PERFORMANCE TECHNOLOGIES INC \DE\
Form 10-Q
August 07, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the Quarter Ended June 30, 2009

OR

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

For the transition period from to

Commission File Number 0-27460

(Exact name of registrant as specified in its charter)

Delaware	**16-1158413**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

205 Indigo Creek Drive
Rochester, New York 14626
(Address of principal executive offices) (zip code)

(585) 256-0200
(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 [X] 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 small reporting company: Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X] Small 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 [X]

The number of shares outstanding of the registrant's common stock was 11,116,397 as of July 31, 2009.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)

ASSETS

	June 30, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents	$ 21,755,000	$ 29,218,000
Investments	7,010,000	2,450,000
Accounts receivable, net	4,279,000	6,677,000
Inventories	5,392,000	5,303,000
Prepaid income taxes	100,000	299,000
Prepaid expenses and other assets	628,000	796,000
Deferred income taxes	209,000	1,841,000
Fair value of foreign currency hedge contracts	293,000	107,000
Total current assets	39,666,000	46,691,000
Investments	3,031,000	1,797,000
Property, equipment and improvements, net	1,954,000	2,069,000
Software development costs, net	4,132,000	3,840,000
Deferred income taxes		778,000
Goodwill	4,143,000	4,143,000
Total assets	$ 52,926,000	$ 59,318,000

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2009	December 31, 2008
Current liabilities:		
Accounts payable	$ 813,000	$ 922,000
Accrued expenses	3,805,000	4,549,000
Total current liabilities	4,618,000	5,471,000
Income taxes payable	275,000	400,000
Deferred income taxes	533,000	
Total liabilities	5,426,000	5,871,000
Stockholders' equity:		

Preferred stock - $.01 par value; 1,000,000 shares authorized; none issued		
Common stock - $.01 par value; 50,000,000 shares authorized; 13,304,596 shares issued,		
11,116,397 and 11,216,397 shares outstanding, respectively	133,000	133,000
Additional paid-in capital	16,358,000	16,052,000
Retained earnings	40,534,000	46,689,000
Accumulated other comprehensive income	293,000	73,000
Treasury stock - at cost; 2,188,199 and 2,088,199 shares, respectively	(9,818,000)	(9,500,000)
Total stockholders' equity	47,500,000	53,447,000
Total liabilities and stockholders' equity	$ 52,926,000	$ 59,318,000

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

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PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Sales	$ 6,356,000	$ 11,225,000	$ 13,283,000	$ 22,206,000
Cost of goods sold	3,154,000	4,857,000	6,345,000	9,702,000
Gross profit	3,202,000	6,368,000	6,938,000	12,504,000
Operating expenses:				
Selling and marketing	1,698,000	2,135,000	3,614,000	4,239,000
Research and development	1,986,000	2,272,000	4,102,000	4,684,000
General and administrative	1,181,000	1,313,000	2,319,000	2,495,000
Restructuring charges			445,000	
Total operating expenses	4,865,000	5,720,000	10,480,000	11,418,000
(Loss) income from operations	(1,663,000)	648,000	(3,542,000)	1,086,000
Other income, net	177,000	268,000	256,000	657,000
(Loss) income before income taxes	(1,486,000)	916,000	(3,286,000)	1,743,000
Income tax provision	3,245,000	280,000	2,871,000	516,000
Net (loss) income	$ (4,731,000)	$ 636,000	$ (6,157,000)	$ 1,227,000
Basic (loss) earnings per share	$ (.43)	$ 0.05	$ (.55)	$ 0.10
Diluted earnings per share		$ 0.05		$ 0.10
Weighted average number of common shares used in basic earnings per share	11,116,397	11,687,010	11,142,916	11,691,179
Potential common shares		5,703		19,656
Weighted average number of common shares used in diluted earnings per share		11,692,713		11,710,835

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

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PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ended June 30, 2009	2008
Cash flows from operating activities:		
Net (loss) income	$ (6,157,000)	$ 1,227,000
Non-cash adjustments:		
Depreciation and amortization	1,257,000	1,089,000
Deferred income taxes	2,977,000	155,000
Stock-based compensation expense	306,000	319,000
Tax benefit from stock option exercises		27,000
Gain on disposal of assets		(13,000)
Changes in operating assets and liabilities:		
Accounts receivable	2,398,000	(12,000)
Inventories	(89,000)	(323,000)
Prepaid expenses and other assets	168,000	241,000
Accounts payable and accrued expenses	(853,000)	320,000
Prepaid income taxes and income taxes payable	74,000	910,000
Net cash provided by operating activities	81,000	3,940,000
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(297,000)	(348,000)
Capitalized software development costs	(1,120,000)	(941,000)
Proceeds from disposal of assets		17,000
Purchases of investments	(9,009,000)	(5,064,000)
Proceeds from sales of investments	3,200,000	18,200,000
Net cash (used) provided by investing activities	(7,226,000)	11,844,000
Cash flows from financing activities:		
Purchases of treasury stock	(318,000)	(1,063,000)
Exercise of stock options		549,000
Net cash used by financing activities	(318,000)	(514,000)
Net (decrease) increase in cash and cash equivalents	(7,463,000)	15,270,000

Cash and cash equivalents at beginning of period	29,218,000	15,592,000
Cash and cash equivalents at end of period	$ 21,755,000	$ 30,862,000

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

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PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note A Basis of Presentation

The unaudited Consolidated Financial Statements of Performance Technologies, Incorporated and Subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results for the interim periods are not necessarily indicative of the results to be expected for the year. The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company as of December 31, 2008, as reported in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

The Company evaluated all events or transactions that occurred after June 30, 2009 through August 6, 2009, the date on which these financial statements were issued. During this period there were no material subsequent events that impacted the consolidated financial statements.

Note B Fair Value Measurements

Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157) defines fai value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and requires certain disclosures about fair value measurements. SFAS No. 157 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability. Such inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are unobservable inputs for the asset or liability. Such inputs are used to measure fair value when observable inputs are not available.

At June 30, 2009, the Company held $7.0 million of investments in certificates of deposit, guaranteed investment contracts and commercial paper (Note G) that are measured at fair value in the accompanying financial statements. The fair value of these assets has been estimated using Level 2 inputs. In addition, the Company is a party to foreign currency hedge contracts (Note L), the fair value of which is estimated to be an asset in the amount of $293,000 at June 30, 2009. The fair value of these contracts is also estimated using Level 2 inputs.

Note C Stock-Based Compensation

The Company has stock options outstanding from two stock-based employee compensation plans: the 2001 Incentive Stock Option Plan and the 2003 Omnibus Incentive Plan.

The Company recognizes compensation expense in the financial statements for stock option awards based on the grant-date fair value of those awards, estimated using the Black-Scholes-Merton option pricing model. The table below summarizes the impact of outstanding stock options on the results of operations for the three and six month periods ended June 30, 2009 and 2008, respectively, under the provisions of Statement of Financial Accounting

Standards (SFAS) No. 123R, Share-Based Payment :

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Stock-based compensation expense stock options	$ 158,000	$ 152,000	$ 306,000	$ 319,000
Income tax benefit		(48,000)		(100,000)
Net decrease in net income	$ 158,000	$ 104,000	$ 306,000	$ 219,000
Per share increase in loss or decrease in earnings:				
Basic	$ 0.01	$ 0.01	$ 0.03	$ 0.02
Diluted		$ 0.01		$ 0.02

The following table summarizes stock option activity for the six months ended June 30, 2009:

	Number of shares	Weighted Average Exercise Price
Outstanding at January 1, 2009	1,594,608	$ 7.33
Granted	275,000	2.61
Exercised	-	-
Expired	(289,925)	15.64
Outstanding at June 30, 2009	1,579,683	4.99
Exercisable at June 30, 2009	400,353	$6.00

The weighted average fair value of option grants was estimated using the Black-Scholes-Merton option pricing method. At June 30, 2009, the Company had approximately $817,000 of unrecognized stock compensation expense which will be recognized over a weighted average period of approximately 1.8 years.

