

TURBOCHEF TECHNOLOGIES INC

Form 10-Q

September 24, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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Form 10-Q

(Mark One)

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

For the Fiscal Quarter ended June 30, 2007

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from

\_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-23478

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TurboChef Technologies, Inc.  
(Exact name of Registrant as specified in its Charter)

DELAWARE  
(State or other jurisdiction of incorporation  
or organization)

48-1100390  
(IRS employer identification number)

Six Concourse Parkway, Suite 1900  
Atlanta, Georgia  
(Address of principal executive offices)

30328  
(Zip Code)

Registrant's telephone number, including area  
code:  
(678) 987-1700

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

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

<b>Title of Each Class</b>	<b>Number of Shares Outstanding at September 1, 2007</b>
Common Stock, \$0.01 Par Value	29,240,175

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**PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

**TURBOCHEF TECHNOLOGIES, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(IN THOUSANDS, EXCEPT SHARE DATA)**

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 16,238	\$ 19,675
Accounts receivable, net of allowance of \$203 and \$162	15,015	11,001
Other receivables	726	2,771
Inventory, net	11,407	11,311
Prepaid expenses	2,178	2,128
Total current assets	45,564	46,886
Property and equipment, net	7,394	7,944
Developed technology, net of accumulated amortization of \$2,511 and \$2,107	5,560	5,963
Goodwill	5,934	5,934
Covenant not-to-compete, net of accumulated amortization of \$1,006 and \$726	4,594	4,874
Other assets	173	174
Total assets	\$ 69,219	\$ 71,775
<b>Liabilities and Stockholders' Equity:</b>		
Current liabilities:		
Accounts payable	\$ 13,140	\$ 9,200
Accrued expenses	5,281	3,103
Future installments due on covenants not-to-compete and additional consideration for assets acquired	3,932	3,793
Deferred revenue	3,757	2,977
Accrued warranty	2,718	1,889
Deferred rent	247	247
Total current liabilities	29,075	21,209
Future installments due on covenants not-to-compete and additional consideration for assets acquired, non-current	3,682	3,550
Deferred rent, non-current	1,096	1,218
Other liabilities	94	93
Total liabilities	33,947	26,070
Commitments and contingencies		

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Stockholders' equity:

Preferred stock, \$1 par value, authorized 5,000,000 shares, 0 shares issued	--	--
Preferred membership units exchangeable for shares of TurboChef common stock	384	384
Common stock, \$.01 par value, authorized 100,000,000 shares, issued 29,249,319 and 29,197,145 shares at June 30, 2007 and December 31, 2006, respectively	292	292
Additional paid-in capital	170,823	169,821
Accumulated deficit	(136,227)	(124,792)
Total stockholders' equity	35,272	45,705
Total liabilities and stockholders' equity	\$ 69,219	\$ 71,775

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

**TURBOCHEF TECHNOLOGIES, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Product sales	\$ 22,726	\$ 10,165	\$ 40,665	\$ 19,272
Royalties and services	242	329	634	758
Total revenues	22,968	10,494	41,299	20,030
Costs and expenses:				
Cost of product sales	13,931	7,270	25,464	13,907
Research and development expenses	1,379	991	2,866	2,150
Selling, general and administrative expenses	14,196	7,502	24,489	14,473
Restructuring costs	--	--	--	(41)
Total costs and expenses	29,506	15,763	52,819	30,489
Operating loss	(6,538)	(5,269)	(11,520)	(10,459)
Other income (expense):				
Interest income	180	355	401	724
Interest expense and other	(160)	(73)	(316)	(184)
	20	282	85	540
Net loss	\$ (6,518)	\$ (4,987)	\$ (11,435)	\$ (9,919)
<b>Per share data:</b>				
Net loss per share - basic and diluted	\$ (0.22)	\$ (0.17)	\$ (0.39)	\$ (0.35)
Weighted average number of common shares outstanding - basic and diluted	29,247,657	28,765,080	29,235,610	28,715,846

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

**TURBOCHEF TECHNOLOGIES, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(IN THOUSANDS)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Net loss	\$ (11,435)	\$ (9,919)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,911	1,822
Amortization of deferred rent	(121)	(122)
Amortization of deferred loan costs and non-cash interest	298	153
Non-cash compensation expense	689	96
Provision for doubtful accounts	272	180
Other	--	8
Changes in operating assets and liabilities:		
Accounts receivable	(4,286)	1,056
Inventories	(327)	1,007
Prepaid expenses and other assets	1,968	47
Accounts payable and other payables	3,940	(2,167)
Accrued expenses and warranty	3,006	(1,200)
Deferred revenue	781	(948)
Net cash used in operating activities	(3,304)	(9,987)
Cash flows from investing activities:		
Purchases of property and equipment, net	(421)	(2,433)
Net cash used in investing activities	(421)	(2,433)
Cash flows from financing activities:		
Proceeds from the exercise of stock options and warrants	313	654
Payment of deferred loan costs	(25)	(25)
Net cash provided by financing activities	288	629
Net decrease in cash and cash equivalents	(3,437)	(11,791)
Cash and cash equivalents at beginning of period	19,675	40,098
Cash and cash equivalents at end of period	\$ 16,238	\$ 28,307

**NON CASH INVESTING AND FINANCING ACTIVITIES:**

Issuance of common stock in exchange for Enersyst preferred membership units	\$ -	\$ 542
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**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Cash paid for interest	\$ 16	\$ 24
Cash paid for income taxes	--	--

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





**TURBOCHEF TECHNOLOGIES, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

TurboChef Technologies, Inc. (the "Company") was incorporated in 1991 and became a Delaware corporation in 1993. The Company is a leading provider of equipment, technology and services focused on the high speed preparation of food products. The Company's customizable speed cook ovens, the C3, the Tornado and the High h Batch, cook food products at high speeds with food quality comparable, and in many cases superior, to conventional heating methods. Through 2005, the Company's primary markets were with commercial food service operators throughout North America, Europe and Australia and management believes that, for 2005 and prior, the Company operated in one primary business segment. However, during 2005, the Company took several steps designed to take its technologies to residential consumers, including market research, related industrial design research and product development and exploration of distribution channels for a proposed residential oven product line. The launch of the residential product line created an additional business segment for the Company.

