

MECHANICAL TECHNOLOGY INC  
Form 10-Q  
May 05, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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

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

**For the quarterly period ended March 31, 2016**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Mechanical Technology, Incorporated**

**(Exact name of registrant as specified in its charter)**  
\_\_\_\_\_

**New York**  
**(State or other jurisdiction**  
**of incorporation or organization)**

**000-06890**  
**(Commission File Number)**

**14-1462255**  
**(I.R.S. Employer**  
**Identification No.)**

**325 Washington Avenue Extension, Albany, New York 12205**

**(Address of principal executive offices)**

**(Zip Code)**

**(518) 218-2550**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Smaller reporting company

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 April 28, 2016 was 5,248,482.

MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Mechanical Technology, Incorporated and Subsidiaries****Condensed Consolidated Balance Sheets****As of March 31, 2016 (Unaudited) and December 31, 2015**

| (Dollars in thousands, except per share)  | <b>March 31,<br/>2016</b>                   | <b>December 31,<br/>2015</b> |
|---|---|------------------------------|
| <b>Assets</b>   |   |                              |
| <b>Current Assets:</b>  |   |                              |
| Cash  | \$ 336                                      | \$ 462                       |
| Accounts receivable – less allowances of \$34 in 2016<br>and \$56 in 2015                                     | 675   | 931                          |
| Inventories   | 998   | 1,006                        |
| Prepaid expenses and other current assets   | 76  | 72                           |
| Total Current Assets  | 2,085                                       | 2,471                        |
| <b>Property, plant and equipment, net</b>   | 167   | 115                          |
| <b>Total Assets</b>   | <b>\$ 2,252</b>                             | <b>\$ 2,586</b>              |
|   | <b>Liabilities and Stockholders' Equity</b> |                              |
| <b>Current Liabilities:</b>   |   |                              |
| Accounts payable  | \$ 342                                      | \$ 152                       |
| Accrued liabilities   | 933   | 907                          |
| Total Current Liabilities   | 1,275                                       | 1,059                        |
| <b>Commitments and Contingencies (Note 8)</b>   |   |                              |
| <b>Stockholders' Equity:</b>  |   |                              |
| Common stock, par value \$0.01 per share,<br>authorized 75,000,000; 6,263,975 issued in both<br>2016 and 2015 | 63  | 63                           |
| Additional paid-in capital  | 135,885                                     | 135,839                      |
| Accumulated deficit   | (121,207 )                                  | (120,621 )                   |
| Common stock in treasury, at cost, 1,015,493 shares<br>in 2016 and 1,005,092 shares in 2015                   | (13,764 )                                   | (13,754 )                    |
| Total Stockholders' Equity  | 977   | 1,527                        |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 2,252</b>                             | <b>\$ 2,586</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 Months Ended March 31, 2016 and 2015**

| (Dollars in thousands, except per share)                | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2016</b>               | <b>2015</b> |
| Product revenue   | \$ 1,225                  | \$ 1,636    |
| Operating costs and expenses:                           |                           |             |
| Cost of product revenue                                 | 637                       | 638         |
| Research and product development expenses               | 334                       | 375         |
| Selling, general and administrative expenses            | 834                       | 1,010       |
| Operating loss  | (580 )                    | (387 )      |
| Other expense, net                                      | (6 )                      | (1 )        |
| Net loss  | \$ (586 )                 | \$ (388 )   |
| Loss per share (Basic and Diluted)                      | \$ (.11 )                 | \$ (.07 )   |
| Weighted average shares outstanding (Basic and Diluted) | 5,253,301                 | 5,258,883   |

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

**MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES****Condensed Consolidated Statements of Changes in Equity****For the Year Ended December 31, 2015****and the Three Months Ended March 31, 2016 (Unaudited)**