Note D Earnings Per Share

Basic (loss) earnings per share is computed by dividing net income or loss by the weighted average number of common shares outstanding for the period. Diluted earnings per share calculations reflect the assumed exercise and conversion of dilutive stock options, using the treasury stock method. Due to the net loss incurred in the three and six months ended June 30, 2009, there were no dilutive options considered for either period. The diluted earnings per share calculation excluded the effect of approximately 1,306,000 and 1,389,000 options for the three and six months ended June 30, 2008, since such options had an exercise price in excess of the average market price of the Company s common stock for that period and therefore are considered to be anti-dilutive.

Note E Inventories, net

Inventories consisted of the following:

	June 30, 2009	December 31, 2008
Purchased parts and components	$ 3,445,000	$ 3,142,000
Work in process	1,296,000	1,642,000
Finished goods	651,000	519,000
Net	$ 5,392,000	$ 5,303,000

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Note F Software Development Costs

Software development costs consisted of the following:

	June 30, 2009	December 31, 2008
Capitalized software development costs	$ 16,704,000	$ 15,584,000
Less: accumulated amortization	(12,572,000)	(11,744,000)
Net	$ 4,132,000	$ 3,840,000

Amortization of software development costs included in cost of goods sold was $395,000 and $380,000 in the second quarter 2009 and 2008, respectively. Amortization of software development costs included in cost of goods sold was $827,000 and $705,000 for the six months ended June 30, 2009 and 2008, respectively.

Note G Investments

Investments consisted of the following:

	June 30, 2009	December 31, 2008
Municipal bond (1)	$ 1,032,000	$ 1,047,000
U.S. Treasury Note (1)	1,999,000	-
Certificates of deposit and bank guaranteed contracts (2)	5,020,000	-
Commercial paper (2)	1,990,000	-
U.S. Government-backed FNMA note (1)	-	750,000
Auction rate municipal security (2)	-	1,951,000
Put option on auction rate municipal security (2)	-	499,000
Total investments	$ 10,041,000	$ 4,247,000
Less-current investments	(7,010,000)	(2,450,000)
Non-current investments	$ 3,031,000	$ 1,797,000

(1) - at amortized cost

(2) - at fair value

At December 31, 2008, the Company held one auction rate municipal security with an original cost of $2,450,000, after having received a partial redemption of $50,000 at par in the first quarter 2008. This security was involved in a successful auction in January 2008, but subsequent 2008 auctions failed, and the Company was not able to sell this security. In November 2008, the Company entered into an agreement with the investment brokerage company which had sold this security to the Company, whereby the Company acquired an option to put the security to the brokerage company at any time during 2009 or 2010 at its full par value. In January 2009, the Company exercised its option and sold the security to the brokerage firm, receiving full par value of $2,450,000 as consideration.

Note H Comprehensive (Loss) Income

The components of comprehensive (loss) income for the three and six month periods ended June 30, 2009 and 2008, respectively, are as follows:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net (loss) income	$ (4,731,000)	$ 636,000	$ (6,157,000)	$ 1,227,000
Increase in unrealized gain on foreign currency				
hedge contracts, net of tax effect	283,000	-	220,000	-
Unrealized loss on investment, net of tax	-	(96,000)	-	(223,000)
Comprehensive (loss) income	$ (4,448,000)	$ 540,000	$ (5,937,000)	$ 1,004,000

Note I Warranty Obligations

Warranty obligations are incurred in connection with the sale of certain products. The warranty period for the Company s products is generally one year from date of sale. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. Future warranty costs are estimated based on product-based historical performance rates and related costs to repair. Changes in accrued warranty obligations for the three and six month periods ended June 30, 2009 and 2008 were as follows:

	2009	2008
Accrued warranty obligations, January 1	$ 167,000	$ 215,000
Actual warranty experience	(26,000)	(23,000)
Warranty provisions	26,000	23,000
Accrued warranty obligations, March 31	167,000	215,000
Actual warranty experience	(34,000)	(32,000)
Warranty provisions	(32,000)	22,000
Accrued warranty obligations, June 30	$ 101,000	$ 205,000

Note J Stock Repurchase Program

In October 2008, the Board of Directors authorized a new stock repurchase program, whereby the Company may repurchase shares of its Common Stock for an aggregate amount not to exceed $10,000,000. Under this program, shares of the Company's Common Stock may be repurchased through open market or private transactions, including block purchases. This program expires on October 23, 2009. Repurchased shares can be used for the Company's stock option plans, potential acquisition initiatives and general corporate purposes. Under this program, the Company repurchased 100,000 shares during the first half 2009 for an aggregate purchase price of $318,000. For the program-to-date through June 30, 2009, the Company has repurchased 497,000 shares for an aggregate purchase price of $1,597,000.

Note K Income Taxes

The Company s effective tax rate for the three and six months ended June 30, 2009 differs from the statutory rate due to taxes on foreign income that differ from the U.S. tax rate, permanent tax differences including research activities and tax-exempt interest, and the resolution of tax uncertainties, offset by a valuation allowance against U.S. deferred income tax assets. The calculation of the valuation allowance considers deferred income tax liabilities related to indefinite-lived intangible assets, which cannot be considered as a source of future taxable income.

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The Company s effective tax rate for the three and six months ended June 30, 2008, differed from the statutory rate primarily due to taxes on foreign income that differ from the U.S. tax rate and permanent tax differences including tax-exempt interest.

The Company utilizes the asset and liability method of accounting for income taxes as set forth in SFAS 109, Accounting for Income Taxes. The Company records deferred tax assets to the extent it believes these assets will more likely than not be realized. In making this judgment, the Company considers all available positive and negative evidence, including projected future taxable income, scheduled reversals of deferred tax liabilities, tax planning strategies, and recent financial performance. As of June 30, 2009, the Company updated its projections of taxable income for 2009, and has projected that the Company will have a three year U.S. cumulative pre-tax book loss, calculated using 2007 and 2008 actual results combined with projected 2009 results. This is considered to be a significant negative factor that is difficult to overcome. Based upon the Company s review of all positive and negative evidence, including its projected three year cumulative jurisdictional pre-tax book loss for 2007 through 2009, the Company has concluded that a full valuation allowance should be recorded against its U.S. net deferred tax assets in the three month period ended June 30, 2009. This valuation allowance and corresponding non-cash charge to income tax provision amounts to $3,304,000, including the reversal of the income tax benefit that had been recorded in the three month period ended March 31, 2009. Included in this charge is $237,000 relating to the Company s determination that it will likely not execute a strategy to realize its capital loss carry-forward, which expires in 2010.

For the second quarter 2009, the income tax provision amounted to $3,245,000, which included the non-cash charge discussed in the preceding paragraph. This amount also included an income tax benefit relating to the release of a reserve for income tax uncertainties amounting to $134,000 including interest and penalties, relating to a settlement with the relevant tax authority.

In the future, if the Company determines that it is more likely than not that it will realize its U.S. net deferred tax assets, it will reverse the applicable portion of the valuation allowance and recognize an income tax benefit in the period in which such determination is made.

In certain other foreign jurisdictions, where the Company does not have cumulative losses or other negative evidence, the Company had net deferred tax assets of $119,000 at June 30, 2009 and December 31, 2008. In addition, the Company had deferred tax assets amounting to $90,000 at June 30, 2009 available to offset a portion of the unrecognized tax benefits liability if such uncertainties were to result in tax assessments.

The Company had unrecognized tax benefits of $275,000 and $400,000 at June 30, 2009 and December 31, 2008, respectively. Included in the balance of unrecognized tax benefits as of June 30, 2009 and December 31, 2008 are accrued interest and penalties in the amount of $59,000 and $91,000, respectively.

The Company files U.S. federal, U.S. state, and foreign tax returns. For federal tax returns, the Company is generally no longer subject to tax examinations for years prior to 2005. For state and foreign tax returns, the Company is generally no longer subject to tax examinations for years prior to 2004. It is reasonably possible that the liability associated with the Company s unrecognized tax benefits will increase or decrease within the next twelve months. These changes may be the result of new examinations by taxing authorities, ongoing examinations, or the expiration of statutes of limitations. Based upon the closing of the tax years in these various jurisdictions, as well as the conclusion of ongoing examinations by taxing authorities, the Company may adjust its liability for unrecognized tax benefits. Certain of the Company s unrecognized tax benefits are related to tax years that are expected to close in the next twelve months, or related to ongoing examinations which the Company expects to successfully conclude in that time period. The closure of these unrecognized tax benefits could increase earnings in an amount ranging from $0 to approximately $126,000, including interest and penalties.