The condensed consolidated financial statements of the Company as of June 30, 2007 and 2006 included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and have not been audited by independent registered public accountants. In the opinion of management, all adjustments of a normal and recurring nature necessary to present fairly the financial position and results of operations and cash flows for all periods presented have been made. Pursuant to SEC rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted from these statements unless significant changes have taken place since the end of the Company's most recent fiscal year. The Company's December 31, 2006 consolidated balance sheet was derived from audited financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, but does not include all disclosures required by GAAP. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the aforementioned Form 10-K. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

The unaudited condensed consolidated financial statements include the accounts of TurboChef Technologies, Inc. and its majority-owned and controlled company. Significant inter-company accounts and transactions have been eliminated in consolidation.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

For information regarding significant accounting policies, see Note 2 to the Consolidated Financial Statements of the Company for the year ended December 31, 2006, set forth in the Form 10-K.

**REVENUE RECOGNITION**

Revenue from product sales are recognized when no significant vendor obligation remains, title to the product passes (depending on terms, either upon shipment or delivery), and the customer has the intent and ability to pay in accordance with contract payment terms that are fixed and determinable. Royalty revenues are recognized based on the sales dates of licensees' products and service revenues are recorded based on attainment of scheduled performance milestones. Certain customers may purchase extended warranty coverage for a one-year period. Revenue from these extended warranties is deferred and recognized in product sales on a straight-line basis over the extended warranty term.

The Company provides for returns on product sales based on historical experience and adjusts such reserves as considered necessary. To date, there have been no significant sales returns.

Deferred revenue includes amounts billed to customers for which revenue has not been recognized. Deferred revenue primarily consists of sales deposits, unearned revenue from extended warranty contracts and other amounts billed to customers where the sale transaction is not yet complete and, accordingly, revenue cannot be recognized.

### **COST OF PRODUCT SALES**

Cost of product sales is calculated based upon the cost of the oven, the cost of any accessories supplied with the oven, an allocation of cost for applicable delivery, duties and taxes and a reserve for warranty. Cost of product sales also includes cost of replacement parts and accessories and cost of labor, parts and payments to third party service agents in connection with fulfilling extended warranty contracts. The Company compares expected expenditures on extended warranty contracts to the deferred revenue over the remaining life of the contracts, and if the expenditures are anticipated to be greater than the remaining deferred revenue the Company records a charge to cost of product sales for the difference. Cost of product sales does not include any cost allocation for administrative and technical support services required to deliver or install the oven or an allocation of costs associated with the quality control of the Company's contract manufacturers. These costs are recorded within selling, general and administrative expenses. Cost of product sales also does not attribute any allocation of compensation or general and administrative expenses to royalty and services revenues.

## **GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill represents the excess purchase price of net tangible and intangible assets acquired in business combinations over their estimated fair values. Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*, requires goodwill and other acquired intangible assets that have an indefinite useful life to no longer be amortized; however, these assets must undergo an impairment test at least annually. The annual goodwill impairment test, completed in October 2006, determined that the carrying amount of goodwill was not impaired.

SFAS No. 142 also requires that intangible assets with definite lives be amortized over their estimated useful life and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Currently, acquired developed technology and covenants not-to-compete are both amortized using the straight-line method over estimated useful lives of 10 years, and the Company recorded \$342,000, in the aggregate, of amortization expense for the three months ended June 30, 2007 and 2006 and \$684,000 for the six months ended June 30, 2007 and 2006 for these long-lived intangible assets. Annual amortization for each of the next five years will approximate \$1.4 million.

## **EARNINGS PER COMMON SHARE**

Basic earnings per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during each period. Diluted earnings per common share is calculated by dividing net income, adjusted on an “as if converted” basis, by the weighted-average number of actual shares outstanding and, when dilutive, the share equivalents that would arise from the assumed conversion of convertible instruments.

The effect of potentially dilutive stock options and warrants is calculated using the treasury stock method. For the three and six months ended June 30, 2007 the potentially dilutive securities include options, warrants and restricted stock units, convertible into 3.8 million shares of common stock; Enersyst Development Center, LLC (“Enersyst”) preferred membership units exchangeable for 37,000 shares of common stock and an indeterminate number of shares issuable in the future to settle the equity portion of the Company’s liability for additional consideration due under an asset acquisition agreement, all of which were excluded from the calculation of shares applicable to loss per share, because their inclusion would have been anti-dilutive. For the three and six months ended June 30, 2006 the potentially dilutive securities included options, warrants and restricted stock units, which were convertible into 3.6 million shares of common stock and Enersyst preferred membership units exchangeable for 41,000 shares of common stock, all of which were excluded from the calculation of shares applicable to loss per share because their inclusion would have been anti-dilutive.

## **STOCK BASED EMPLOYEE COMPENSATION**

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, a revision of SFAS No. 123 (SFAS No. 123R), using the modified prospective method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the grant date and recognition of compensation expense over the requisite service period for awards expected to vest. The fair value of stock option grants is determined using the Black-Scholes valuation model, which is consistent with the valuation techniques previously utilized for options in footnote disclosures required under SFAS No. 123, *Accounting for Stock Based Compensation*, (“SFAS No. 123”) as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* (“SFAS No. 148”). The fair value of restricted stock awards is determined based on the number of shares granted and the quoted price of our common stock on the grant date. Such fair values will be recognized as compensation expense over the requisite service period, net of estimated forfeitures, using the straight-line method under SFAS No. 123R.

