017, were options to purchase 985,553 shares of the Company's common stock. These potentially dilutive items were excluded because the Company incurred a loss during the period and their inclusion would be anti-dilutive. Not included in the computation of earnings per share, assuming dilution, for the three months ended June 30, 2017, were options to purchase 273,589 shares, respectively of the Company's common stock. These potentially dilutive items were excluded even though the average market price of the common stock exceeded the exercise prices for a portion of the options because the calculation of incremental shares resulted in an anti-dilutive effect.

Not included in the computation of earnings per share, assuming dilution, for the six months ended June 30, 2016, were options to purchase 1,177,065 shares of the Company's common stock. These potentially dilutive items were excluded because the Company incurred a loss during the period and their inclusion would be anti-dilutive. Not included in the computation of earnings per share, assuming dilution, for the three months ended June 30, 2016, were options to purchase 768,501 shares, respectively of the Company's common stock. These potentially dilutive items were excluded even though the average market price of the common stock exceeded the exercise prices for a portion of the options because the calculation of incremental shares resulted in an anti-dilutive effect.

## **8. Commitments and Contingencies**

### **Commitments:**

#### *Leases*

The Company and its subsidiary lease certain manufacturing, laboratory and office facilities. The lease provides for the Company to pay its allocated share of insurance, taxes, maintenance and other costs of the leased property.

Future minimum rental payments required under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2017 are: \$110 thousand remaining in 2017; \$221 thousand in 2018; and \$207 thousand in 2019.

***Warranties***

Product warranty liabilities are included in “Accrued liabilities” in the Condensed Consolidated Balance Sheets. Below is a reconciliation of changes in product warranty liabilities:

(Dollars in thousands)	<b>Six Months Ended</b>	
	<b>June 30, 2017</b>	<b>2016</b>
Balance, January 1	\$ 14	\$ 16
Accruals for warranties issued	8	7
Settlements made (in cash or in kind)	(10 )	(3 )
Balance, end of period	\$ 12	\$ 20

### ***Employment Agreement***

On May 5, 2017, the Company entered into an employment agreement with one employee. The agreement provides for an initial term ending December 31, 2018, and, unless either party provides written notice that the agreement will not be renewed, is renewed for an additional year on December 31, 2018 and each subsequent December 31; such non-renewal may be for any or for no stated reason. The agreement provides for certain payments upon termination of employment under certain circumstances. As of June 30, 2017, the Company's potential minimum obligation to this employee was approximately \$199 thousand.

### ***Separation Agreement***

Our former President and Chief Executive Officer Kevin G. Lynch, who resigned from these positions on January 18, 2017, was not entitled to any post-termination payments or benefits under the terms of his employment arrangement. However, the Company entered into a separation agreement with Mr. Lynch, as of February 1, 2017, that entitles him to be paid the compensation he was receiving at his termination (\$11,488.47 bi-weekly) from his January 18, 2017 termination date through June 30, 2017, as well as reimbursement for COBRA medical insurance coverage through December 31, 2017. Under the terms of this separation agreement, as of June 30, 2017, Mr. Lynch is entitled to remaining payments aggregating \$5 thousand, assuming he complies with the terms of the separation agreement. The separation agreement also includes confidentiality provisions and Mr. Lynch's release of any claims against the Company and agreement not to bring suit against the Company and its affiliates.

### **Contingencies:**

### ***Legal***

We are subject to legal proceedings, claims and liabilities which arise in the ordinary course of business. When applicable, we accrue for losses associated with legal claims when such losses are probable and can be reasonably estimated. These accruals are adjusted as additional information becomes available or circumstances change. Legal fees are charged to expense as they are incurred.

## **9. Stock Based Compensation**

During 2016, the Company granted 261,000 options to purchase the Company's common stock from the Mechanical Technology Incorporated 2014 Equity Incentive Plan (2014 Plan), which generally vest 25% on each of the first four

anniversaries of the date of the award. The exercise price of these options is \$0.78 per share and was based on the closing market price of the Company's common stock on the date of grant. Using a Black-Scholes Option Pricing Model, the weighted average fair value of these options is \$0.74 per share and was estimated at the date of grant. These options became immediately vested in conjunction with the change in control provision (as defined in the 2014 Plan) as a result of the Brookstone Partners Acquisition XXIV, LLC purchase of shares of our common stock on October 21, 2016.