Note L Derivative Instruments Foreign Currency Hedge Contracts

The Company is exposed to the impact of fluctuations in foreign currency exchange rates on the expenses incurred in its Canadian and United Kingdom operations. The Company s risk management program is designed to reduce the exposure and volatility arising from fluctuations in foreign currency exchange rates. The Company has hedged approximately 70% of its estimated foreign currency risk for the next nine months. The Company s derivative instruments are designated and qualify as cash flow hedges.

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At June 30, 2009, the Company is party to foreign currency forward contracts with JPMorgan Chase Bank, N.A. (the Bank) designed to fix in U.S. dollars a portion of the future cost of the Company s Canadian and United Kingdom operations, which are denominated in Canadian dollars and U.K. pounds sterling, respectively. The Company is party to monthly forward contracts for both Canadian dollars and U.K. pounds sterling through March 2010. The Canadian dollar contracts effectively fix the exchange rate on the first $360,000CDN of monthly expenses for the months July through December 2009 (and the first $350,000CDN for the months January through March 2010) at rates ranging from .785 to .787. The U.K. pounds sterling contracts effectively fix the exchange rate on the first £105,000 of quarterly expenses during 2009 and the first £100,000 of expenses in the first quarter 2010 at rates ranging from 1.3900 to 1.5005.

The fair value of the Company s derivative instruments is estimated in accordance with the framework for measuring fair value contained in SFAS No. 157 and is recorded as either an asset or liability in the balance sheet based on changes in the current spot rate, as compared to the exchange rates specified in the contracts. For these instruments, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. The fair value measurement of the Company s derivative instruments is estimated using Level 2 inputs as defined in SFAS No. 157, which are inputs other than quoted prices that are directly or indirectly observable for the asset or liability.

The Company s contracts have been designated as effective cash flow hedges and any gains or losses resulting from changes in the fair value of these contracts are recorded in other comprehensive (loss) income. No portion of these derivative instruments is considered to be ineffective. The Company will receive, or be required to disburse, cash payments upon the expiration of each contract depending on fluctuations in the underlying exchange rates. Such payments are recorded as reductions to or increases in operating expense as they are determined.

The fair value of the Company's derivative instruments was as follows:

	Balance Sheet Location	**Fair value at June 30, 2009**	**Fair value at December 31, 2008**
Derivatives designated as hedging instruments under SFAS No. 133	Current assets	$ 293,000	$ 107,000

The Company s derivative instruments had the following effect on the statements of operations:

	Location of gain recognized in	**Amount of gain reclassified from accumulated other comprehensive income to the statement of operations**	
		Three months ended	**Six months ended**

Derivatives in SFAS No. 133 fair value hedging relationships	**operations**		**June 30, 2009**		
Foreign exchange contracts	Operating expenses	$	85,000	$	98,000

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The Company s derivative instruments had the following effect on other comprehensive (loss) income:

	Amount of gain recognized in other comprehensive income	
	Three months ended	Six months ended
	June 30, 2009	
Net change in the fair value of foreign currency hedge contracts:	$ 279,000	$ 186,000

Note M Restructuring

In January 2009, the Company implemented a strategic reduction of its existing workforce in response to the challenging global economic environment. As a result of this action, the Company eliminated twenty positions, or approximately 8% of its global workforce. In connection with this reduction, the Company incurred first quarter 2009 pre-tax restructuring charges of $444,000, primarily for employee-related costs, of which $437,000 resulted in first quarter 2009 cash expenditures, and the remainder resulted in second quarter 2009 cash expenditures.

Note N Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141R, Business Combinations, a revision to SFAS No. 141, Business Combinations. SFAS No. 141R provides revised guidance for recognition and measurement of identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree at fair value. The Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of a business combination. The Company adopted SFAS No. 141R as of January 1, 2009. The adoption of this standard did not have a material impact on the Company s financial position or results of operations.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS Statement No. 133 (SFAS No. 161). SFAS No. 161 applies to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS No. 133. SFAS No. 161 requires entities to provide greater transparency through additional disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, results of operations, and cash flows. The Company adopted the provisions of SFAS No. 161 as of January 1, 2009. The adoption of this standard did not have a material impact on the Company s financial position or results of operations.

In February 2008, the FASB issued FSP FAS 157-2, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially deferred the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. As such, the Company has adopted SFAS No. 157 for all nonfinancial assets and liabilities as of

January 1, 2009. The adoption of SFAS No. 157 did not have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides guidance regarding how to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability. In such situations, an entity may conclude that transactions or quoted prices may not be determinative of fair value, and may adjust the transactions or quoted prices to arrive at the fair value of the asset or liability. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The Company does not believe that the adoption of this Staff Position will have a material impact on its consolidated financial statements.

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In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which requires that publicly traded companies include the fair value disclosures required by SFAS No. 107 in their interim financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009, and the Company has included the required disclosures in this Form 10-Q filing.

In May 2009, the FASB issued Statement No. 165, Subsequent Events (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires disclosure of the date through which an entity has evaluated subsequent events. The Company adopted SFAS No. 165 in the second quarter of 2009 and the adoption of SFAS No. 165 did not impact the Company s consolidated financial statements.

In June 2009, the FASB issued Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles: a replacement of FASB Statement No. 168 (SFAS No. 168). This Statement establishes two levels of U.S. generally accepted accounting principles (GAAP) authoritative and non-authoritative. The FASB Accounting Standards Codification will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, and will be adopted by the Company in the third quarter of 2009. The adoption of SFAS No. 168 will not have any impact on the Company s Consolidated Financial Statements.

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

Matters discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-Q include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those discussed in the forward-looking statements.

Critical Accounting Estimates and Assumptions

In preparing the financial statements in accordance with the accounting principles generally accepted in the United States (GAAP), estimates and assumptions are required to be made that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information disclosures, including information about contingencies, risk and financial condition. These estimates and assumptions are made during the closing process for the quarter, after the quarter end has past. The Company believes that given the current facts and circumstances, these estimates and assumptions are reasonable, adhere to GAAP, and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates, and estimates may vary as new facts and circumstances arise. Management s judgments in making these estimates and relying on these assumptions may materially impact amounts reported for any period.

The critical accounting policies, judgments and estimates that we believe have the most significant effect on our financial statements are set forth below:

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Revenue Recognition

Software Development Costs

Valuation of Inventories

Income Taxes

Product Warranty

Carrying Value of Goodwill

Stock-Based Compensation

Restructuring Costs

Revenue Recognition: Revenue is recognized from product sales in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition. Product sales represent the majority of our revenue and include both hardware products and hardware products with embedded software. Revenue is recognized from these product sales when persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, the sale price is fixed or determinable, and collectibility is reasonably assured. Additionally, products are sold on terms which transfer title and risk of loss at a specified location, typically the shipping point. Accordingly, revenue recognition from product sales occurs when all factors are met, including transfer of title and risk of loss, which typically occurs upon shipment. If these conditions are not met, revenue recognition is deferred until such time as these conditions have been satisfied.

Revenue earned from arrangements for software is accounted for under the provisions of Statement of Position 97-2, Software Revenue Recognition. For the sale of multiple-element arrangements whereby equipment is combined with other elements, such as software and maintenance, the Company allocates to, and recognizes revenue from, the various elements based on their fair value. Revenue from software requiring significant production, modification, or customization is recognized using the percentage of completion method of accounting. Anticipated losses on contracts, if any, are charged to operations as soon as such losses are determined. If all conditions of revenue recognition are not met, revenue recognition is deferred and revenue will be recognized when all obligations under the arrangement are fulfilled. Revenue from software maintenance contracts is recognized ratably over the contractual period.

Revenue from consulting and other services is recognized at the time the services are rendered. Certain products are sold through distributors who are granted limited rights of return. Potential returns are accounted for at the time of sale.

The accounting estimate related to revenue recognition is considered a critical accounting estimate because terms of sale can vary, and judgment is exercised in determining whether to defer revenue recognition. Such judgments may materially affect net sales for any period. Judgment is exercised within the parameters of GAAP in determining when contractual obligations are met, title and risk of loss are transferred, sales price is fixed or determinable and collectibility is reasonably assured.