During the six months ended June 30, 2007, the Company issued 545,000 restricted stock units to certain employees. These restricted stock units had a weighted average fair value of \$15.20 per unit and the aggregate fair value was \$8.3 million. The fair value of these awards was based upon the market price of the underlying common stock as of the date of grant. All of these awards vest over a five-year period from the date of grant, provided the individual remains in the employment or service of the Company as of the vesting date. Additionally, these shares could vest earlier in the event of a change in control, merger or other acquisition, or upon termination for disability or death. The shares of common stock will be issued at vesting. As of June 30, 2007, 628,000 restricted stock units have been issued by the Company. Stock-based compensation expense related to these awards was \$545,000 and \$689,000 for the three and six months ended June 30, 2007, of which \$46,000 is included in research and development expenses, \$4,000 is included in cost of sales, and the remainder is included in selling, general and administrative expenses for both periods. Selling, general and administrative expenses for the three and six months ended June 30, 2006, include \$96,000 recognized as stock-based compensation expense for these awards. At June 30, 2007, the unrecognized compensation expense related to these restricted stock awards is \$8.3 million with a remaining weighted average life of 2.5 years.

#### **NEW ACCOUNTING PRONOUNCEMENTS**

In July 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation clarifies the application of SFAS No. 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. The interpretation would require the Company to review all tax positions accounted for in accordance with SFAS No. 109 and apply a more-likely-than-not recognition threshold. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Subsequent recognition, de-recognition, and measurement is based on management's best judgment given the facts, circumstances and information available at the reporting date. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted the requirements of this statement as of January 1, 2007. The adoption of FIN 48 did not have a material effect on the Company's financial position or results of operations.

**NOTE 3. OTHER ASSETS**

The Company entered into a favorable final settlement in the second quarter of 2005 with a contract assembler related to consigned inventory lost in a fire suffered at one of the assembler's plants. The amount due under the settlement is included in other receivables in the accompanying consolidated balance sheets. The Company received payment on the settlement amount in April 2007.

**NOTE 4. INVENTORY**

Inventory consists of the following (in thousands):

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Parts inventory, net	\$ 5,835	\$ 6,933
Finished goods – ovens	5,349	4,154
Demonstration inventory, net	223	224
	<b>\$ 11,407</b>	<b>\$ 11,311</b>

**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following (in thousands):

	<b>Estimated Useful Lives (Years)</b>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Tooling and equipment	3-7	\$ 6,800	\$ 6,471
Furniture and fixtures	5	1,403	1,369
Leasehold improvements	5-7.5	3,102	3,044
		11,305	10,884
Less accumulated depreciation and amortization		(3,911)	(2,940)
		<b>\$ 7,394</b>	<b>\$ 7,944</b>

**NOTE 6. ACCRUED WARRANTY**

The Company generally provides a one-year parts and labor warranty on its ovens. Provisions for warranty claims are recorded at the time products are sold and are reviewed and adjusted periodically by management to reflect actual and anticipated experience. Because warranty estimates are forecasts that are based on the best available information, claims costs may differ from amounts provided, and these differences may be material.

An analysis of changes in the liability for product warranty claims is as follows (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 2,223	\$ 1,815	\$ 1,889	\$ 2,482

Provision for warranties	952	514	1,955	1,460
Warranty expenditures	(457)	(943)	(1,126)	(2,556)
Balance at end of period	\$ 2,718	\$ 1,386	\$ 2,718	\$ 1,386

**NOTE 7. INCOME TAXES**

In preparing its financial statements, the Company estimates income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred income tax assets and liabilities. In addition, as of June 30, 2007, the Company had net operating losses (“NOLs”) of approximately \$101.9 million, of which \$23.7 million are subject to annual limitations resulting from the change in control provisions in Section 382 of the Internal Revenue Code. These NOLs begin to expire in 2011. A valuation allowance is recorded to reduce net deferred income tax assets to the amount that is more likely than not to be realized. Based on its history of losses, the Company recorded a valuation allowance as of June 30, 2007, equal to the full amount of net deferred income tax assets including those related to NOLs.

The Company adopted the provisions of FIN 48 effective January 1, 2007. No cumulative adjustment was required or recorded as a result of the implementation of FIN 48. As of January 1, 2007, the Company had no unrecognized tax benefits. The Company will recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense when and if incurred. The Company had no interest or penalties related to unrecognized tax benefits accrued as of January 1, 2007. The Company does not anticipate that the amount of the unrecognized benefit will significantly increase or decrease within the next 12 months.

## NOTE 8. STOCKHOLDER'S EQUITY

The Company issued an aggregate of 545,000 restricted stock units to certain employees in the six months ended June 30, 2007.

A summary of restricted stock unit (RSU) activity follows:

	<b>Number of RSUs</b>	<b>Weighted Average Grant-Date Fair Value</b>
Balance at January 1, 2007	77,826	\$ 12.82
RSUs granted	545,000	15.20
RSUs vested	(3,826)	13.08
RSUs forfeited	(2,500)	15.20
Balance at June 30, 2007	616,500	\$ 14.91

## NOTE 9. CREDIT FACILITY

On February 28, 2005, the Company entered into a Credit Agreement with Bank of America, N.A. (the Credit Agreement). The Credit Agreement, as amended (most recently to extend the expiration period to February 28, 2008), allows the Company to borrow up to \$10.0 million at any time under the revolving credit facility, based upon a portion of the Company's eligible accounts receivable and inventory. The Credit Agreement contains an accordion feature allowing the Company to borrow up to an additional \$10.0 million subject to certain conditions. The Credit Agreement also provides for a letter of credit facility within the credit limit of up to \$5.0 million. Revolving credit loans under the Credit Agreement bear interest at a rate of the British Bankers Association LIBOR Rate plus 2.5% unless for certain reasons Eurodollar Rate Loans are unavailable, then at a rate of 2.5% over the higher of the Federal Funds Rate plus 0.5% and Bank of America's prime rate. The Company's obligations under the Credit Agreement are secured by substantially all of the assets of TurboChef and its subsidiaries. The Credit Agreement contains customary affirmative and negative covenants and acceleration provisions. The credit commitment expires on February 28, 2008, and any outstanding indebtedness under the Credit Agreement is due on that date. To date, the Company has not borrowed under the Credit Agreement.