(Dollars in thousands, except per share)

|                                       | Common Stock |        |   | Treasury Stock |           | Total<br>Stockholders'<br>Equity<br>(Deficit) |          |
|---------------------------------------|--------------|--------|---|----------------|-----------|---|----------|
|                                       | Shares       | Amount | Additional<br>Paid-<br>Accumulated<br>in Capital<br>Deficit | Shares         | Amount    |   |          |
| <b>January 1, 2015</b>                | 6,263,975    | \$ 63  | \$ 135,698  | \$ (117,789)   | 1,005,092 | \$(13,754)                                    | \$ 4,218 |
| Net loss                              | -            | -      | -   | (2,832)        | -         | -   | (2,832)  |
| Stock based compensation              | -            | -      | 141   | -              | -         | -   | 141      |
| <b>December 31, 2015</b>              | 6,263,975    | \$ 63  | \$ 135,839  | \$ (120,621)   | 1,005,092 | \$(13,754)                                    | \$ 1,527 |
| Net loss                              | -            | -      | -   | (586)          | -         | -   | (586)    |
| Stock based compensation              | -            | -      | 46  | -              | -         | -   | 46       |
| Purchase of common stock for treasury | -            | -      | -   | -              | 10,401    | (10)  | (10)     |
| <b>March 31, 2016</b>                 | 6,263,975    | \$ 63  | \$ 135,885  | \$ (121,207)   | 1,015,493 | \$(13,764)                                    | \$ 977   |

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



**MECHANICAL TECHNOLOGY, INCORPORATED AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows (Unaudited)****For the Three Months Ended March 31, 2016 and 2015**

| (Dollars in thousands)  | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2016</b>                         | <b>2015</b> |
| <b>Operating Activities</b>   |                                     |             |
| Net loss  | \$ (586 )                           | \$ (388 )   |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                     |             |
| Depreciation  | 20                                  | 19          |
| Loss on disposal of equipment   | 6                                   | —           |
| Provision for bad debts   | (21 )                               | 25          |
| Stock based compensation  | 46                                  | 31          |
| Provision for excess and obsolete inventories                               | 153                                 | (38 )       |
| Changes in operating assets and liabilities:                                |                                     |             |
| Accounts receivable   | 277                                 | 162         |
| Inventories   | (145 )                              | 46          |
| Prepaid expenses and other current assets                                   | (4 )                                | (37 )       |
| Accounts payable  | 190                                 | 4           |
| Accrued liabilities   | 26                                  | (127 )      |
| Net cash used in operating activities                                       | (38 )                               | (303 )      |
| <b>Investing Activities</b>   |                                     |             |
| Purchases of equipment  | (78 )                               | (34 )       |
| Principle payments from notes receivable – related party                    | —                                   | 20          |
| Net cash used in investing activities                                       | (78 )                               | (14 )       |
| <b>Financing Activities</b>   |                                     |             |
| Purchases of common stock for treasury                                      | (10 )                               | —           |
| Net cash used in financing activities                                       | (10 )                               | —           |
| Decrease in cash  | (126 )                              | (317 )      |
| Cash – beginning of period  | 462                                 | 1,923       |
| Cash – end of period  | \$ 336                              | \$ 1,606    |

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 solutions, vibration measurement and system balancing systems, and wafer inspection tools, consisting of electronic gauging instruments for position, displacement and vibration application within the industrial manufacturing/production markets, as well as the research, design and process development market; tensile stage systems for materials testing at academic and industrial research settings; and engine vibration analysis systems for both military and commercial aircraft. These tools, systems and solutions are developed for markets and applications that require the precise measurements and control of products, processes, and the development and implementation of automated manufacturing, assembly, and consistent operation of complex machinery.

#### *Liquidity; Going Concern*

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 \$121.2 million and working capital of approximately \$810 thousand at March 31, 2016. As of March 31, 2016, we had no debt and \$24 thousand in commitments for capital expenditures.

Based on the Company's projected cash requirements for operations and capital expenditures, its current available cash of approximately \$336 thousand and our projected 2016 cash flow pursuant to management's current plan, management believes it will have adequate resources to fund operations and capital expenditures for the remainder of the year. If cash generated from operations is insufficient to satisfy the Company's working capital and capital expenditure requirements, the Company may be required to sell additional equity or obtain credit facilities. The Company has no other formal commitments for funding future needs of the organization at this time and any additional financing during 2016, if required, may not be available to us on acceptable terms or at all.