Software Development Costs: All software development costs incurred in establishing the technological feasibility of computer software products to be sold are charged to expense as research and development costs. Software development costs incurred subsequent to the establishment of technological feasibility of a computer software product to be sold and prior to general release of that product are capitalized. Amounts capitalized are amortized commencing after general release of that product over the estimated remaining economic life of that product, generally three years, or using the ratio of current revenues to current and anticipated revenues from such product, whichever provides greater amortization. If the technological feasibility for a particular project is judged not to have been met or recoverability of amounts capitalized is in doubt, project costs are expensed as research and development or charged to cost of goods sold, as applicable. The accounting estimate related to software development costs is considered a critical accounting estimate because judgment is exercised in determining whether project costs are expensed as research and development or capitalized as an asset. Such judgments may materially affect expense amounts for any period. Judgment is exercised within the parameters of GAAP in determining when technological feasibility has been met and recoverability of software development costs is reasonably assured.

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Valuation of Inventories: Inventories are stated at the lower of cost or market, using the first-in, first-out method. Inventory includes purchased parts and components, work in process and finished goods. Provisions for excess, obsolete or slow moving inventory are recorded after periodic evaluation of historical sales, current economic trends, forecasted sales, estimated product lifecycles and estimated inventory levels. Purchasing practices, electronic component obsolescence, accuracy of sales and production forecasts, introduction of new products, product life cycles, product support and foreign regulations governing hazardous materials are the factors that contribute to inventory valuation risks. Exposure to inventory valuation risks is managed by maintaining safety stocks, minimum purchase lots, managing product end-of-life issues brought on by aging components or new product introductions, and by utilizing certain inventory minimization strategies such as vendor-managed inventories. The accounting estimate related to valuation of inventories is considered a critical accounting estimate because it is susceptible to changes from period-to-period due to the requirement for management to make estimates relative to each of the underlying factors, ranging from purchasing, to sales, to production, to after-sale support. If actual demand, market conditions or product life cycles differ from estimates, inventory adjustments to lower market values would result in a reduction to the carrying value of inventory, an increase in inventory write-offs and a decrease to gross margins.

Income Taxes: The Company accounts for income taxes in accordance with SFAS No. 109. Accordingly, the Company provides deferred income tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities based on currently enacted tax laws. A valuation allowance is established for deferred tax assets in amounts for which realization is not considered more likely than not to occur. In making this judgment, the Company considers all available positive and negative evidence, including projected future taxable income, scheduled reversals of deferred tax liabilities, tax planning strategies, and recent financial performance.

The accounting estimate related to income taxes is considered a critical accounting estimate because considerable judgment is exercised in estimating future taxable income, including prudent and feasible tax planning strategies, and in assessing the need for any valuation allowance. If it should be determined that all or part of a net deferred tax asset is not able to be realized in the future, an adjustment to the valuation allowance would be charged to income in the period such determination was made. Likewise, in the event that it should be determined that all or part of a deferred tax asset in the future is in excess of the net recorded amount, an adjustment to the valuation allowance would increase income to be recognized in the period such determination was made.

Prior to the second quarter 2009, management believed, based on the weight of all available evidence, that it was more likely than not that the Company would realize its deferred tax assets. These assets consist of research credit carry-forwards, capital and net operating loss carry-forwards, and the future tax effect of temporary differences between balances recorded for financial statement purposes and for tax return purposes. The Company s ability to realize the recorded balances of its deferred tax assets depends upon the Company s ability to generate future taxable income in the jurisdictions in which the Company operates. These carry-forwards begin to expire in 2024. As of June 30, 2009, the Company estimates that it will require future pre-tax earnings in excess of $10 million in order to fully realize the value of the Company's deferred tax assets. Of this amount, the Company must recognize approximately $650,000 of capital gains in 2009 or 2010 in order to fully realize the recorded balance of deferred tax assets relating to capital loss carry-forwards.

At June 30, 2009, the Company projected that it will have a cumulative taxable loss in the United States for the three year period covering 2007 through 2009, which the Company believes is significant negative evidence in evaluating the realizability of its deferred tax assets, in light of the carry-forward expirations and continued weak global economy. As a result, the Company concluded that a full valuation allowance should be recorded against its U.S. net deferred tax assets in the three month period ended June 30, 2009. This valuation allowance and corresponding non-cash charge to income tax provision amounts to $3.3 million, including the reversal of the income tax benefit that had been recorded in the three month period ended March 31, 2009. Included in this charge was $.2 million relating to the Company s determination that it will likely not execute a strategy to realize its capital loss carry-forward, which expires in 2010.

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The Company operates within multiple taxing jurisdictions worldwide and is subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time for resolution. Although management believes that adequate provision has been made for such issues, there is the possibility that the ultimate resolution of such issues could have an adverse effect on the earnings of the Company. Conversely, if these issues are resolved favorably in the future, the related provisions would be reduced, thus having a positive impact on earnings.

In addition, the calculation of the Company s tax liabilities involves dealing with uncertainties in the application of complex tax regulations. As a result of the implementation of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), the Company recognizes liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires the Company to determine the probability of various possible outcomes. The Company re-evaluates these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

Product Warranty: Warranty obligations are generally incurred in connection with the sale of the Company s products. The warranty period for these products is generally one year from date of sale. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. Future warranty costs are estimated based on historical performance rates and related costs to repair given products. The accounting estimate related to product warranty is considered a critical accounting estimate because judgment is exercised in determining future estimated warranty costs. Should actual performance rates or repair costs differ from estimates, revisions to the estimated warranty liability would be required.

Carrying Value of Goodwill: Tests for impairments of goodwill are conducted annually, at year end, or more frequently if circumstances indicate that the asset might be impaired. SFAS No. 142 requires a two-step method for determining goodwill impairment where step one is to compare the fair value of the reporting unit with the unit s carrying amount, including goodwill. If this test indicates that the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit s goodwill with the carrying amount of the reporting unit s goodwill. An impairment loss is then recognized to the extent that the goodwill s carrying amount exceeds its fair value. The Company is considered to consist of being only one reporting unit.

The quoted market capitalization of the Company was less than the Company s book value at both December 31, 2008 and June 30, 2009. The Company used a discounted cash flow valuation model applied to a five-year projection of future cash flows in its evaluation of goodwill at December 31, 2008, and determined that it was necessary to update this model as of June 30, 2009 due to the decision to record a valuation allowance against the Company s U.S. deferred tax assets (as discussed above). In addition, the Company employs a market capitalization test and a multiple-of-revenue test for one of its marketable proprietary technologies as additional methods to estimate the market value of the Company. The Company has determined that the fair value of goodwill exceeds its carrying value and there is no impairment at June 30, 2009.

Because these valuation models necessarily involve considerable judgment in the estimation of inputs and assumptions, the accounting estimate related to impairment of goodwill is considered a "critical accounting estimate." Estimates of future cash flows depend upon subjective assumptions regarding future operating results including revenue growth rates, expense levels, discount rates, capital requirements and other factors.

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Should actual results differ materially from those projected, it may become necessary to record an impairment charge against some or all of the carrying value of goodwill. The current economic downturn has negatively impacted many of the Company s inputs and assumptions. If market and economic conditions do not eventually improve or should they deteriorate further, this would increase the likelihood of future non-cash impairment charges related to the carrying value of goodwill.

Stock-Based Compensation: The Company s Board of Directors approves grants of stock options to employees to purchase our common stock. Under the provisions of SFAS No. 123R Share-Based Payment, stock compensation expense is recorded based upon the estimated fair value of the stock option at the date of grant. The accounting estimate related to stock-based compensation is considered a "critical accounting estimate" because estimates are made in calculating compensation expense including expected option lives, forfeiture rates and expected volatility. Expected option lives are estimated using vesting terms and contractual lives. Expected forfeiture rates and volatility are calculated using historical information. Actual option lives and forfeiture rates may be different from estimates and may result in potential future adjustments which would impact the amount of stock-based compensation expense recorded in a particular period.

Restructuring Costs: Restructuring costs may consist of employee-related severance costs, lease termination costs and other facility-related closing expenses. Employee-related severance benefits are recorded either at the time an employee is notified or, if there are extended service periods, is estimated and recorded pro-rata over the period of each planned restructuring activity. Lease termination costs are calculated based upon fair value considering the remaining lease obligation amounts and estimates for sublease receipts. The accounting estimate related to restructuring costs is considered a "critical accounting estimate" because estimates are made in calculating the amount of employee-related severance benefits that will ultimately be paid and the amount of sublease receipts that will ultimately be received in future periods. Actual amounts paid for employee-related severance benefits can vary from these estimates depending upon the number of employees actually receiving severance payments. Actual sublease receipts received may also vary from estimates.