## NOTE 10. COMMITMENTS AND CONTINGENCIES

### LEGAL PROCEEDINGS

The Company is party to legal proceedings from time to time that arise in the ordinary course of our business. The Company believes an unfavorable outcome of any such existing proceedings would not have a material adverse affect on our operating results or future operations.



**NOTE 11. SEGMENT INFORMATION AND CUSTOMER CONCENTRATIONS**

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, establishes standards for the way in which public companies are to disclose certain information about operating segments in their financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

The results from operations are reported using two reportable operating segments: Commercial and Residential. The Commercial segment includes operations from our commercial product line excluding corporate expenses, defined below, other income (expense) and income taxes. The Residential segment includes costs related to the development and launch of the residential product line.

The accounting policies of the operating segments are the same as those described in Summary of Significant Accounting Policies. The Chief Operating Decision Maker evaluates performance of the segments based on operating income. Costs excluded from this profit measure primarily consist of corporate expenses, other income (expense) and income taxes. Corporate expenses are primarily comprised of corporate overhead expenses. Thus, operating income includes only the costs that are directly attributable to the operations of the individual segment. The Company does not currently account for or report to the Chief Operating Decision Maker its assets or capital expenditures by segments.

Information about the Company's operations by operating segment follows (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Commercial:				
Revenues	\$ 22,968	\$ 10,494	\$ 41,299	\$ 20,030
Net income (loss)	3,087	(957)	4,487	(2,081)
Residential:				
Revenues	\$ --	\$ --	\$ --	\$ --
Net loss	(3,935)	(2,145)	(6,973)	(3,960)
Corporate:				
Revenues	\$ --	\$ --	\$ --	\$ --
Net loss	(5,670)	(1,885)	(8,949)	(3,878)
Totals:				
Revenues	\$ 22,968	\$ 10,494	\$ 41,299	\$ 20,030
Net loss	(6,518)	(4,987)	(11,435)	(9,919)

Through June 30, 2007, the Company derived all of its revenues from the sale of ovens in the Commercial segment. The Company does not have significant assets outside of the United States. Commercial segment revenues by geographic region for the three and six months ended June 30 is as follows (in thousands):

<b>REGION</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
North America	\$ 19,620	\$ 8,665	\$ 34,936	\$ 15,784
Europe and Asia	3,348	1,829	6,363	4,246
Totals	\$ 22,968	\$ 10,494	\$ 41,299	\$ 20,030

The Company is generally subject to the financial condition of commercial food service operators and related equipment providers; however, management does not believe that there is significant credit risk with respect to trade receivables. For the three months ended June 30, 2007 and 2006, 66% and 44% of the Company's sales were made to three and one customers, respectively. For the six months ended June 30, 2007 and 2006, 64% and 44% of the Company's sales were made to three and one customers, respectively. As of June 30, 2007, 38% of the outstanding accounts receivable were related to one customer.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

TurboChef Technologies, Inc. is a leading provider of equipment, technology and services focused on the high-speed preparation of food products for the speed cook sector of the commercial cooking equipment market. Our user-friendly speed cook ovens employ proprietary combinations of heating technologies such as convection, air impingement, microwave energy and other advanced methods to cook food products at high speeds with food quality that we believe to be comparable or superior to that of conventional heating methods. We currently offer three commercial ovens: the C3 oven, the Tornado oven and, the High h Batch oven and one residential oven: the TurboChef Double Wall Oven. We are working to develop new ovens for the commercial cooking equipment market and the residential marketplace.

We currently derive revenue primarily from the sale of our ovens to commercial foodservice operators throughout North America, Europe and Australia. In North America we sell our equipment through our internal sales force as well as through manufacturer's representatives. In Europe and Australia we utilize a network of equipment distributors. We are working to expand the market for our commercial ovens in Latin America and Asia. We also derive revenues from licensing our technologies to food service equipment manufacturers. Through 2005, our primary markets were with commercial food service operators throughout North America, Europe and Australia and management believes that, for 2005 and prior, the Company operated in one primary business segment. However, during 2005, we took several steps designed to take our technologies to residential consumers, including market research, related industrial design research and product development and exploration of distribution channels for a proposed residential oven product line. The launch of the residential product line created an additional business segment for the Company.

We believe it is important to our success that we continue to sell to our existing base of commercial customers to meet their expansion or replacement needs, while at the same time extending that customer base by concentrating our internal sales efforts on major foodservice operators and by supporting our networks of manufacturer's representatives and equipment distributors. We must strive to do that while maintaining a cost structure for our products and controlling our operating expenses to provide a satisfactory return on sales. We must compete effectively in the marketplace on the basis of price, quality and product performance, and we must meet market demand through development and improvement of our speed cook ovens and introduction of new oven products. These same marketplace and product development factors will apply to our achieving success with the launch of our residential speed cook oven products; however, the residential market is new to us and there may be factors important to our success that are unknown to us at present.

Our financial results in 2007 as compared to 2006 reflect our efforts to expand our non-Subway customer base, continue to perform under our supply agreement with the Subway system, continue to reduce our cost of product sales as a percentage of revenues, and develop and launch our residential oven and market strategy. The Subway relationship has been and should continue to be a meaningful contributor to future revenues. Demand for equipment will continue from this major customer as new Subway restaurants are opened and existing restaurants seek additional ovens. In 2006 we continued our sales efforts on expanding our customer base beyond the Subway system and successfully reduced the percentage of Subway sales to total revenues from 58% in 2005 to 35% in 2006. For the three and six months ended June 30, 2007, these efforts resulted in significant sales to two additional major customers other than Subway. In 2007, we will also continue to focus on increasing the profitability of commercial products, introducing our residential oven products and developing enabling strategies.