The Company's financial statements have been prepared assuming the Company will continue as a going concern, which assumes the realization of assets and the satisfaction of liabilities in the normal course of business. The

consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. If the going concern basis were not appropriate for these financial statements, adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

The Company's history of operating cash flow deficits, its current cash position and lack of access to capital may raise doubt about its ability to continue as a going concern and its continued existence could be dependent upon several factors, including its ability to raise revenue levels and control costs to generate positive cash flows, to sell additional shares of the Company's common stock to fund operations and to obtain credit facilities. Selling additional shares of the Company's common stock and obtaining credit facilities may be more difficult as a result of limited access to equity markets and the tightening of credit markets. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount of or classification of liabilities that might be necessary as a result of this uncertainty.

The Company believes that the current lack of liquidity and "going concern" opinion resulted primarily from delays in entering into a new agreement with the U.S. Air Force (as discussed in our Annual Report on Form-K for the year ended December 31, 2015 in Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations") and in a product order it is expecting but has not yet been placed, as well as the Company's cancellation of its existing lines of credit on March 24, 2016, as further discussed in Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in the Annual Report and this Form 10-Q. While the Company believes that it will enter into a new agreement with the U.S. Air Force during the second quarter of 2016 and that the new order it is expecting will also be received, there can be no assurance that these events will happen; if these do not occur or the Company's business strategy is not successful in addressing its current financial issues, substantial doubt exists about the Company's ability to continue as a going concern.

## 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, 2015.

The information presented in the accompanying condensed consolidated balance sheet as of December 31, 2015 has been derived from the Company's audited consolidated financial statements. All other information has been derived from the Company's unaudited condensed consolidated financial statements for the three months ended March 31, 2016 and March 31, 2015.

### *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.

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 March 31, 2016 and December 31, 2015, based on MeOH Power, Inc.'s net position and expected cash flows. As of March 31, 2016, the Company retained its ownership of approximately 47.5% of MeOH Power, Inc.'s outstanding common stock, or 75,049,937 shares, and 55.7% of the common stock and warrants issued, which includes 31,904,136 warrants outstanding.

## 3. Accounts Receivable

Accounts receivables consist of the following at:

(Dollars in thousands)

**March 31, 2016**

**December 31, 2015**

|                                 |    |     |    |     |
|---------------------------------|----|-----|----|-----|
| U.S. and State Government       | \$ | 3   | \$ | 15  |
| Commercial                      |    | 706 |    | 972 |
| Allowance for doubtful accounts |    | (34 | )  | (56 |
| Total                           | \$ | 675 | \$ | 931 |

For the three months ended March 31, 2016 and 2015, the largest commercial customer represented 15.7% and 10.2%, respectively, and the largest governmental agency represented 1.4% and 3.7%, respectively, of the Company's product revenue. As of March 31, 2016 and December 31, 2015, the largest commercial receivable represented 14.3% and 13.8%, respectively, and the largest governmental receivable represented 0.5% and 1.6%, respectively, of the Company's accounts receivable.

#### 4. Inventories

Inventories consist of the following at:

| (Dollars in thousands) | March 31, 2016 | December 31, 2015 |
|------------------------|----------------|-------------------|
| Finished goods         | \$ 458         | \$ 412            |
| Work in process        | 186            | 240               |
| Raw materials          | 354            | 354               |
| Total                  | \$ 998         | \$ 1,006          |

## 5. Property, Plant and Equipment

Property, plant and equipment consist of the following at:

| (Dollars in thousands)         | <b>March 31, 2016</b> |       | <b>December 31, 2015</b> |       |
|--------------------------------|-----------------------|-------|--------------------------|-------|
| Leasehold improvements         | \$                    | 39    | \$                       | 39    |
| Computers and related software |                       | 1,054 |                          | 1,052 |
| Machinery and equipment        |                       | 868   |                          | 853   |
| Office furniture and fixtures  |                       | 61    |                          | 61    |
|                                |                       | 2,022 |                          | 2,005 |
| Less: Accumulated depreciation |                       | 1,855 |                          | 1,890 |
|                                | \$                    | 167   | \$                       | 115   |

Depreciation expense was \$20 thousand and \$80 thousand for the three months ended March 31, 2016 and the year ended December 31, 2015, respectively.