Business Overview

The following discussion contains forward-looking statements within the meaning of the Securities Act of 1933 and Securities Exchange Act of 1934 and these forward-looking statements are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

The Company is a global supplier of advanced network communications and control solutions to end users, application developers and original equipment manufacturers that serve mission critical telecommunications, aerospace and defense markets. The Company provides remotely manageable, IP-centric network elements specifically engineered for high availability, scalability, and long life cycle deployments. The Company s products are built upon its own U.S.-manufactured hardware combined with the Company s NexusWare® Carrier Grade Linux® operating system and software development environment plus a broad suite of communications protocols and high availability middleware. Performance Technologies product portfolio includes the SEGway suite of Signaling (SS7/SIP) Transfer Points, Signaling Gateways and Bridges, and its IPnexus® family of COTS-based application ready systems, WAN gateways, and multi-protocol communications servers.

The Company is headquartered in Rochester, New York and maintains centers of engineering excellence in San Diego and San Luis Obispo, California, and Kanata, Ontario, Canada. It has sales and marketing offices in the U.S. in Raleigh, Chicago, Dallas, and San Jose and international offices in London, England and Shanghai, China.

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The Company s business addresses one industry segment - Communications - and globally targets two primary vertical markets for its communications products, namely telecommunications and aerospace and defense. The telecommunications market, historically our largest vertical market, is fundamentally driven by investments in network infrastructure by carriers and service providers. Telecommunications market revenues derived from our OEM and application-ready systems products are primarily dependent on broad, multi-year deployments of next-generation telecommunications infrastructure. Telecommunications market revenues generated from end solutions, such as our signaling products, are governed by investments necessary to support existing and evolving service demands such as the ongoing worldwide explosive growth in text messaging. Sales into the aerospace and defense market are typically to prime contractors and system integrators that reflect investment levels by various government agencies and military branches in specific programs and projects requiring enhanced communications capabilities.

The OEM telecommunications market continues to be very challenging as is illustrated by the financial reports being issued by the major telecommunications equipment suppliers that the Company sells to. Demand continues to be strong for our SEGway signaling solutions in the U.S. as carriers and service providers continue to invest in signaling infrastructure to support the worldwide growth in the demands on the signaling network. Demand for our signaling products was soft in other parts of the world. The aerospace and defense market continues to be an important sales focus for the Company. We continue to see new aerospace & defense project opportunities for our COTS-based, application ready systems. Many of the existing and new aerospace and defense projects continue to move forward at the usual pace, which is lumpy, and do not appear to have been accelerated by the Administration s Stimulus program.

Strategy

The Company s strategy is to maximize the value proposition of its products by leveraging its field proven systems, software and hardware technologies developed over a twenty-eight year record of demonstrated innovation. A tightly integrated combination of these technologies results in measurable benefits to its customers through compelling return-on-investment and substantially accelerated time to market metrics.

As outlined in PART 1, ITEM 1, under the caption Business of the Company s Annual Report for the year ended December 31, 2008, as filed on Form 10-K with the Securities and Exchange Commission, management is proceeding with four multi-faceted initiatives to construct a solid foundation for long-term growth. These efforts are directed at niches within the communications market including signaling, aerospace and defense. These initiatives include further strengthening of our SEGway Signaling Systems product line, greater concentration on the creation and sale of our IPnexus Application Ready Systems for mission critical communications applications, intensifying our market diversification efforts in the aerospace and defense markets, and identifying forward-looking network communications growth opportunities that we can pursue with our own end product solutions.

There are identifiable risks associated with the Company s strategy in the current economic climate. While management believes that the signaling and aerospace and defense sectors are growing markets over the long term, the application developers and original equipment manufacturers markets for communications products are experiencing challenging economic conditions which are impacting business prospects. Management expects to realize measurable progress on its strategic initiatives for 2009. However, based on the current economic environment, which may involve new risks not currently identifiable, management believes that realizing meaningful profitability will be very difficult.

Financial Overview

Revenue:

The deterioration of the global economic climate, which began accelerating in the third quarter of 2008, continued to significantly impact investments in network infrastructure by carriers and service providers during the first half of 2009, as compared to the prior year. Revenue in the second quarter 2009 amounted to $6.4 million, compared to $11.2 million in the second quarter 2008. This decline in revenue reflected lower shipments to the Company s traditionally two largest customers, by approximately $2 million, lower shipments to our OEM telecommunications customers as these companies faced lower demand from their end-markets and focused on continued reductions of their inventories, and a decline in end-user revenues. Shipments to customers outside of the United States represented 62% and 58% of sales in the second quarter 2009 and 2008, respectively.

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Earnings:

The Company incurred a net loss in the second quarter 2009 in the amount of ($4.7 million), or ($.43) per basic share, based on 11.1 million shares outstanding. This loss includes a non-cash income tax charge amounting to $.30 per share for an income tax valuation allowance recorded against the Company s United States deferred tax assets. This non-cash income tax charge, required by generally accepted accounting principles, has no impact on the Company s business operations or liquidity. The second quarter loss also includes a discrete income tax benefit of $.01 per share and stock compensation expense of $.01 per share. Net income in the second quarter 2008 amounted to $.6 million, or $.05 per diluted share including stock-based compensation expense of $.01 per share, based on 11.7 million shares outstanding.

The Company incurred a net loss for the six months ended June 30, 2009 amounting to ($6.2 million), or ($.55) per basic share, based on 11.1 million shares outstanding. This loss includes a non-cash income tax charge amounting to $.30 per share for an income tax valuation allowance recorded against the Company s United States deferred tax assets. This non-cash income tax charge, required by generally accepted accounting principles, has no impact on the Company s business operations or liquidity. The loss also includes a restructuring charge of $.04 per share, a discrete income tax benefit of $.01 per share and stock-based compensation expense of $.03 per share. Net income for the six months ended June 30, 2008 amounted to $1.2 million, or $.10 per diluted share including stock-based compensation expense of $.02 per share, based on 11.7 million shares outstanding.

Liquidity:

Cash, cash equivalents and long-term investments amounted to $31.8 million and $33.5 million at June 30, 2009 and December 31, 2008, respectively. The Company had no long-term debt at either date.

Cash generated from operating activities amounted to $.1 million and $3.9 million in the six months ended June 30, 2009 and 2008, respectively. The period-over-period decrease in cash generated from operating activities amounted to $3.8 million and is primarily attributable to the net loss of ($6.2 million) in 2009, compared to net income of $1.2 million for the corresponding period in 2008, less the non-cash deferred income tax provision of $3.0 million in 2009. Also contributing to the decrease in cash generated from operating activities was a $.9 million decrease in accounts payable and accrued expenses in 2009, compared to a $.3 million increase in 2008. These were partially offset by a $2.4 million reduction in accounts receivable in 2009, as compared to 2008, when there was no change, and a year-over-year increase in depreciation and amortization of $.2 million in 2009.

Key Performance Indicator:

The Company believes that a key indicator for its business is the trend for the volume of orders received from customers. During weak economic periods, customers ability to forecast their requirements deteriorates causing delays in the placement of orders. Most of our OEM systems customers are placing orders for product only when they have orders in hand from their customers. Forward-looking visibility on customer orders continues to be extremely limited. Shipments to customers amounted to $6.4 million in the second quarter 2009, compared to $11.2 million in the second quarter 2008. Shipments during 2009 have been negatively impacted by the effects of the global economic slowdown, as customers sharply curtailed procurements to conserve cash.

More in-depth discussions of the Company s strategy can be found in the Company s Annual Report on Form 10-K and other filings with the Securities and Exchange Commission.