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The following sets forth, as a percentage of revenue, consolidated statements of operations data for the three and six months ended June 30:

	<b>Three Months Ended</b>		<b>Six Months Ended June 30,</b>	
	<b>June 30,</b>		<b>2007</b>	<b>2006</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenues	100%	100%	100%	100%
Cost of product sales	61	69	62	69
Research and development expenses	6	9	7	11
Selling, general and administrative expenses	61	72	59	72
Total costs and expenses	128	150	128	152
Operating loss	(28)	(50)	(28)	(52)
Interest income	1	3	1	4
Interest expense and other	(1)	(1)	(1)	(1)
Total other income, net	--	2	--	3
Net loss	(28)%	(48)%	(28)%	(49)%

We have observed the following trends and events that are likely to have an impact on our financial condition and results of operations in the future:

- During the three and six months ended June 30, 2007, our non-Subway product sales increased \$12.9 million, or 231%, from \$5.5 million to \$18.4 million, and \$22.2 million, or 211%, from \$10.5 million to \$32.7 million, over the comparable periods in 2006, respectively. We expect our non-Subway revenue to continue to increase in 2007. Two customers other than Subway accounted for 47% and 44% of our total revenues during the three and six months ended June, 2007.
- Subway sales accounted for 19% and 44% of our total revenues during the three months ended June 30, 2007 and 2006, respectively. Subway sales accounted for 19% and 44% of our total revenues during the six months ended June 30, 2007 and 2006, respectively. We expect Subway to be a meaningful contributor to future revenues, however, we expect Subway sales as a percentage of our total revenues to continue to decline as our customer base continues to expand.
- In the second quarter of 2007 compared to the first quarter of 2007, our gross margin percentage improved to 39% from 37%. The improvement in gross margin is attributable to higher sales volumes, improved margin on service agreements and the positive benefits of the sales mix in the quarter. We expect gross profit percentages to remain at these levels through the remainder of 2007.
- During the second quarter of 2007, we continued to invest in the development of our residential oven and commercial ovens and expect this trend to continue through the remainder of 2007.
- During the three months ended June 30, 2007, we increased our selling, general and administrative expenses, excluding depreciation and amortization, by \$6.6 million from the comparable period in 2006. During the six months ended June 30, 2007, we increased our selling, general and administrative expenses, excluding depreciation and amortization, by \$9.9 million from the comparable period in 2006. These increases are the result of increased legal and professional costs related to the Company's review of its stock option grants and practices and increased selling, marketing and related expenses. We continue to expect increases in 2007 as compared to 2006, primarily due to increased marketing costs related to the residential product launch.

Based on our analysis of the aforementioned trends and events, we expect to generate a net loss for 2007. Our future results will be affected by many factors, some of which are identified below and in Item 1A of our Annual Report on Form 10-K, including our ability to:

- increase our commercial revenue across our customer base;

- manage costs related to commercial business segment;
- successfully launch our residential product line;
- manage costs related to the residential product launch.

As a result, there is no assurance that we will achieve our expected financial objectives.

### **Application of Critical Accounting Policies**

Below is a discussion of our critical accounting policies. For a complete discussion of our significant accounting policies, see the footnotes to the financial statements included in our 2006 Annual Report on Form 10-K. These policies are critical to the portrayal of our financial condition and/or are dependent on subjective or complex judgments, assumptions and estimates. If actual results differ significantly from management's estimates and projections, then there could be a significant impact on the financial statements. The impact of changes in key assumptions may not be linear. Our management has reviewed the application of these policies with the audit committee of our board of directors.

### ***Revenue Recognition***

Revenue from product sales are recognized when no significant vendor obligation remains, title to the product passes (depending on terms, either upon shipment or delivery), and the customer has the intent and ability to pay in accordance with contract payment terms that are fixed and determinable. Royalty revenues are recognized based on the sales dates of licensees' products, and services revenues are recorded based on attainment of scheduled performance milestones. Certain customers may purchase extended warranty coverage for a one-year period. Revenue from sales of extended warranties is deferred and recognized in product sales on a straight-line basis over the term of the extended warranty contract.

We provide for returns on product sales based on historical experience and adjust such reserves as considered necessary. To date, there have been no significant sales returns.

Deferred revenue includes amounts billed to customers for which revenue has not been recognized. Deferred revenue primarily consists of sales deposits, unearned revenue from extended warranty contracts and other amounts billed to customers where the sale transaction is not yet complete and, accordingly, revenue cannot be recognized.

### ***Cost of Product Sales***

Cost of product sales is calculated based upon the cost of the oven, the cost of any accessories supplied with the oven, an allocation of cost for applicable delivery, duties and taxes and a reserve for warranty. Cost of product sales also includes cost of replacement parts and accessories and cost of labor, parts and payments to third party service agents in connection with fulfilling extended warranty contracts. We compare the expected warranty expenditures on extended warranty contracts to the deferred revenue over the remaining life of the contracts, and if the expenditures are anticipated to be greater than the remaining deferred revenue we record a charge to cost of product sales for the difference. Cost of product sales does not include any cost allocation for administrative and technical support services required to deliver or install the oven or an allocation of costs associated with the quality control of the Company's contract manufacturers. These costs are recorded within selling, general and administrative expenses. Cost of product sales also does not attribute any allocation of compensation or general and administrative expenses to royalty and services revenues.

### ***Product Warranty***

We warrant our ovens against defects in material and workmanship for a period of one year from the date of installation. Anticipated future warranty costs are estimated based upon historical experience and are recorded in the periods ovens are sold. Periodically, our warranty reserve is reviewed to determine if the reserve is sufficient to cover the estimated repair costs associated with the remaining ovens under warranty. Because warranty estimates are forecasts that are based on the best available information, claims cost may differ from amounts provided, and these differences may be material.

At this time, we believe that, based upon historical data, the current warranty reserve is sufficient to cover the estimate of associated costs. If warranty costs trend higher, we would need to record a higher initial reserve as well as reserve the estimated amounts necessary to cover all ovens remaining under warranty. Any such additional reserves would be charged to cost of goods sold and could have a material effect on our financial statements.