## 6. Income Taxes

During the three months ended March 31, 2016, 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 permanent differences, the change in the valuation allowance and changes to estimated taxable income for 2016. For the three months ended March 31, 2015, the Company's effective income tax rate was 0%. There was no income tax expense for the three months ended March 31, 2016 or 2015.

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.

Although the Company expects to generate levels of pre-tax earnings in the future, the Company decided to re-establish a full valuation allowance at December 31, 2015 for its deferred tax assets. This decision was based upon actual results differing from those estimates used as a basis for the previous partial valuation of the deferred tax asset.

The Company believes that the accounting estimate for the valuation of deferred tax assets is a critical accounting estimate, because judgment is required in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns. The Company based the estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, the Company may need to adjust the recorded valuation allowance, which could materially impact our

financial position and results of operations. The valuation allowance was \$18.7 million at March 31, 2016 and \$18.5 million at December 31, 2015. 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 March 31, 2016 and December 31, 2015, there were 5,248,482 and 5,258,883 shares of common stock, respectively, issued and outstanding.

### ***Treasury Stock***

On June 11, 2015, the Company's Board of Directors approved the repurchase of up to 525,000 shares of the Company's outstanding shares of common stock. The Company previously entered into a stock purchase plan with a registered broker-dealer in accordance with Rule 10b5-1 under the Exchange Act, pursuant to which the broker-dealer had authority to purchase shares on the Company's behalf pursuant to the Board's authorization. Following the termination of the Company's credit lines, discussed in Note 9 below, the Company terminated the stock repurchase plan effective March 24, 2016. During the quarter, 10,401 shares of common stock were repurchased by the Company. As of March 31, 2016 and December 31, 2015, there were 1,015,493 and 1,005,092 shares, respectively, held in treasury.

**Reservation of Shares**

The Company had reserved common shares for future issuance as follows as of March 31, 2016:

|  |           |
|--|-----------|
| Stock options outstanding  | 1,177,251 |
| Common stock available for future equity awards or issuance of options | 24,750    |
| Number of common shares reserved                                       | 1,202,001 |

**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, if any, when the stock option is exercised are assumed to be used to repurchase shares in the current period.

Not included in the computation of earnings per share, assuming dilution, for the three months ended March 31, 2016, were options to purchase 1,177,251 shares of the Company's common stock. These potentially dilutive items were excluded because the Company incurred a loss during the periods and their inclusion would be anti-dilutive.

Not included in the computation of earnings per share, assuming dilution, for the three months ended March 31, 2015, were options to purchase 942,908 shares of the Company's common stock. These potentially dilutive items were excluded because the Company incurred a loss during the periods and their inclusion would be anti-dilutive.

**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. Under the agreement, MTI Instruments has an option to terminate the lease as of December 1, 2016. If MTI Instruments terminates the lease prior to November 2019, MTI Instruments is required to reimburse the landlord for all unamortized costs that the landlord incurred for renovations to the leased space in conjunction with the lease renewal.



Future minimum rental payments required under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2016 are: \$169 thousand remaining in 2016, \$227 thousand 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>Three Months Ended</b> |             |
|---------------------------------------|---------------------------|-------------|
|                                       | <b>March 31,<br/>2016</b> | <b>2015</b> |
| Balance, January 1                    | \$ 16                     | \$ 17       |
| Accruals for warranties issued        | 3                         | 4           |
| Settlements made (in cash or in kind) | (2 )                      | (2 )        |
| Balance, end of period                | \$ 17                     | \$ 19       |

### ***Employment Agreement***

The Company has an employment agreement with one employee that provides certain payments upon termination of employment under certain circumstances, as defined in the agreement. As of March 31, 2016, the Company's potential minimum obligation to this employee was approximately \$67 thousand.

### **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. Debt**

During the first quarter of 2016, we entered into discussions with Bank of America, N.A. (the Bank) to strengthen the lines of credit and re-align their terms to be more consistent with our current business plan. During such discussions, the Bank informed the Company that based on its results for 2015 it was not in compliance with certain financial covenants of the lines. Since an agreement on new covenants could not be reached, the Company decided that the lines of credit could not be utilized and therefore terminated them on March 24, 2016. There were no amounts outstanding under the credit facilities at the time of cancellation.