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Results of Operations

Three and Six Months Ended June 30, 2009, Compared with the Three and Six Months Ended June 30, 2008

The following table presents the percentage of sales represented by each item in the Company s consolidated statements of operations for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	49.6	43.3	47.8	43.7
Gross profit	50.4	56.7	52.2	56.3
Operating expenses:				
Selling and marketing	26.7	19.0	27.2	19.1
Research and development	31.2	20.2	30.9	21.1
General and administrative	18.6	11.7	17.5	11.2
Restructuring charges			3.4	
Total operating expenses	76.5	50.9	79.0	51.4
(Loss) income from operations	(26.1)	5.8	(26.8)	4.9
Other income, net	2.8	2.4	1.9	2.9
(Loss) income before income taxes	(23.4)	8.2	(24.7)	7.8
Income tax provision	51.1	2.5	21.6	2.3
Net (loss) income	(74.5)%	5.7 %	(46.3)%	5.5 %

Sales. Total revenue for the second quarter 2009 amounted to $6.4 million, compared to $11.2 million for the corresponding quarter in 2008. During the second quarter 2009, the Company s traditionally largest two customers, Data Connection Ltd. and Alcatel-Lucent, represented 18% and 13% of sales, respectively. No other customer exceeded 10% of sales in the second quarter 2009. Data Connection Ltd. and Alcatel-Lucent represented 14% and 10% of sales in the second quarter 2008, respectively. Despite their increased percentage of the Company s sales, the Company s sales to these two customers declined in both the second quarter and year-over-year as their end-user customers continued to sharply curtail product purchases. The Company s four largest customers represented 45% and 50% of sales in the second quarter of 2009 and 2008, respectively. The Company s four largest customers comprised 38% and 42% of sales in the six months ended June 30, 2009 and 2008, respectively.

Shipments to customers outside of the United States represented 62% and 58% of the Company s sales during the second quarter 2009 and 2008, respectively. Shipments to customers outside of the United States represented 50% and 56% of the Company s sales for the six months ended June 30, 2009 and 2008, respectively. Total shipments to customers in the United Kingdom represented 19% of sales in the second quarter 2009, compared to 14% of sales in the second quarter 2008. Total shipments to customers in the United Kingdom represented 12% and 18% of sales in the six months ended June 30, 2009 and 2008, respectively.

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The Company s products are grouped into three distinct categories in one market segment. Revenue from each product category is expressed as a percentage of sales for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Communications	63 %	58 %	67 %	58 %
Computing	24 %	30 %	23 %	29 %
Switching	13 %	12 %	10 %	13 %
	100 %	100 %	100 %	100 %

Communications products:

Communications products are comprised of SEGway signaling, network access and voice products. The Company s SEGway signaling products, which are built on our IPnexus® systems, provide a full suite of signaling solutions that seamlessly bridge between circuit-switched networks and the growing IP-based networks. Network access products provide a connection between a variety of voice, data and signaling networks and embedded systems platforms that are used to control the network and/or process information being transported over networks. This product family has significant synergies with our NexusWare software and our complete line of communications protocols. Voice products enable voice, data and fax processing for communications applications.

Revenue from Communications products amounted to $4.0 million and $6.5 million in the second quarter of 2009 and 2008, respectively. This decrease of $2.5 million, or 38%, was primarily a result of a decrease in both network access and signaling product shipments in 2009, compared to 2008. The decrease in network access products was primarily due to weak end-user demand for the products of OEM telecommunications customers, due to the continued global economic recession. The decrease in signaling sales was principally due to the delay of two customers orders that were expected to be received and shipped in the second quarter 2009.

Revenue from Communications products amounted to $8.9 million and $12.9 million for the six months ended June 30, 2009 and 2008, respectively. This decrease of $4.0 million, or 31%, was primarily a result of declines in sales to the Company s OEM telecommunications customers, and also due to a decrease in sales of signaling products. The decrease in signaling product sales was principally due to $2.6 million of 2008 shipments to one customer, Alltel Communications, Inc., which did not reoccur in 2009, and the delay of two customers orders which were expected to be received and shipped in the second quarter 2009.

Computing products:

Computing products include IPnexus systems, a range of single board compute elements and associated chassis management products.

Computing products revenue amounted to $1.5 million and $3.3 million in the second quarter 2009 and 2008, respectively; and $3.0 million and $6.5 million in the six months ended June 30, 2009 and 2008, respectively. The decreases in revenue of $1.8 million, or 55%, in the second quarter 2009 and $3.5 million, or 54%, in the six months ended June 30, 2009, over the comparable 2008 periods are primarily due to a $2.2 million decrease in shipments to Data Connection Ltd. plus significant declines in shipments to other OEM telecommunications customers, attributable to the weak global economy.

Switching products:

The Company s Ethernet switch elements operate as the nexus of the IP-packet switching functionality for IPnexus systems and competing platforms.

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Switch revenue totaled $.8 million and $1.4 million in the second quarter 2009 and 2008, respectively. This decrease of $.6 million, or 43%, reflects a $.2 million decrease of shipments to Alcatel-Lucent, as well as very low demand from the Company s other switch customers. Switch revenue amounted to $1.3 million and $2.8 million in the six months ended June 30, 2009 and 2008, respectively. This decrease of $1.5 million, or 54%, was principally due to lower switch shipments to Alcatel-Lucent.

Gross profit. Gross profit consists of sales, less cost of goods sold including material costs, manufacturing expenses, depreciation, amortization of software development costs, and expenses associated with engineering contracts and the technical support function. Gross profit and gross margin percentage amounted to $3.2 million and 50.4% sales in the second quarter 2009, compared to $6.9 million and 56.7% of sales for the second quarter 2008. The decline in gross profit was attributable to the lower sales volume, while the decline in gross margin percentage was primarily attributable to lower manufacturing capacity utilization.

Gross margin was 52.2% and 56.3% for the six months ended June 30, 2009 and 2008, respectively. The decrease in margin percentage is principally due to lower manufacturing utilization which resulted from the reduced levels of sales, offset somewhat by improved sales mix toward higher-margin communications products.

Total Operating Expenses. Total operating expenses amounted to $4.9 million and $5.7 million in the second quarter 2009 and 2008, respectively. Total operating expenses for the first six months of 2009 were $10.5 million (including restructuring charges of $.4 million) as compared to $11.4 million for the first six months of 2008.

Selling and marketing expenses were $1.7 million and $2.1 million for the second quarter 2009 and 2008, respectively. For the six months ended June 30, 2009 and 2008, selling and marketing expenses were $3.6 million and $4.2 million, respectively. The decreases in the 2009 periods over the comparable 2008 periods were primarily due to lower commissions relating to the decrease in sales, a reduction in headcount related to the January 2009 restructuring, reduced bad debt expense, and reduced discretionary spending.

Research and development expenses were $2.0 million and $2.3 million in the second quarter 2009 and 2008, respectively. The Company capitalizes certain software development costs, which reduces the amount of software development charged to operating expenses. Amounts capitalized were $.6 million and $.5 million during the second quarter of 2009 and 2008, respectively. Research and development expenses were $4.1 million and $4.7 million for the six months ended June 30, 2009 and 2008, respectively. Six month amounts capitalized to software development costs amounted to $1.1 million and $1.0 million in 2009 and 2008, respectively. The year-over-year decreases in gross expenditures for the second quarter 2009 and six months ended June 30, 2009 were $.2 million and $.5 million, respectively, and primarily result from a net decrease in the number of engineers in research and development due to the January 2009 restructuring.

General and administrative expenses were $1.2 million and $1.3 million in the second quarter 2009 and 2008, respectively. General and administrative expenses were $2.3 million and $2.5 million in the six months ended June 30, 2009 and 2008, respectively. The decreases are the result of lower stock-based compensation expenses and a decrease in the number of administrative personnel.

Restructuring expenses were $.4 million in the six months ended June 30, 2009. In January 2009, the Company implemented a strategic reduction of its existing workforce in response to the challenging global economic environment. In connection with this action, the Company eliminated twenty positions, or approximately 8% of its global workforce. The restructuring expenses were substantially all employee-related expenses, and substantially all were cash expenditures. This action is expected to yield annual operating expense savings in excess of $1.0 million.

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Other Income, net. Other income consists primarily of interest income. During the second quarter 2009 and six month period ended June 30, 2009, the Company s funds were invested in government-guaranteed money market funds, certificates of deposit, bank guaranteed accounts and municipal or U.S. treasury bonds, which paid substantially lower interest rates than the auction rate municipal securities and other investments held during the comparable 2008 periods. Other income for the second quarter 2009 included the receipt of $.05 million as a final contingent payment relating to the Company s sale of its investment in Allwork Corporation (formerly InSciTek).