### ***Stock-Based Compensation and Other Equity Instruments***

Effective January 1, 2006, we adopted SFAS 123R using the modified prospective method. SFAS 123R requires measurement of compensation cost for all stock-based awards at fair value on the grant date and recognition of compensation expense over the requisite service period for awards expected to vest. The fair value of stock option grants is determined using the Black-Scholes valuation model, which is consistent with our valuation techniques previously utilized for options in footnote disclosures required under SFAS No. 123, *Accounting for Stock Based Compensation*, ("SFAS No. 123") as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* ("SFAS No. 148"). The fair value of restricted stock awards is determined based on the number of shares granted and the quoted price of our common stock on the grant date. Such fair values will be recognized as compensation expense over the requisite service period, net of estimated forfeitures, using the straight-line method under SFAS 123R.

During the six months ended June 30, 2007, we issued 545,000 restricted stock units to certain employees. These restricted stock units had a weighted average fair value of \$15.20 per unit and the aggregate fair value was \$8.3 million. The fair value of these awards was based upon the market price of the underlying common stock as of the date of grant. All of these awards vest over a five-year period from the date of grant, provided the individual remains in our employ or service as of the vesting date. Additionally, these shares could vest earlier in the event of a change in control, merger or other acquisition, or upon termination for disability or death. The shares of common stock will be issued at vesting. As of June 30, 2007, we have issued 628,000 restricted stock units. Stock-based compensation expense related to these awards was \$545,000 and \$689,000 for the three and six months ended June 30, 2007, of which \$46,000 is included in research and development expenses, \$4,000 is included in cost of sales, and the remainder is included in selling, general and administrative expenses for both periods. Selling, general and administrative expenses for the three and six months ended June 30, 2006, include \$96,000 recognized as stock-based compensation expense for these awards. At June 30, 2007, the unrecognized compensation expense related to these restricted stock awards is \$8.3 million with a remaining weighted average life of 2.5 years.

### *Deferred Income Taxes*

In preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred income tax assets and liabilities. In addition, as of June 30, 2007, we have net operating losses (“NOLs”) of approximately \$101.9 million, of which \$23.7 million are subject to annual limitations resulting from the change in control provisions in Section 382 of the Internal Revenue Code. These NOLs begin to expire in 2011.



We currently have significant deferred tax assets, including those resulting from NOLs, tax credit carryforwards and deductible temporary differences. We provide a full valuation allowance against our net deferred tax assets. Management weighs the positive and negative evidence to determine if it is more likely than not that some or all of the deferred tax assets will be realized. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in past years. Despite our profitability in 2004 and our future plans and prospects, we have continued to maintain a full valuation allowance on our net tax benefits until profitability has been sustained over a time period and in amounts that are sufficient to support a conclusion that it is more likely than not that a portion or all of the deferred tax assets will be realized. A decrease in our valuation allowance would result in an immediate material income tax benefit, an increase in total assets and stockholder's equity, and could have a significant impact on earnings in future periods.

### ***Commitments and Contingencies***

We evaluate contingent liabilities including threatened or pending litigation in accordance with SFAS No. 5, *Accounting for Contingencies*. We define a loss contingency as a condition involving uncertainty as to a possible loss related to a previous event that will not be resolved until one or more future events occur or fail to occur. Our primary loss contingencies relate to pending or threatened litigation. We record a liability for a loss contingency when we believe that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. When we believe the likelihood of a loss is less than probable and more than remote, we do not record a liability but we disclose material loss contingencies in the notes to the consolidated financial statements. We make these assessments based on facts and circumstances and in some instances based in part on the advice of outside legal counsel.

### ***Segment Information***

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, establishes standards for the way in which public companies are to disclose certain information about operating segments in their financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

The results from operations are now reported using two reportable operating segments: Commercial and Residential. The Commercial segment includes operations of the commercial product line excluding corporate expenses, defined below, other income (expense) and income taxes. The Residential segment includes costs related to the development and the anticipated launch of the consumer product line.

The accounting policies of the operating segments are the same as those described in Summary of Significant Accounting Policies. The Chief Operating Decision Maker evaluates performance of the segments based on operating income. Costs excluded from this profit measure primarily consist of corporate expenses, other income (expense) and income taxes. Corporate expenses are primarily comprised of corporate overhead expenses. Thus, operating income includes only the costs that are directly attributable to the operations of the individual segment. The Company does not currently account for or report to the Chief Operating Decision Maker its assets or capital expenditures by segments.

### **Results of Operations**

#### ***Revenues***

We currently derive all sales, cost of product sales and gross profit from our Commercial segment. For the three months ended June 30, 2007, total revenues increased 119%, or \$12.5 million, to \$23.0 million as compared to \$10.5 million for the comparable period in 2006. This increase is attributable to increased volume and average selling prices.

For the three months ended June 30, 2007, increased oven sales to non-Subway customers combined with increased sales of parts and consumables accounted for an increase of \$12.9 million in product revenues. Subway sales accounted for 19% and 44% of our total revenues during the three months ended June 30, 2007 and 2006, respectively. Sales to two non-Subway customers accounted for 47% of our total revenues during the three months ended June 30, 2007. Subway will continue to be an important contributor to our revenues as we supply ovens for new stores and as existing stores evaluate their needs for additional ovens, however, we expect Subway sales as a percentage of our total revenues to continue to decline as our customer base continues to expand.

For the six months ended June 30, 2007, total revenues increased 106%, or \$21.3 million, to \$41.3 million as compared to \$20.0 million for the comparable period in 2006. This increase is attributable to increased volume and average selling prices. For the six months ended June 30, 2007, increased oven sales to non-Subway customers combined with increased sales of parts and consumables accounted for an increase of \$22.2 million in product revenues. Subway sales accounted for 19% and 44% of our total revenues during the six months ended June 30, 2007 and 2006, respectively. Sales to two non-Subway customers accounted for 44% of our total revenues during the six months ended June 30, 2007.