During 2016, the Company granted 2,000 options to purchase the Company's common stock from the Mechanical Technology Incorporated 2012 Equity Incentive Plan, which generally vest 25% on each of the first four anniversaries of the date of the award. The exercise price of these options is \$0.78 per share and was based on the closing market price of the Company's common stock on the date of grant. Using a Black-Scholes Option Pricing Model, the weighted average fair value of these options is \$0.74 per share and was estimated at the date of grant.

## **10. Related Party Transactions**

### ***MeOH Power, Inc.***

The Company records its investment in MeOH Power, Inc. using the equity method of accounting. The fair value of the Company's interest in MeOH Power, Inc. has been determined to be \$0 as of June 30, 2017 and December 31, 2016, based on MeOH Power, Inc.'s net position and expected cash flows. As of June 30, 2017, the Company retained its ownership of approximately 47.5% of MeOH Power, Inc.'s outstanding common stock, or 75,049,937 shares. The number of shares of MeOH Power, Inc.'s common stock authorized for issuance is 240,000,000 as of June 30, 2017. The Company previously held warrants to purchase 31,904,136 shares of common stock of MeOH Power, Inc., which expired in December 2016.

On December 18, 2013, MeOH Power, Inc. and the Company executed a Senior Demand Promissory Note (the Note) in the amount of \$380 thousand to secure the intercompany amounts due to the Company from MeOH Power, Inc. upon the deconsolidation of MeOH Power, Inc. Interest accrues on the Note at the Prime Rate in effect on the first business day of the month, as published in the Wall Street Journal. At the Company's option, all or part of the principal and interest due on this Note may be converted to shares of common stock of MeOH Power, Inc. at a rate of \$0.07 per share. Interest began accruing on January 1, 2014. The Company recorded a full allowance against the Note. As of June 30, 2017 and December 31, 2016, \$280 thousand and \$275 thousand, respectively, of principal and interest are available to convert into shares of common stock of MeOH Power, Inc. Any adjustments to the allowance are recorded as miscellaneous expense during the period incurred.

### *Legal Services*

During the three and six months ended June 30, 2017, the Company incurred \$5 thousand and \$9 thousand, respectively, to Couch White, LLP for legal services associated with contract review. No such legal fees were incurred during the three and six months ended June 30, 2016. A partner at Couch White, LLP is an immediate family member of one of our Directors.

## **11. Effect of Recent Accounting Updates**

### *Accounting Updates Not Yet Effective*

Changes to U.S. GAAP are established by the Financial Accounting Standards Board (the FASB) in the form of ASUs to the FASB's Accounting Standards Codification. The Company considered the applicability and impact of all ASUs. ASUs not mentioned below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

In May 2014, the FASB issued ASU 2014-09 (Revenue from Contracts with Customers (Topic 606)) and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016 and December 2016 within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively (ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively, and collectively, Topic 606) to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. Topic 606 supersedes nearly all existing revenue

recognition guidance under GAAP. Topic 606 is principles-based and provides a five-step model to determine when and how revenue is recognized. It is possible more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation. Topic 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This standard, as amended, will be effective for the Company for annual and interim reporting periods beginning after December 15, 2017. This standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Early adoption is permitted, but no earlier than calendar 2017. This standard could impact the timing and amounts of revenue recognized. The Company is currently evaluating the impact of this standard on its consolidated financial statements. The Company has not yet selected a transition method and in preparation for our adoption of the new standard in our 2018 fiscal year, we are obtaining representative samples of contracts and other forms of agreements with our customers in the U.S. and international locations and are evaluating the provisions contained therein in light of the five-step model specified by this standard. While we do not believe there will be a material impact to our revenues upon adoption, we are continuing to evaluate the impact to our revenues and our preliminary assessments are subject to change. We are also continuing to evaluate the provisions of Topic 606 related to costs for obtaining customer contracts.