Income taxes. The Company s effective tax rate for the three and six months ended June 30, 2009 differs from the statutory rate primarily due to a full valuation allowance provided against its U.S. net deferred tax assets, the taxes on foreign income that differ from the U.S. tax rate, permanent tax differences including research activities and tax-exempt interest, and the amortization of goodwill for tax purposes.

The Company recorded income tax provisions of $3.2 million and $.3 million for the second quarter 2009 and 2008, respectively. The Company recorded income tax provisions of $2.9 million and $.5 million for the six months ended June 30, 2009 and 2008, respectively. Included in income tax provision for both the three and six months ended June 30, 2009 was the establishment of a valuation allowance against the Company s U.S. deferred tax assets and corresponding non-cash charge which amounted to $3.3 million. See Note J to the financial statements included elsewhere in this Form 10-Q.

Liquidity and Capital Resources

The Company s primary sources of liquidity are cash, cash equivalents and long-term investments, which totaled $31.8 million and $33.5 million at June 30, 2009 and December 31, 2008, respectively. The Company had working capital of $35.0 million and $41.2 million at June 30, 2009 and December 31, 2008, respectively.

For the six months ended June 30, 2009, cash provided by operating activities amounted to $.1 million. This amount included net loss of ($6.2 million), a non-cash deferred income tax provision of $3.0 million, depreciation and amortization charges of $1.3 million and stock-based compensation expense of $.3 million. Cash provided by operations due to changes in operating assets and liabilities included an increase in cash associated with decreases of accounts receivable and prepaid expenses of $2.4 million and $.2 million, respectively, offset partially by a net decrease in accounts payable and accrued expenses and an increase of inventory of $.9 million and $.1 million, respectively. The decrease in accounts receivable was primarily due to the lower level of sales in the six months ended June 30, 2009, compared to the first half 2008, as well as improved cash collections. The decrease in accounts payable and accrued expenses was primarily due to the lower level of purchases during the period and the recognition of deferred support and maintenance revenue.

For the six months ended June 30, 2008, cash provided by operating activities amounted to $3.9 million. This amount included net income of $1.2 million, depreciation and amortization charges of $1.1 million and stock-based compensation expense of $.3 million. Cash provided by operations due to changes in operating assets and liabilities amounted to $1.1 million and consisted primarily of tax refunds received and an increase in accrued income taxes.

Cash used by investing activities during the six months ended June 30, 2009 totaled $7.2 million, resulting from investment purchases of $9.0 million, capitalized software development costs amounting to $1.1 million and capital expenditures of $.3 million, offset by proceeds from investment sales of $3.2 million, including the sale of the Company s auction rate municipal security for $2.5 million in January 2009. For the six months ended June 30, 2008, investing activities provided cash totaling $11.8 million, resulting from net sales of investments of $13.1 million, offset by capitalized software development costs amounting to $1.0 million and capital expenditures of $.3 million.

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Cash used by financing activities for the six months ended June 30, 2009 amounted to $.3 million, resulting from repurchases by the Company of its Common Stock. In October 2008, the Board of Directors authorized the Company to repurchase shares of the Company s Common Stock for an aggregate amount not to exceed $10.0 million, through October 23, 2009. Under this program, shares of Common Stock may be repurchased through open market or private transactions, including block purchases. Repurchased shares can be used for stock option plans, potential acquisition initiatives and general corporate purposes. Under this program, the Company repurchased .1 million common shares for a total cost of $.3 million during the six months of 2009. Since the program s inception in October 2008, the Company has repurchased .5 million shares under this plan for a total cost of $1.6 million.

Net cash used by financing activities for the six months ended June 30, 2008 amounted to $.5 million, resulting from common stock buybacks of $1.1 million, offset by proceeds from the exercise of stock options of $.5 million.

Off-Balance Sheet Arrangements:

The Company did not enter into any off-balance sheet arrangements during the six months ended June 30, 2009.

Contractual Obligations:

The Company has approximately $.3 million associated with unrecognized tax benefits and estimated related interest and penalties at June 30, 2009. These liabilities are included as a component of long-term liabilities in the Company s condensed consolidated balance sheet as the Company does not anticipate that settlement of the liabilities will require a significant payment of cash within the next twelve months. The Company does not believe that the ultimate settlement of these obligations will materially affect the Company s liquidity.

Current Position:

Assuming there is no significant change in the business, management believes that the Company s current cash, cash equivalents and investments, together with cash generated from operations should be sufficient to meet our anticipated cash requirements, including working capital and capital expenditure requirements, for at least the next twelve months. Management is continuing to evaluate opportunities for strategic acquisitions to accelerate the Company s growth and market penetration efforts. If any of these opportunities come to fruition, they could have an impact on working capital, liquidity or capital resources.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141R, Business Combinations, a revision to SFAS No. 141, Business Combinations. SFAS No 141R provides revised guidance for recognition and measurement of identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree at fair value. The Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of a business combination. The Company adopted SFAS No. 141R as of January 1, 2009 for the Company. The adoption of this standard did not have a material impact on the Company s financial position or results of operations.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS Statement No. 133 (SFAS No. 161). SFAS No. 161 applies to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS No. 133. SFAS No. 161 requires entities to provide greater transparency through additional disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, results of operations, and cash flows. The Company adopted the provisions of SFAS No. 161 as of January 1, 2009. The adoption of this standard did not have a material impact on the Company s financial position or results of operations.

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In February 2008, the FASB issued FSP FAS 157-2, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially deferred the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. As such, the Company has adopted SFAS No. 157 for all nonfinancial assets and liabilities as of January 1, 2009. The adoption of SFAS No. 157 did not have a material impact on the Company s consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides guidance regarding how to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability. In such situations, an entity may conclude that transactions or quoted prices may not be determinative of fair value, and may adjust the transactions or quoted prices to arrive at the fair value of the asset or liability. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The Company does not believe that the adoption of this Staff Position will have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which requires that publicly traded companies include the fair value disclosures required by SFAS No. 107 in their interim financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009, and the Company has included the required disclosures in this Form 10-Q filing.

In May 2009, the FASB issued Statement No. 165, Subsequent Events (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires disclosure of the date through which an entity has evaluated subsequent events. The Company adopted SFAS No. 165 in the second quarter of 2009 and the adoption of SFAS No. 165 did not impact the Company s consolidated financial statements. The Company evaluated all events or transactions that occurred after June 30, 2009 up through August 6, 2009, the date on which these financial statements were issued. During this period there were no material subsequent events that impacted the consolidated financial statements.

In June 2009, the FASB issued Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles: a replacement of FASB Statement No. 168 (SFAS No. 168). This Statement establishes two levels of U.S. generally accepted accounting principles (GAAP) authoritative and non-authoritative. The FASB Accounting Standards Codification will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, and will be adopted by the Company in the third quarter of 2009. The adoption of SFAS No. 168 will not have any impact on the Company s Consolidated Financial Statements.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a safe harbor for forward looking statements. Certain written and oral statements made by management of Performance Technologies, Incorporated and its subsidiaries (collectively the Company) include forward-looking statements intended to qualify for the safe harbor from liability established by the Reform Act. These forward-looking statements generally can be identified by words or phrases such as the Company or its management believes, expects, anticipates, projects, foresees, fo estimates or other words or phrases of similar import. All statements herein that describe the Company s business strategy, outlook, objectives, plans, intentions, goals or similar projections are also forward-looking statements within the meaning of the Reform Act. Forward-looking statements should be read in conjunction with the audited Consolidated Financial Statements, the Notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company as of December 31, 2008, as contained in the Company s Annual Report on Form 10-K, and other documents filed with the Securities and Exchange Commission.

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All such forward-looking statements are subject to certain risks and uncertainties and should be evaluated in light of important risk factors. These risk factors include, but are not limited to, the following as well as those that are described in Risk Factors under Item 1A and elsewhere in the Annual Report on Form 10-K: business and economic conditions, rapid technological changes accompanied by frequent new product introductions, competitive pressures, dependence on key customers, inability to gauge order flows from customers, fluctuations in quarterly and annual results, the reliance on a limited number of third party suppliers, limitations of the Company s manufacturing capacity and arrangements, the protection of the Company s proprietary technology, the dependence on key personnel, changes in critical accounting estimates, potential impairments related to goodwill and deferred tax assets, foreign regulations, and potential material weaknesses in internal control over financial reporting. In addition, during weak or uncertain economic periods, customers visibility deteriorates causing delays in the placement of their orders. These factors often result in a substantial portion of the Company s revenue being derived from orders placed within a quarter and shipped in the final month of the same quarter.