## **10. 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 (the 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.

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.

During 2015, the Company granted 140,000 options to purchase the Company's common stock from the 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 \$1.20 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 \$1.14 per share and was estimated at the date of grant.

## **11. Related Party Transactions**

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

As of March 31, 2016, the Company owned an aggregate of approximately 47.5% of MeOH Power, Inc.'s outstanding common stock, or 75,049,937 shares, and 55.7% of the common stock and warrants issued, which includes 31,904,136 warrants outstanding. The number of shares of MeOH Power, Inc.'s common stock authorized for issuance is 240,000,000 as of March 31, 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 March 31, 2016 and December 31, 2015, \$268 thousand and \$266 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.

## **12. Recent Accounting Standards or Updates Not Yet Effective**

The Company considered the applicability and impact of all accounting standard updates (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 Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09 (Revenue from Contracts with Customers) to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. The standard is principles-based and provides a five-step model to determine when and how revenue is recognized. 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. 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.

In August 2014, the FASB issued ASU 2014-15 (Presentation of Financial Statements – Going Concern), which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures. This standard will be effective for the Company for annual and interim reporting periods ending after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. This standard allows for either a full retrospective or modified retrospective transition method. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02 (Consolidation (Topic 810): Amendments to the Consolidation Analysis), which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This standard became effective for the Company beginning in the first quarter of 2016. The adoption of this standard had no impact on its consolidated financial statements.

In July 2015, the FASB issued 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. Under the updated guidance, an entity should 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 is unchanged for inventory that is measured using last-in, last-out (LIFO). This standard will be effective for the Company for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17 (Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes) as part of its ongoing simplification initiative, with the objective of reducing complexity in accounting standards. 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. This guidance does not change the offsetting requirements for deferred tax liabilities and assets, which results in the presentation of one amount on the balance sheet. 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.) This standard will be effective for the Company for annual and interim reporting periods beginning on or after December 15, 2016. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

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 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 (Leases (Topic 842)) the main objective of which requires lessees to put most leases on their balance sheet but recognize expenses on their income statement in a manner similar to current accounting requirements. 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. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 (Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting), which simplifies several aspects related to the accounting for employee share-based payment transactions. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard will be effective for the Company for annual and interim reporting periods beginning after December 15, 2016, and early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10 (Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing), which clarifies the identification of performance obligations and the licensing implementation guidance. This standard is expected to reduce the cost and complexity of applying the guidance on identifying promised goods or services. This standard will be effective for the Company for annual and interim reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of this standard on its consolidated financial statements.







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

*Unless the context requires otherwise, the terms "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, 2015 contained in our 2015 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, 2015, as filed on March 30, 2016, 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 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) metrology tools for semiconductor and solar wafer characterization, 3) tensile stage systems for materials testing and precision linear displacement gauges all for use in academic and industrial research and development settings, and 4) engine balancing and vibration analysis systems for both military and commercial aircraft.

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 Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015.***

The following table summarizes changes in the various components of our net loss during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

| (Dollars in thousands)              | <b>Three Months</b> |       | <b>Three Months</b> |       |               |               |
|-------------------------------------|---------------------|-------|---------------------|-------|---------------|---------------|
|                                     | <b>Ended</b>        |       | <b>Ended</b>        |       |               |               |
|                                     | <b>March 31,</b>    |       | <b>March 31,</b>    |       |               |               |
|                                     | <b>2016</b>         |       | <b>2015</b>         |       | <b>\$</b>     | <b>%</b>      |
|                                     |                     |       |                     |       | <b>Change</b> | <b>Change</b> |
| Product revenue                     | \$                  | 1,225 | \$                  | 1,636 | \$ (411)      | (25.1)%       |
| Operating costs and expenses:       |                     |       |                     |       |               |               |
| Cost of product revenue             | \$                  | 637   | \$                  | 638   | \$ (1 )       | (0.2)%        |
| Research and product development    | \$                  | 334   | \$                  | 375   | \$ (41 )      | (10.9)%       |
| expenses                            |                     |       |                     |       |               |               |
| Selling, general and administrative | \$                  | 834   | \$                  | 1,010 | \$ (176 )     | (17.4)%       |
| expenses                            |                     |       |                     |       |               |               |
| Operating loss                      | \$                  | (580) | \$                  | (387) | \$ (193 )     | (49.9)%       |
| Other expense, net                  | \$                  | (6)   | \$                  | (1)   | \$ (5 )       | (500.0)%      |
| Net loss                            | \$                  | (586) | \$                  | (388) | \$ (198 )     | (51.0)%       |