In January 2016, the FASB issued ASU 2016-01 (Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities) the main objective of which is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information and address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This standard will be effective for the Company for annual and interim reporting periods beginning on or after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact of this standard but we do not expect the adoption of it to have a material impact on its consolidated financial statements.



In February 2016, the FASB issued ASU 2016-02 (Leases (Topic 842)), which requires lessees to recognize a right-of-use asset and a lease liability on their balance sheet for virtually all of their leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For income statement purposes, this standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840) while finance leases will result in a front-loaded expense pattern (similar to current accounting by lessees for capital leases under ASC 840). While this standard maintains similar accounting for lessors as under ASC 840, this standard reflects updates to, among other things, align with certain changes to the lessee model. This standard will be effective for the Company for annual and interim reporting periods beginning on or after December 15, 2018, and early adoption is permitted. Although we have not completed our assessment, we believe adoption of this standard may have a significant impact on our consolidated balance sheets. However, we do not expect the adoption to change the recognition, measurement or presentation of lease expense within our consolidated statements of operations or the consolidated statements of cash flows. We currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of the standard, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption. Information about our undiscounted future lease payments and the timing of those payments is in Note 8, Commitments and Contingencies.

In August 2016, the FASB issued ASU 2016-15 (Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments), which clarifies the treatment of several cash flow categories. In addition, ASU 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. This standard will be effective for the Company for annual and interim reporting periods beginning after December 15, 2017, and early adoption is permitted. This standard should be applied using a retrospective transition method to each period presented. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09 (Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting), which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This standard will be effective for the Company for annual and interim reporting periods beginning after December 15, 2017, and early adoption is permitted. This standard should be applied prospectively to an award modified on or after the adoption date. The Company will evaluate the impact of this standard on its consolidated financial statements at the time of adoption, if applicable.

#### *Accounting Updates Recently Adopted by the Company*

On January 1, 2017, we adopted ASU 2015-11 (Inventory (Topic 330): Simplifying the Measurement of Inventory), which applies to inventory that is measured using first-in, first-out (FIFO) or average cost. As required by ASU 2015-11, we measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement was unchanged for inventory that is measured using last-in, last-out (LIFO). The Company adopted this standard on a prospective basis. The adoption of this standard did not have a material impact on its consolidated financial statements.

On January 1, 2017, we adopted ASU 2015-17 (Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes). The amendments in this standard require entities that present a classified balance sheet to classify all deferred tax liabilities and assets as a noncurrent amount. The requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount was not affected by the amendments in this standard. Additionally, the amendments in this standard align the deferred income tax presentation with the requirements in International Accounting Standards (IAS) 1 (Presentation of Financial Statements). The Company adopted this standard on a prospective basis. The adoption of this standard did not have a material impact on the Company's consolidated financial statements as its deferred tax assets and liabilities are currently in a full valuation allowance. Prior periods were not retrospectively adjusted.

On January 1, 2017, we adopted ASU 2016-09 (Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting). As required by ASU 2016-09, all income tax effects of awards, including excess tax benefits, recognized on stock-based compensation expense are reflected in the condensed consolidated statements of operations as a component of the provision for income taxes on a prospective basis. As required by ASU 2016-09, all tax related cash flows recognized on stock-based compensation expense are classified as an operating activity in our condensed consolidated statements of cash flows on a prospective basis. Accordingly, prior periods have not been adjusted. Additionally, ASU 2016-09 allows companies to make a policy election to account for forfeitures either upon occurrence or by estimating forfeitures. We have elected to continue estimating forfeitures expected to occur in order to determine the amount of compensation cost to be recognized each period. See Note 6 above for additional information.