Royalty and services revenue, which consists principally of revenue from licensing our technology to third parties, was \$242,000 and \$634,000 for the three and six months ended June 30, 2007, respectively, as compared to \$329,000 and \$758,000 for the comparable periods in 2006. We expect further diminution in services revenue as the resources which generate this revenue are repurposed to support our commercial oven business and to benefit our residential speed cook oven initiative.

**Cost of Product Sales and Gross Profit**

We currently derive all sales, cost of product sales and gross profit from our Commercial segment. For the three months ended June 30, 2007, cost of product sales was \$13.9 million, an increase of \$6.6 million, compared to \$7.3 million for the comparable period in 2006. For the six months ended June 30, 2007, cost of product sales was \$25.5 million, an increase of \$11.6 million, compared to \$13.9 million for the comparable period in 2006. The variability in cost of product sales was due primarily to the number of ovens sold. As a percentage of product sales, cost of product sales for the three and six months ended June 30, 2007 was 61% and 63%, respectively, versus 72% for the comparable periods in 2006. The improvement from 2006 to 2007 is due to higher sales volumes, improved margins on service agreements and the positive benefits of the sales mix in the quarter.

For the three months ended June 30, 2007, gross profit on product sales was \$8.8 million, an increase of \$5.9 million, compared to gross profit on product sales of \$2.9 million for the comparable period in 2006. For the six months ended June 30, 2007, gross profit on product sales was \$15.2 million, an increase of \$9.8 million, compared to gross profit on product sales of \$5.4 million for the comparable period in 2006. The variability in the gross profit on product sales was due primarily to the number of ovens sold. Gross profit on product sales as a percentage of product sales revenue increased for the three and six months ended June 30, 2007 as compared to the comparable periods in 2006 due to improved sales mix resulting in higher average selling prices.

**Research and Development**

We currently incur research and development expenditures in our Commercial and Residential segments. Research and development expenses consist primarily of payroll and benefits, consulting services paid to third parties, supplies, facilities and other administrative costs for support of the engineers, scientists and other research and development personnel who design, develop, test and enhance our ovens and oven-related services. Research and development costs are expensed as incurred.

For the three months ended June 30, 2007, research and development expenses increased 39%, or \$388,000, to \$1.4 million as compared to \$1.0 million for the comparable period in 2006. For the six months ended June 30, 2007, research and development expenses increased 33%, or \$716,000, to \$2.9 million as compared to \$2.2 million for the comparable period in 2006. The net increase in the two periods was primarily attributable to an expanded scope of research activities in our Commercial segment related to the development of new oven lines and, to a lesser extent, an increase in the Residential segment related to the development and launch of our new residential speed cook ovens.

The following table quantifies the net increase in research and development expenses over periods presented (in thousands):

	<b>Increase in Research and Development Expenses for the Three Months Ended June 30, 2006 to 2007</b>	<b>Increase in Research and Development Expenses for the Six Months Ended June 30, 2006 to 2007</b>
General and administrative expenses	\$ 156	\$ 353
Payroll and related expenses	140	254
Design, prototype and other related expenses	92	109

Total increase	\$	388	\$	716
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We believe that research and development expenses for 2007 will approximate 2006 levels, as we continue our development efforts for new commercial ovens planned for introduction in late 2007 and for residential speed cook ovens and related products.

### ***Selling, General and Administrative***

Selling, general and administrative expenses, or SG&A, consist primarily of payroll and related costs; variable commissions and bonuses for personnel and third-party representatives engaged in sales functions; marketing, advertising and promotional expenses; legal and professional fees; travel; communications; facilities; insurance and other administrative expenses; depreciation of furniture, fixtures and equipment and amortization of intangible assets. These expenses are incurred to support our sales and marketing activities and our executive, finance, legal, business applications, human resources and other administrative functions.

SG&A expenses increased 89%, or \$6.7 million, to \$14.2 million for the three months ended June 30, 2007 as compared to \$7.5 million for the comparable period in 2006. Selling, marketing and related expenses increased \$2.5 million, primarily due to increased marketing and advertising expenses in the Residential segment related to the launch of our new residential oven, increased Commercial segment marketing and advertising and increased manufacturing representative commissions as a result of increased oven sales. Legal and professional fees increased \$3.3 million due to fees incurred in relation to the Company's review of its stock option grants and practices. Payroll and related expenses increased by \$889,000 across all segments primarily due to increased headcount.

SG&A expenses increased 70%, or \$10.1 million, to \$24.5 million for the six months ended June 30, 2007 as compared to \$14.4 million for the comparable period in 2006. Selling, marketing and related expenses increased \$4.2 million, primarily due to increased marketing and advertising expenses in the Residential segment related to the launch of our new residential oven, increased Commercial segment marketing and advertising and increased manufacturing representative commissions as a result of increased oven sales. Legal and professional fees increased \$4.0 million due to fees incurred in relation to the Company's review of its stock option grants and practices. Payroll and related expenses increased by \$1.6 million across all segments primarily due to increased headcount.

The following table quantifies the net increase in general and administrative expenses for the periods presented (in thousands):

	<b>Increase (Decrease) in General and Administrative Expenses for the Three Months Ended June 30, 2006 to 2007</b>	<b>Increase in General and Administrative Expenses for the Six Months Ended June 30, 2006 to 2007</b>
Selling, marketing and related expenses	\$ 2,510	\$ 4,179
Legal and professional fees	3,269	3,959
Payroll and related expenses	889	1,584
Rent and occupancy costs	9	172
Depreciation and amortization	30	89
Restructuring charges	--	41
Other	(13)	33
Total increase	\$ 6,694	\$ 10,057

For the remainder of 2007, we expect to augment our SG&A infrastructure in our Residential segment in contemplation of the launch of our residential speed cook oven products as the marketing and promotion plans are finalized and the product launch is executed; however, the extent of the investment required to launch this new product in, what will be to us, a new market is difficult to quantify. We also expect increased sales and marketing expenses in 2007 in our Commercial segment as compared to 2006 due to an expected increase in commissions as a result of higher forecasted sales and an increase in the volume of sales generated by our networks of manufacturer's representatives and food equipment distributors.