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

Product revenue for the three months ended March 31, 2016 decreased by \$411 thousand, or 25.1%, to \$1.2 million from \$1.6 million during the three months ended March 31, 2015. The decrease in product revenue is attributable to delays in capital spending by our target clients, continued softness in the economies in Asian markets and the lack of repeated sales from a European distributor and shipments related to application development projects in the U.S. Further contributing to the variability between the periods was a delay in the receipt of an expected order in our turbo-machinery business, which was not received until the final day of the quarter and, therefore, could not be filled and booked as revenue during the quarter. For the three months ended March 31, 2016, the largest commercial customer for the segment was an Asian distributor, which accounted for 15.7% of the first quarter 2016 revenue. In 2015, the largest commercial customer for the segment was a U.S. manufacturer of jet engines, which accounted for 10.2% of the first quarter 2015 revenue. The U.S. Army was the largest government customer for the three months ended March 31, 2016, accounting for 1.4% of revenue. During the three month period ended March 31, 2015, the U.S. Air Force was the largest government customer and accounted for 3.7% of revenue.

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

| (Dollars in thousands)                   |                           | Revenues for the   |           |           | Contract Revenues to |           | Total Contract |           |
|--|---------------------------|--------------------|-----------|-----------|----------------------|-----------|----------------|-----------|
|  |                           | Three Months Ended |           |           | Date                 |           | Orders         |           |
| Contract <sup>(1)</sup>                  | Expiration                | March 31,          | March 31, | March 31, | March 31,            | March 31, | March 31,      | March 31, |
|  |                           | 2016               | 2015      | 2016      | 2016                 | 2016      | 2016           | 2016      |
| \$6.5 million U.S. Air Force Maintenance | 09/27/2014 <sup>(2)</sup> | \$ —               | \$ —      | \$ 5,006  | \$ 5,006             | \$ —      | \$ —           | \$ 5,006  |
| \$4.1 million U.S. Air Force Systems     | 08/29/2015 <sup>(2)</sup> | \$ —               | \$ —      | \$ 2,793  | \$ 2,793             | \$ —      | \$ —           | \$ 2,793  |

(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 option extensions. No additional orders are expected under any of these specific contracts.

On March 16, 2016, we received the 2015 solicitation request for proposal by the U.S. Air Force as a follow up to the two maintenance and systems contracts that had previously expired, as noted in the above table. This current solicitation is for a five year supply of the PBS 4100+ and 4100R+ systems, accessories and maintenance. We submitted our proposal to the U.S. Air Force on March 18, 2016, and we expect the U.S. Air Force to make a decision in this regard, and that we will enter into a new agreement with the U.S. Air Force, during the second quarter of 2016.

**Cost of Product Revenue:** 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 remained relatively flat when comparing quarter over quarter results, decreasing \$1 thousand for the three months ended March 31, 2016 versus the same period in 2015. Costs remained flat on 25.1% lower sales due to a one-time charge for potentially surplus amounts of inventory. In accordance with Company policy, potentially surplus amounts of inventory were written down as a consequence of the recently decreased sales volumes. Gross profit, as a percentage of product revenue, decreased to 48.0% in the 2016 period compared to 61.0% in the 2015 period due to the one-time charge to write down the value of potentially surplus inventory. Without this one-time charge, gross profit as a percentage of product revenue would have been 59.9%.

**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 \$41 thousand during the three months ended March 31, 2016 compared to the comparable 2015 period 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 March 31, 2016 decreased by \$176 thousand, or 17.4%, to \$834 thousand from \$1.0 million for the three months ended March 31, 2015. This decrease is the result of reduced staffing and international travel, along with a \$21 thousand reversal of reserves established for potentially uncollectible receivables that was collected during the quarter.