On January 1, 2017, we adopted ASU 2017-03 (Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323); Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 Emerging Issues Task Force (EITF) Meetings (SEC Update)), which amends certain topics of the ASC as defined in this ASU and also adds an SEC paragraph and amends other topics pursuant to an SEC Staff Announcement made at the September 22, 2016 EITF meeting. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

There have been no other significant changes in our reported financial position or results of operations and cash flows as a result of our adoption of new accounting pronouncements or changes to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.





## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*Unless the context requires otherwise, the terms “MTI,” “we,” “us,” and “our” refer to Mechanical Technology, Incorporated, a New York Corporation, and “MTI Instruments” refers to MTI Instruments, Incorporated, a New York corporation and our wholly-owned subsidiary.*

*The following discussion of our financial condition and results of operations should be read in conjunction with the Condensed Consolidated Financial Statements and the related notes thereto included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited Consolidated Financial Statements and the related notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2016 contained in our 2016 Annual Report on Form 10-K.*

*In addition to historical information, the following discussion contains forward-looking statements, which involve risk and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements. Important factors that could cause actual results to differ include those set forth in Part I Item 1A-Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed on March 2, 2017, and elsewhere in this Quarterly Report on Form 10-Q. Readers should not place undue reliance on our forward-looking statements. These forward-looking statements speak only as of the date on which the statements were made and are not guarantees of future performance. Except as may be required by applicable law, we do not undertake or intend to update any forward-looking statements after the date of this Quarterly Report on Form 10-Q. Please see “Statement Concerning Forward-Looking Statements” below.*

### **Overview**

MTI’s core business is conducted through MTI Instruments, Inc., a wholly-owned subsidiary. MTI Instruments is a supplier of precision linear displacement sensors, instruments and system solutions, vibration measurement and system balancing solutions, precision tensile measurement systems and wafer inspection tools, serving markets that require 1) the precise measurements and control of products and processes in automated manufacturing, assembly, and consistent operation of complex machinery, 2) engine balancing and vibration analysis systems for both military and commercial aircraft, 3) metrology tools for semiconductor and solar wafer characterization, and 4) tensile stage systems for materials testing and precision linear displacement gauges all for use in academic and industrial research and development settings. We are continuously working on ways to increase our sales reach, including expanded worldwide sales coverage and enhanced internet marketing.

**Consolidated Results of Operations***Consolidated Results of Operations for the Three and Six Months Ended June 30, 2017 Compared to the Three and Six Months Ended June 30, 2016.*

The following table summarizes changes in the various components of our net income during the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

(Dollars in thousands)

	<b>Three Months Ended June 30, 2017</b>	<b>Three Months Ended June 30, 2016</b>	<b>\$ Change</b>	<b>% Change</b>
Product revenue	\$ 1,893	\$ 1,808	\$ 85	4.7%
Operating costs and expenses:				
Cost of product revenue	\$ 537	\$ 608	\$ (71 )	(11.7)%
Research and product development expenses	\$ 296	\$ 310	\$ (14 )	(4.5)%
Selling, general and administrative expenses	\$ 747	\$ 781	\$ (34 )	(4.4)%
Operating income	\$ 313	\$ 109	\$ 204	187.2%
Other expense, net	\$ —	\$ (1)	\$ 1	100.0%
 Net income	 \$ 313	 \$ 108	 \$ 205	 189.8%

The following table summarizes changes in the various components of our net loss during the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

(Dollars in thousands)	Six		\$	%
	Months	Months		
	Ended	Ended		
	June 30,	June 30,	Change	Change
	2017	2016		
Product revenue	\$ 3,190	\$ 3,033	\$ 157	5.2%
Operating costs and expenses:				
Cost of product revenue	\$ 1,041	\$ 1,245	\$ (204 )	(16.4)%
Research and product development expenses	\$ 610	\$ 644	\$ (34 )	(5.3)%
Selling, general and administrative expenses	\$ 1,635	\$ 1,616	\$ 19	1.2%
Operating loss	\$ (96)	\$ (472)	\$ 376	79.7%
Other expense, net	\$ (5)	\$ (6)	\$ 1	16.7%
Net loss	\$ (101)	\$ (478)	\$ 377	78.9%

