

PORTA SYSTEMS CORP
Form 10-Q
November 14, 2006

**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 September 30, 2006

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

For the transition period from.....to.....
Commission file number 1-8191

PORTA SYSTEMS CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11-2203988
(I.R.S. Employer
Identification No.)

6851 Jericho Turnpike, Suite 170, Syosset, New York
(Address of principal executive offices)

11791
(Zip Code)

516-364-9300
(Company'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 a 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 Exchange Act. Check one:

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

Common stock (par value \$0.01) 10,075,561 shares as of October 24, 2006

PART I. - FINANCIAL INFORMATION**Item 1- Financial Statements**

PORTA SYSTEMS CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except shares and par value)

<u>Assets</u>	September 30, 2006 (Unaudited)	December 31, 2005
Current assets:		
Cash and cash equivalents	\$ 1,355	\$ 1,254
Accounts receivable - trade, less allowance for doubtful accounts of \$256 in 2006 and \$256 in 2005	6,355	3,471
Inventories	3,916	4,541
Prepaid expenses and other current assets	796	446
Assets of discontinued operations	415	588
Total current assets	12,837	10,300
Property, plant and equipment, net	1,447	1,351
Goodwill, net	2,961	2,961
Other assets	44	49
Total assets	\$ 17,289	\$ 14,661
Liabilities and Stockholders' Deficit		
Current liabilities:		
Senior debt	\$ 23,816	\$ 24,675
Subordinated notes	6,144	6,144
6% convertible subordinated debentures	385	385
Accounts payable	5,767	4,035
Accrued expenses and other	2,050	1,567
Other accrued interest payable	5,891	5,180
Liabilities of discontinued operations	514	2,033
Total current liabilities	44,567	44,019
Deferred compensation	781	827
Total long-term liabilities	781	827
Total liabilities	45,348	44,846
Stockholders' deficit:		
Preferred stock, no par value; authorized 1,000,000 shares, none issued	---	---
Common stock, par value \$.01; authorized 20,000,000 shares, issued 10,075,561 shares in 2006 and 10,084,577 shares in 2005	101	101
Additional paid-in capital	76,124	76,124
Accumulated deficit	(97,596)	(99,895)
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	(4,750)	(4,577)
	(26,121)	(28,247)
Treasury stock, at cost, 30,940 shares	(1,938)	(1,938)

Total stockholders' deficit		(28,059)		(30,185)
Total liabilities and stockholders' deficit	\$	17,289	\$	14,661

See accompanying notes to unaudited consolidated financial statements.

PORTA SYSTEMS CORP. AND SUBSIDIARIES
 Unaudited Consolidated Statements of Operations and Comprehensive Income
 (In thousands, except per share amounts)

	Nine Months Ended	
	September 30, 2006	September 30, 2005
Sales	\$ 25,039	\$ 22,504
Cost of sales	16,593	13,626
Gross profit	8,446	8,878
Selling, general and administrative expenses	4,090	3,939
Research and development expenses	1,164	981
Total expenses	5,254	4,920
Operating income	3,192	3,958
Interest expense, net	(848)	(957)
Other income, net	2	4
Income from continuing operations before income taxes	2,346	3,005
Income tax expense	(92)	(106)
Income from continuing operations before discontinued operations	2,254	2,899
Discontinued operations:		
Loss from discontinued operations (net of zero taxes)	(245)	(702)
Net income	\$ 2,009	\$ 2,197
Other comprehensive loss:		
Foreign currency translation adjustments	(173)	