### ***Net Other Income***

Net other income for the three and six months ended June 30, 2007 was \$20,000 and \$85,000 as compared to \$282,000 and \$540,000 for the comparable periods in 2006, respectively, primarily due to decreased interest income and increased interest expense as a result of the Global acquisition.

### **Liquidity and Capital Resources**

Our capital requirements in connection with our product and technology development and marketing efforts have been significant. In light of the planned launch of our residential speed cook ovens, the capital requirements for these efforts likely will continue to be significant.

Our management anticipates that our existing cash, credit availability and anticipated future cash flows from operations will provide sufficient liquidity for us to execute our business plan and expand our business as needed in the near term. We renewed our credit facility with Bank of America through February 28, 2008. This facility provides stand-by credit availability to augment the cash flow anticipated from operations. However, should the launch of our residential speed cook oven products or a significant increase in demand for commercial products engender significant expansion of our operations, we may require additional capital in future periods.

Cash used in operating activities was \$3.3 million for the six months ended June 30, 2007 as compared to \$10.0 million for the comparable period in 2006. Net cash used in operating activities for the six months ended June 30, 2007 resulted from our net loss of \$(11.4) million less non-cash charges of \$3.0 million (principally depreciation and amortization) and a decreased investment in working capital of \$5.1 million. The change in working capital items included an increase in accounts payable and accrued expenses and warranty and cash used to increase accounts receivable. Net cash used in operating activities for the six months June 30, 2006 resulted from our net loss of \$(9.9) million less non-cash charges of \$2.1 million (principally depreciation and amortization) offset by an increased investment in working capital of \$2.2 million.

Cash used in investing activities for the six months ended June 30, 2007 was \$421,000 compared to \$2.4 million for the comparable period in 2006. Net cash used in investing activities resulted principally from capital expenditures in tooling and equipment for our Residential segment. We anticipate capital expenditures of approximately \$1.5 million during 2007, including anticipated capital expenditures in connection with the introduction of our residential oven. We anticipate funding these expenditures from working capital.

Cash provided by financing activities for the six months ended June 30, 2007 was \$288,000 compared to \$629,000 for the comparable period in 2006 due to decreased proceeds from the exercise of stock options and warrants.

At June 30, 2007, we had cash and cash equivalents of \$16.2 million and working capital of \$16.5 million as compared to cash and cash equivalents of \$19.7 million and working capital of \$25.7 million at December 31, 2006.

**Contractual Cash Obligations**

As of June 30, 2007, our future contractual cash obligations are as follows (in thousands):

	Payments Due By Period						
	Total	July – December 2007	2008	2009	2010	2011	Thereafter
Installment Payments for Covenants Not-to-Compete	\$ 2,665	\$ 1,335	\$ 1,330	\$ --	\$ --	\$ --	\$ --
Installment Payments for Contingent Consideration Due Under Asset Purchase Agreement	5,333	2,668*	2,665*	--	--	--	--
Operating Leases	4,500	575	1,130	956	613	613	613
<b>Total</b>	<b>\$ 12,498</b>	<b>\$ 4,578</b>	<b>\$ 5,125</b>	<b>\$ 956</b>	<b>\$ 613</b>	<b>\$ 613</b>	<b>\$ 613</b>

\* 62% of this obligation is to be settled by issuance of common stock

We believe that existing working capital and cash flow from operations, together with availability under our credit facility with Bank of America, will provide sufficient cash flow to meet our contractual obligations. We intend to seek financing for any amounts that we are unable to pay from operating cash flows. Financing alternatives are routinely evaluated to determine their practicality and availability in order to provide us with additional funding at the least possible cost.

We believe that our existing cash, credit availability and anticipated future cash flows from operations will be sufficient to fund our working capital and capital investment requirements for the next twelve months and a reasonable period of time thereafter.

**Authoritative Pronouncements**

In July 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation clarifies the application of SFAS No. 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. The interpretation would require us to review all tax positions accounted for in accordance with SFAS No. 109 and apply a more-likely-than-not recognition threshold. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Subsequent recognition, de-recognition, and measurement is based on management's best judgment given the facts, circumstances and information available at the reporting date. FIN 48 is effective for fiscal years beginning after December 15, 2006. We adopted the requirements of this statement as of January 1, 2007. The adoption of FIN 48 did not have a material effect on our financial position or results of operations.





### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

None.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of disclosure controls and procedure**

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 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 us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

#### **Changes in internal control over financial reporting**

We believe the control deficiencies and related material weakness that existed in prior years and at December 31, 2006 related to our stock option granting practices have been resolved by the filing of our Form 10-K for the year ended December 31, 2006. In order to further enhance our internal controls, management recommended the following enhancements to our equity compensation granting policies and procedures to the Compensation Committee of the Board of Directors, all of which were approved and implemented by us in the first quarter of 2007:

- The adoption of a policy requiring that all equity awards to executive officers and other employees be granted and priced according to a pre-determined, fixed schedule each year;
- Revisions and clarifications of the parameters of the Compensation Committee's delegation of authority to our Chairman and Chief Executive Officer to make equity awards;
- Establishment of improved processes and procedures for the documentation of corporate actions approving the grant of stock options, including the use of unanimous written consents; and
- Improvements to our processes and procedures with respect to the timing of recording and processing equity awards.

Except for the corrective actions noted above, there were no other changes 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**

See Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

### **ITEM 1A. RISK FACTORS**

For a discussion of our risk factors, see Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

#### **EXHIBITS**

- |      |  |
|------|--|
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                 |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                 |
| 32   | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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**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.

**TURBOCHEF TECHNOLOGIES, INC.**

By:                   /s/ James A. Cochran  
James A. Cochran  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

Dated: September 21, 2007