**Product Revenue:** Product revenue consists of revenue recognized from the MTI Instruments' product lines.

Product revenue for the three months ended June 30, 2017 increased by \$85 thousand, or 4.7%, to \$1.9 million from \$1.8 million during the three months ended June 30, 2016. Product revenue for the six months ended June 30, 2017 increased by \$157 thousand, or 5.2%, to \$3.2 million from \$3.0 million during the six months ended June 30, 2016. These increases were driven primarily by activity under the U.S. Air Force contract for engine vibration analysis systems, accessories and maintenance, which we entered into on July 1, 2016, combined with an increase in capacitance products sales to a European subsidiary of a U.S. company. These increases were partially offset by a decline in commercial engine balancing system business and tensile tester shipments.

For the three months ended June 30, 2017, the largest commercial customer was an aircraft engine system integrator, which accounted for 7.9% of the second quarter 2017 revenue. During the three months ended June 30, 2016, our largest commercial customer was an Asian distributor, which accounted for 12.8% of the second quarter 2016 revenue. The U.S. Air Force was the largest government customer for the three months ended June 30, 2017 and June 30, 2016, accounting for 30.3% and 1.2%, respectively, of revenue.



For the six months ended June 30, 2017, the largest commercial customer was a U.S. Fortune 100 Company turbine engine tooling manufacturer, which accounted for 8.6% of the 2017 revenue. In 2016, our largest commercial customer was an Asian distributor, which accounted for 14.0% of the year-to-date 2016 revenue. The U.S. Air Force was the largest government customer for the six months ended June 30, 2017 and June 30, 2016, accounting for 27.6% and 1.3%, respectively, of revenue.

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

(Dollars in thousands)

Contract <sup>(1)</sup>	Expiration	Revenues for the		Revenues for the		Total	
		Three Months Ended	June 30, 2017	Six Months Ended	June 30, 2016	Contract Revenues to Date	June 30, 2017
\$9.35 million U.S. Air Force Systems, Accessories and Maintenance	06/30/2021 <sup>(2)</sup>	\$ 478	\$ —	\$ 705	\$ —	\$ 1,798	\$ 1,800

(1) Contract values represent maximum potential values at time of contract placement and may not be representative of actual results.

(2) Date represents expiration of contract, including the exercise of the option extension.

**Cost of Product Revenue; Gross Margin:** Cost of product revenue includes the direct material and labor cost as well as an allocation of overhead costs that relate to the manufacturing of products we sell. In addition, cost of product revenue also includes the labor and material costs incurred for product maintenance, replacement parts and service under our contractual obligations.

Cost of product revenue for the three months ended June 30, 2017 decreased by \$71 thousand, or 11.7%, to \$537 thousand from \$608 thousand for the three months ended June 30, 2016. Gross profit, as a percentage of product revenue, increased to 71.6% during the second quarter of 2017 compared to 66.4% for the second quarter of 2016. Cost of product revenue for the six months ended June 30, 2017 decreased by \$204 thousand, or 16.4%, to \$1.0 million from \$1.2 million for the six months ended June 30, 2016. Gross profit, as a percentage of product revenue, increased to 67.4% during the six months ended June 30, 2017 compared to 59.0% during the first half of 2016.

The improvement in gross profit during the 2017 periods was attributable to lower material costs, a change in the product mix, and reduced charges for excess inventory stemming from improved procurement management. The decrease in the cost of product revenue during the 2017 periods was attributable to the lower material costs and reduced excess inventory charges responsible for the improvements in the profit margin.

***Research and Product Development Expenses:*** Research and product development expenses includes the costs of materials to build development and prototype units, cash and non-cash compensation and benefits for the engineering and related staff, expenses for contract engineers, fees paid to outside suppliers for subcontracted components and services, fees paid to consultants for services provided, materials and supplies consumed, facility related costs such as computer and network services, and other general overhead costs associated with our research and development activities, to the extent not reimbursed by our customers.