Any of these factors could cause the Company s actual results to differ materially from its anticipated results. For a more detailed discussion of these factors, see the "Risk Factors" discussion in Item 1A in the Annual Report on Form 10-K. The forward-looking statements included in this Form 10-Q are made only as of the date of this Form 10-Q. The Company undertakes no obligation to update the forward-looking statements to reflect subsequent events or circumstances, or to reflect the occurrence of unanticipated events, with the Securities and Exchange Commission (SEC or the Commission).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various market risks in the normal course of business, primarily interest rate risk and changes in the market value of investments and management believes the Company s exposure to such risk is minimal. The Company s investments are made in accordance with the Company s investment policy and primarily consist of money market funds, certificates of deposit and bank guaranteed contracts. The Company is also subject to foreign currency exchange risks related to its operations in Kanata, Ontario, Canada, and in the United Kingdom. The Company believes that its balance sheet exposure to foreign currency exchange risks is minimal, as generally all revenues and accounts receivable are denominated in U.S. dollars. However, the Company s expenses at these locations are denominated in the local currency and the Company s results of operations are influenced by changes in the exchange rates between the United States and Canada and the United Kingdom. The Company has entered into foreign currency hedge contracts in both its Canadian and United Kingdom subsidiaries to reduce the exposure of such foreign currency exchange variability to the Company s 2009 and first quarter 2010 results of operations (see Note K to the financial statements included elsewhere in this Form 10-Q).

ITEM 4. CONTROLS AND PROCEDURES

A. Evaluation of Disclosure Controls and Procedures

The Company s Chief Executive Officer and its Chief Financial Officer have evaluated the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of such date.

B. Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

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PART II. OTHER INFORMATION

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

The 2009 Annual Meeting of Stockholders was held on May 21, 2009. The Directors elected at the meeting were as follows:

	Votes Cast	
Nominees	**For**	**Withheld**
Dennis C. Connors	9,257,941	262,487
Robert L. Tillman	9,233,296	287,132

As of May 21, 2009, Stuart B. Meisenzahl, John M. Slusser, E. Mark Rajkowski and Charles E. Maginness continued their terms of office as Directors of the Company.

The stockholders also voted to ratify the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2009. 9,455,497 shares of Common Stock were voted in favor of this proposal, and 64,931 shares were voted against this proposal or abstained.

ITEM 6. EXHIBITS

10.1 Form of stock option grant Board of Director option award
31.1 Certification of Chief Executive Officer
31.2 Certification of Chief Financial Officer
32.1 Section 1350 Certification

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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.

PERFORMANCE TECHNOLOGIES, INCORPORATED

August 6, 2009	By: /s/	John M. Slusser
		John M. Slusser
		President and Chief Executive Officer
August 6, 2009	By: /s/	Dorrance W. Lamb
		Dorrance W. Lamb
		Senior Vice President and Chief Financial Officer

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Exhibit 10.1
Form of stock option grant Board of Director options:

AWARD NOTICE

NOTICE OF NON-QUALIFIED STOCK OPTION GRANTED PURSUANT TO THE

PERFORMANCE TECHNOLOGIES, INCORPORATED 2001 STOCK OPTION PLAN

Grantee:	
Number of Shares:	**10,000**
Option Price:	**$2.69**
Date of Grant:	**May 21, 2009**

1. Grant of Option. This Award Notice serves to notify you that the Stock Option Committee (the ***Committee***) of the Board of Directors of Performance Technologies, Incorporated (the ***Company***) has granted to you, under the Company s 2001 Stock Option Plan (the ***Plan***), a non-qualified stock option (the ***Option***) to purchase, on the terms and conditions set forth in this Award Notice and the Plan, up to the number of shares of its Common Stock, $.01 par value per share (the ***Common Stock***) and at the price per share set forth above. The Plan is incorporated herein by reference and made a part of this Award Notice. Capitalized terms not defined herein have the respective meanings set forth in the Plan.

2. Period of Option and Limitations on Right to Exercise. Unless the Option is previously terminated pursuant to the terms of the Plan or this Award Notice, the Option will expire at 5:00 p.m., Eastern Standard Time, on the month and day that is five (5) years from the Date of Grant (the ***Expiration Date***).

3. The option will be fully vested and becomes exercisable one (1) year from the date of issuance.

In the event the Company is acquired through merger, consolidation, acquisition of a controlling (i.e. 51%) interest, or acquisition of all or substantially all of the Company's assets, the option granted herein shall become immediately exercisable with respect to all the shares covered by the option.

4. Upon the Optionee's termination as an employee or Director of the Company, for any reason other than death or permanent disability (as defined in the Plan) prior to the complete exercise of the option, that portion of the option that is exercisable on the date of termination per the vesting provisions of Paragraph 2, may be exercised in whole or in part, with a minimum exercise of 100 shares or the total exercisable number of shares if less than 100 shares, no later than three hundred sixty-five (365) days after termination; provided, however, that no part of the option shall be exercisable after the expiration of the exercise term or after the expiration of the three hundred sixty-five (365) day period following termination. In the case of termination due to death or permanent disability, the period described in the preceding sentence shall also be one (1) year.

5. The option is not transferable by the Optionee other than by Will or the laws of descent and distribution and is exercisable, during his lifetime, only by him. The Optionee hereby acknowledges that the Company is granting the option to him under a claim of exemption from registration under the Securities Act of 1933, as amended (the "Act"), as a transaction not involving any public offering.

6. In order for the option to be exercised, in whole or in part, with a minimum exercise of 100 shares or the total exercisable number of shares if less than 100 shares, the notice by the Optionee to the Company pursuant to Section 5 of the Plan must be accompanied by payment in full of the option price for the shares being purchased, and the Optionee shall pay the amount of federal and state withholding

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taxes determined by the Company's Stock Option Committee or Board of Directors to be owing with respect to the compensation income that the Optionee will realize upon each share of Common Stock purchased.

7. All the terms and provisions of the Plan, a copy of which has been provided to the Optionee, are hereby expressly incorporated into this Non-Statutory Stock Option Agreement and made a part hereof as if printed herein.

8. This Non-Statutory Stock Option Agreement shall be binding upon and inure to the benefit of any successor or assignee of the Company and to any executor, administrator, legal representative, legatee, or distributee entitled by law to the Optionee's right hereunder.

IN WITNESS WHEREOF, the Company has caused this Non-Statutory Stock Option Agreement to be executed on its behalf by its duly authorized officer and to be sealed with its corporate seal, attested by an authorized officer, and the Optionee has hereunto set his hand, the day and year written below.

Date of Grant: May 21, 2009

Grantee:

____

PERFORMANCE TECHNOLOGIES, INCORPORATED

by____

Chief Executive Officer

ATTEST:

____

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Exhibit 31.1

Certification of Chief Executive Officer

I, John M. Slusser, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Performance Technologies, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2009

By:/s/ John M. Slusser
John M. Slusser
President and Chief Executive Officer

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Exhibit 31.2

Certification of Chief Financial Officer

I, Dorrance W. Lamb, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Performance Technologies, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2009

By:/s/ Dorrance W. Lamb
Dorrance W. Lamb
Chief Financial Officer

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Exhibit 32.1

Section 1350 Certification

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 906), John M. Slusser and Dorrance W. Lamb, the Chief Executive Officer and Chief Financial Officer, respectively, of Performance Technologies, Incorporated, certify that (i) the quarterly report on Form 10-Q for the quarter ended June 30, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Performance Technologies, Incorporated.

A signed original of this written statement required by Section 906 has been provided to Performance Technologies, Incorporated and will be retained by Performance Technologies, Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

Date: August 6, 2009	By:/s/	John M. Slusser
		John M. Slusser
		President and Chief Executive Officer
Date: August 6, 2009	By:/s/	Dorrance W. Lamb
		Dorrance W. Lamb
		Senior Vice President and Chief Financial Officer