**Operating Loss:** Operating loss was \$580 thousand for the three months ended March 31, 2016 compared to \$387 thousand for the three months ended March 31, 2015. The increase in operating loss was a result of the factors noted above, primarily the decrease in product revenue and the one-time charge to write down the value of potentially surplus amounts of inventory.

**Other (Expense):** Other expense was \$6 thousand for the three months ended March 31, 2016 compared to \$1 thousand for the three months ended March 31, 2015. The increase in other expense was primarily due a \$6 thousand loss recorded on the disposal of equipment.

**Net Loss:** Net loss was \$586 thousand for the three months ended March 31, 2016 compared to a net loss of \$388 thousand for the three months ended March 31, 2015. The increase in net loss is primarily attributable to the decrease in product revenue and the one-time charge to write down the value of potentially surplus amounts of inventory.

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

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

| (Dollars in thousands)                    | <b>Three Months<br/>Ended<br/>March 31,<br/>2016</b> | <b>Three Months<br/>Ended<br/>March 31,<br/>2015</b> | <b>Year Ended<br/>December 31,<br/>2015</b> |
|---|--|--|---|
| Cash                                      | \$ 336   | \$ 1,606   | \$ 462                                      |
| Working capital                           | 810  | 2,386  | 1,413                                       |
| Net loss                                  | (586)  | (388)  | (2,832)                                     |
| Net cash used in operating activities     | (38)   | (303 )   | (1,426)                                     |
| Purchase of property, plant and equipment | (78)   | (34)   | (55)  |

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 \$121.2 million as of March 31, 2016. Management believes that the Company

currently has adequate resources to avoid future cost-cutting measures that could adversely affect its business. As of March 31, 2016, we had no debt, \$24 thousand in commitments for capital expenditures and approximately \$336 thousand of cash available to fund our operations.

If production levels rise at MTI Instruments, additional capital equipment may be required in the foreseeable future. Based on management's projections, we expect to spend approximately \$150 thousand on capital equipment and \$1.3 million in research and development on MTI Instruments' products during 2016. We anticipate financing any future expenditures and to continue funding our operations from our current cash position and our projected 2016 cash flow. We may also seek to supplement our resources by obtaining new credit facilities. The Company has no other formal commitments for funding future needs of the organization at this time and such additional financing during 2016, 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 replacements in sales and engineering staff, effective inventory management and stabilized spending, the Company should be able to generate sufficient cash flows to fund the Company's active operations for the foreseeable future, even in the absence of lines of credit following their termination in March 2016, as discussed below. If our revenue estimates are off either in timing or amount, however, 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. See Note 1 to the consolidated financial statements included in this report for additional information regarding liquidity and going concern.

***Debt***

During the first quarter of 2016, we entered into discussions with Bank of America, N.A. (the Bank) to strengthen the lines of credit and re-align their terms to be more consistent with our current business plan. During such discussions, the Bank informed the Company that based on its results for 2015 it was not in compliance with certain financial covenants of the lines. Since an agreement on new covenants could not be reached, the Company decided that the lines of credit could not be utilized and therefore terminated them on March 24, 2016. There were no amounts outstanding under the credit facilities at the time of cancellation.

***Backlog, Inventory and Accounts Receivable***

At March 31, 2016, our order backlog was \$376 thousand compared to \$234 thousand at December 31, 2015. The increase in backlog from December 2015 was due to a large order for accessories related to our turbo-machinery business that was received on the last day of the quarter.

Our inventory turnover ratios and average accounts receivable days outstanding for the trailing 12 month periods and their changes at March 31, 2016 and 2015 are as follows:

|  | <b>2016</b> | <b>2015</b> | <b>Change</b> |
|--|-------------|-------------|---------------|
| Inventory turnover                           | 2.2         | 4.1         | (1.9)         |
| Average accounts receivable days outstanding | 50          | 39          | 11            |

The current twelve-month inventory turns have declined due to a 19% increase in average inventory balances corresponding to anticipated orders from Asia and the U.S. Air Force.