Research and product development expenses decreased \$14 thousand and \$34 thousand, respectively, during the three and six months ended June 30, 2017 compared to the comparable 2016 periods due to decreased material spending on current development projects and reduced staffing.

***Selling, General and Administrative Expenses:*** Selling, general and administrative expenses includes cash and non-cash compensation, benefits and related costs in support of our general corporate functions, including general management, finance and accounting, human resources, selling and marketing, information technology and legal services.

Selling, general and administrative expenses for the three months ended June 30, 2017 decreased by \$34 thousand, or 4.4%, to \$747 thousand from \$781 thousand for the three months ended June 30, 2016. This decrease was a result of a staff reduction in the sales department.

Selling, general and administrative expenses of \$1.6 million for the six months ended June 30, 2017 were comparable to the six months ended June 30, 2016.

**Operating Income (Loss):** Operating income was \$313 thousand for the three months ended June 30, 2017 compared to \$109 thousand for the three months ended June 30, 2016. This improvement was a result of the factors noted above, that is, the increased sales and improvement in the profit margin, combined with decreased research and development and selling, general and administrative expenses.

Operating loss was \$96 thousand for the six months ended June 30, 2017 compared to \$472 thousand for the six months ended June 30, 2016. This improvement was a result of the factors noted above, that is, the increased sales and improvement in the profit margin, combined with decreased research and development expenses. The operating loss in the 2017 period was also negatively impacted by \$205 thousand of non-recurring severance costs associated with the departure of the prior CEO and another employee.

**Other Expense:** Other expense was \$1 thousand for the three months ended June 30, 2016; there was no other expense during the second quarter of 2017. Other expense was \$5 thousand for the six months ended June 30, 2017 and related to miscellaneous bank fees. Other expense was \$6 thousand for the six months ended June 30, 2016, which was primarily related to a \$6 thousand loss recorded on the disposal of equipment in the first quarter of 2016.

**Net Income (Loss):** Net income was \$313 thousand for the three months ended June 30, 2017 compared to \$108 thousand for the three months ended June 30, 2016. The improvement in net income was primarily attributable to increased sales and improvements in gross margins, as well as the decreased research and development and selling, general and administrative expenses, as discussed above.

Net loss was \$101 thousand for the six months ended June 30, 2017 compared to \$478 thousand for the six months ended June 30, 2016. The decrease in net loss is primarily attributable to the improvement in gross margins, exclusive of the one-time charge for excess inventory, combined with decreased spending in staffing, travel, development project material and sales commissions.

**Management's Plan, Liquidity and Capital Resources**

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

(Dollars in thousands)	<b>Six Months Ended or As of June 30, 2017</b>	<b>Six Months Ended or As of June 30, 2016</b>	<b>Year Ended or As of December 31, 2016</b>
Cash	\$ 3,398	\$ 529	\$ 3,381
Working capital	4,023	984	3,990
Net loss	(101)	(478)	(359)
Net cash (used in) provided by operating activities	(45)	155	522
Purchase of property, plant and equipment	(14 )	(78)	(136)

The Company has historically incurred significant losses (the majority, until 2012, stemming from the direct methanol fuel cell product development and commercialization programs of its former subsidiary, MeOH Power, Inc.) and had a consolidated accumulated deficit of \$121.1 million as of June 30, 2017. Management believes that the Company currently has adequate resources to avoid future cost-cutting measures that could adversely affect its business. As of June 30, 2017, we had no debt, \$22 thousand in commitments for capital expenditures and approximately \$3.4 million of cash available to fund our operations.

Based on business developments, including changes in production levels, staffing requirements and network infrastructure improvements, additional capital equipment may be required in the foreseeable future. We expect to spend approximately \$75 thousand on capital equipment and \$1.3 million in research and development on MTI Instruments' products during 2017. We expect to fund any future expenditures and continue funding our operations from our current cash position and our projected 2017 and 2018 cash flows pursuant to management's plans. We may also seek to supplement our resources by obtaining credit facilities to fund operational working capital and capital expenditure requirements. Any additional financing, if required, may not be available to us on acceptable terms or at all.

While it cannot be assured, management believes that, due in part to our current working capital level, recent realignment in sales and operations and stabilized spending, the Company will have adequate resources to fund operations and capital expenditures for the year ending December 31, 2017 and through the end of the third quarter of 2018. However, if our revenue estimates are off either in timing or amount, the Company may need to implement additional steps to ensure liquidity including, but not limited to, the deferral of planned capital spending and/or delaying existing or pending product development initiatives. Such steps, if required, could potentially have a material and adverse effect on our business, results of operations and financial condition.

**Debt**

We had no credit facilities available or debt outstanding at either June 30, 2017 or June 30, 2016.

**Backlog, Inventory and Accounts Receivable**

At June 30, 2017, our order backlog was \$575 thousand compared to \$349 thousand at December 31, 2016. The increase in backlog from December 2016 was due to an order for capacitance systems that, per the customer's request, will not be delivered until the third quarter of this year.

Our inventory turnover ratios and average accounts receivable days outstanding for the trailing 12 month periods and their changes at June 30, 2017 and 2016 are as follows:

	<b>2017</b>	<b>2016</b>	<b>Change</b>
Inventory turnover	2.8	1.9	0.9
Average accounts receivable days outstanding	40	46	(6 )

The current twelve-month inventory turns have improved due to a 23% decline in average inventory balances corresponding to write-offs for excess inventory in late 2016 and recently improved procurement management.

The average accounts receivable days' outstanding decreased six days during the last 12 months due to a proportionate increase in U.S. government sales, which tend to pay within 30 days, which is significantly shorter than the payment cycle for commercial customers.

### **Off-Balance Sheet Arrangements**

We have no off balance sheet arrangements.

### **Critical Accounting Policies and Significant Judgments and Estimates**

The discussion and analysis of our financial condition and results of operations are 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, Accounting Policies, to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016 includes a summary of our most significant accounting policies. There have been no material changes to the critical accounting policies previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016. The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, 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, income taxes and stock-based compensation. We base our estimates on historical experience and on various other factors that we believe are 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, our management reviews our critical accounting estimates with the Audit Committee of our Board of Directors.

### ***Statement Concerning Forward-Looking Statements***

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any statements contained in this Form 10-Q that are not statements of historical fact may be forward-looking statements. When we use the words "anticipate," "estimate," "plans," "projects," "continuing," "ongoing," "expects," "management believes," "we believe," "we intend," "should," "could," "may," "will" and similar words or phrases, identifying forward-looking statements. Such forward-looking statements include, but are not limited to, statements regarding:

- management's belief that it will have adequate resources to fund the Company's operations and capital expenditures for the year ending December 31, 2017 and through the end of the third quarter of 2018;
- projected taxable income and the ability to use deferred tax assets (currently held at a full valuation allowance);
- the expected impact of recent accounting updates;
- the expectation that future cost-cutting measures will be avoided;
- future capital expenditures and spending on research and development; and
- expected funding of future cash expenditures.

Forward-looking statements involve risks, uncertainties, estimates and assumptions that may cause our actual results, performance or achievements to be materially different from those expressed or implied by forward-looking statements. Important factors that could cause these differences include the following:

- sales revenue growth may not be achieved or maintained;
- the dependence of our business on a small number of customers and potential loss of government contracts - particularly in light of potential cuts that may be imposed as a result of U.S. government budget appropriations;
- our lack of long-term purchase commitments from our customers and the ability of our customers to cancel, reduce, or delay orders for our products;
- our inability to build and maintain relationships with our customers;
- our inability to develop and utilize new technologies that address the needs of our customers;
- our inability to obtain new credit facilities;
- the cyclical nature of the electronics and military industries;
- the uncertainty of the U.S. and global economy, including as a result of the United Kingdom's impending exit from the European Union;
- the impact of future exchange rate fluctuations;
- failure of our strategic alliances to achieve their objectives or perform as contemplated and the risk of cancellation or early termination of such alliance by either party;
- the loss of services of one or more of our key employees or the inability to hire, train, and retain key personnel;