The average accounts receivable days' outstanding increased 11 days during the last 12 months due to a proportionate increase in international commercial sales, which tend to pay between 45 and 60 days, versus U.S. government sales, which tend to be paid within 30 days.

**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, 2015 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, 2015. 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 (Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (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:

- statements with respect to management’s strategy and planned initiatives;
- projected taxable income and the ability to use deferred tax assets (currently held at a full valuation allowance);



- our expectations regarding the award of a new U.S. Air Force contract and the timing thereof;
- our expectations regarding the receipt of an anticipated product order;
- our ability to continue as a going concern;
- management's belief that it will have adequate resources to fund the Company's operations and capital expenditures for at least the next twelve months;
- anticipated cash flows for the next twelve months;
- that the Company should be able to generate sufficient cash flows to fund its active operations in the foreseeable future;
- the expectation that future cost-cutting measures will be avoided;
- future capital expenditures and spending on research and development;
- needing to purchase equipment; 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;
- our dependence on a small number of customers;
- 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 risk that procurement determinations within the federal government could result in the U.S. Air Force not awarding the expected new contract;
- the cyclical nature of the electronics and military industries;
- the uncertainty of the U.S. and global economy;
- 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; and
- other factors discussed under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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 certifications of our Chief Executive Officer and Chief Financial Officer attached as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q include, in paragraph 4 of such certifications, information concerning our disclosure controls and procedures and internal control over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 4 for a more complete understanding of the matters covered by such certifications.

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

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of MTI's disclosure controls and procedures as of March 31, 2016. 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 SEC's 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 March 31, 2016, 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 March 31, 2016 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 Securities and Exchange Commission (SEC), filed on March 30, 2016, 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**

Company repurchases of its common stock during the three months ended March 31, 2016 consisted of open market share repurchases and is summarized in the following table:

**Issuer Purchases of Equity Securities**

| <b>Period</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>per Share</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs<br/>(1)</b> | <b>Maximum<br/>Number of<br/>Shares That<br/>May Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs (1)</b> |
|---------------|---|---|---|---|
| January 1-31  | 3,600   | \$ 0.93                                     | 3,600   | 521,400   |
| February 1-29 | 4,501   | \$ 0.98                                     | 4,501   | 516,899   |
| March 1-31    | 2,300   | \$ 0.99                                     | 2,300   | 514,599   |
| <b>Total</b>  | <b>10,401</b>                                       | <b>\$ 0.97</b>                              | <b>10,401</b>   | <b>514,599</b>  |

- (1) On June 11, 2015, the Company's Board of Directors approved the repurchase of up to 525,000 shares of the Company's outstanding shares of common stock. The Company previously entered into a stock purchase plan with a registered broker-dealer in accordance with Rule 10b5-1 under the Exchange Act, pursuant to which the broker-dealer had authority to purchase shares on the Company's behalf pursuant to the Board's authorization. Following the termination of the Company's credit lines, discussed above, the Company terminated the stock repurchase plan effective March 24, 2016.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

| <u>Exhibit No.</u> | <u>Description</u>  |
|--------------------|---|
| 31.1               | Rule 13a-14(a)/15d-14(a) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of Kevin G. Lynch                           |
| 31.2               | Rule 13a-14(a)/15d-14(a) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of Frederick W. Jones                       |
| 32.1               | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Kevin G. Lynch     |
| 32.2               | 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 |
| 101.INS*           | XBRL Instance Document  |
| 101.SCH*           | XBRL Taxonomy Extension Schema Document   |
| 101.CAL*           | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF*           | XBRL Taxonomy Definition Linkbase Document  |
| 101.LAB*           | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE*           | XBRL Taxonomy Extension Presentation Linkbase Document  |

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

\* 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 March 31, 2016, formatted in eXtensible Business Reporting Language (XBRL) and tagged as blocks of text and including detailed tags: (i) Condensed Consolidated Balance Sheets at March 31, 2016 and December 31, 2015; (ii) Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2016 and 2015; (iii) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015; 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: May 5, 2016

By: /S/ Kevin G. Lynch  
Kevin G. Lynch  
Chief Executive Officer

By: /S/ Frederick W. Jones  
Frederick W. Jones  
Chief Financial Officer