- risks related to protection and infringement of intellectual property;
- our occasional dependence on sole suppliers or a limited group of suppliers;
- our ability to generate income to realize the tax benefit of our historical net operating losses;
- risks related to the limitation of the use, for tax purposes, of our net historical operating losses in the event of certain ownership changes;
- the risk that potential deterioration in the relationships between the United States and other countries might impact our foreign customers' willingness to conduct business with U.S. companies like MTI; and
- other factors discussed under the heading "Risk Factors" in this report and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Forward-looking statements speak only as of the date they are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

### **Item 4. Controls and Procedures**

The certification of our Chief Executive Officer and Chief Financial Officer attached as Exhibit 31.1 to this Quarterly Report on Form 10-Q include, in paragraph 4 of such certification, information concerning our disclosure controls and procedures and internal control over financial reporting. Such certification should be read in conjunction with the information contained in this Item 4 for a more complete understanding of the matters covered by such certification.

#### *(a) Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of MTI's disclosure controls and procedures as of June 30, 2017. 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 U.S. Securities and Exchange Commission's (the "SEC") 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 company's 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 evaluation of our disclosure controls and procedures as of June 30, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

*(b) Changes in Internal Control Over Financial Reporting*

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 June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

At any point in time, we may be involved in various lawsuits or other legal proceedings. Such lawsuits could arise from the sale of products or services or from other matters relating to our regular business activities, compliance with various governmental regulations and requirements, or other transactions or circumstances. We do not believe there are any such proceedings presently pending. See Note 8, Commitments and Contingencies, to our condensed consolidated financial statements for further information.

### **Item 1A. Risk Factors**

Part II, Item 1A (Risk Factors) of our most recently filed Annual Report on Form 10-K with the SEC, filed on March 2, 2017, sets forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition and operating results. Except to the extent that information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors (including, without limitation, the matters described in Part I, Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations – Statement Concerning Forward Looking Statements), there have been no material changes to our risk factors disclosed in our most recently filed Annual Report on Form 10-K. However, those risk factors continue to be relevant to an understanding of our business, financial condition and operating results and, accordingly, you should review and consider such risk factors in making any investment decision with respect to our securities.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

### **Item 3. Defaults Upon Senior Securities**

None

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None

**Item 6. Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
<u>10.1+</u>	<u>Executive Employment Agreement, dated May 5, 2017, by and between Mechanical Technology, Incorporated and Frederick Jones (Incorporated by reference from Exhibit 10.1 of the Company's Form 8-K Report filed May 5, 2017).</u>
<u>31.1</u>	<u>Rule 13a-14(a)/15d-14(a) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of Frederick W. Jones</u>
<u>32.1</u>	<u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Frederick W. Jones</u>
<u>101.INS*</u>	<u>XBRL Instance Document</u>
<u>101.SCH*</u>	<u>XBRL Taxonomy Extension Schema Document</u>
<u>101.CAL*</u>	<u>XBRL Taxonomy Extension Calculation Linkbase Document</u>
<u>101.DEF*</u>	<u>XBRL Taxonomy Definition Linkbase Document</u>
<u>101.LAB*</u>	<u>XBRL Taxonomy Extension Label Linkbase Document</u>
<u>101.PRE*</u>	<u>XBRL Taxonomy Extension Presentation Linkbase Document</u>

All other exhibits for which no other filing information is given are filed herewith.

+ Represents management contract or compensation plan or arrangement.

\* Submitted electronically herewith. Attached as Exhibit 101 are the following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in eXtensible Business Reporting Language (XBRL) and tagged as blocks of text and including detailed tags: (i) Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016; (ii) Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2017 and 2016; (iii) Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016; and (iv) related notes.



**SIGNATURES**

Pursuant to the requirements 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: August 3, 2017

By:

/s/ Frederick W. Jones  
Frederick W. Jones  
Chief Executive Officer and Chief Financial  
Officer