
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 September 30, 2001

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

PERFORMANCE TECHNOLOGIES, INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	16-1158413
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)
315 Science Parkway, Rochester New York	14620
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (716) 256-0200

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 .

The number of shares outstanding of the registrant's common stock was 12,230,891 as of October 31, 2001.

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2001 (unaudited)	December 31, 2000
Current assets:		
Cash and cash equivalents	$ 24,777,000	$ 17,187,000
Marketable securities		9,995,000
Accounts receivable, net	7,477,000	7,393,000

Inventories, net	4,042,000	5,788,000
Prepaid expenses and other	441,000	745,000
Deferred taxes	687,000	679,000
Total current assets	37,424,000	41,787,000
Equipment and improvements, net	2,522,000	2,119,000
Software development costs, net	1,709,000	852,000
Total assets	$ 41,655,000	$ 44,758,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 675,000	$ 1,347,000
Income taxes payable		219,000
Accrued expenses	2,696,000	3,246,000
Total current liabilities	3,371,000	4,812,000
Deferred taxes	865,000	478,000
Total liabilities	4,236,000	5,290,000
Stockholders' equity:		
Preferred stock		
Common stock - $.01 par value; 50,000,000 authorized; 13,260,038 shares issued	133,000	133,000
Additional paid-in capital	11,319,000	12,375,000
Retained earnings	39,234,000	35,053,000
Treasury stock - at cost; 1,023,147 and 598,313 shares held at September 30, 2001 and December 31, 2000, respectively	(13,296,000)	(8,042,000)
Cumulative translation adjustments	29,000	(51,000)
Total stockholders' equity	37,419,000	39,468,000
Total liabilities and stockholders' equity	$ 41,655,000	$ 44,758,000

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PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(unaudited)

	Three Months Ended September 30,	Nine Months Ended September 30,

	2001	2000	2001	2000
Sales	$ 9,871,000	$ 9,244,000	$29,015,000	$28,927,000
Cost of goods sold	3,378,000	2,976,000	10,798,000	9,500,000
Gross profit	6,493,000	6,268,000	18,217,000	19,427,000
Operating expenses:				
Selling and marketing	1,357,000	1,480,000	4,255,000	3,956,000
Research and development	1,897,000	2,301,000	6,157,000	6,720,000
General and administrative	783,000	526,000	2,347,000	2,081,000
Total operating expenses	4,037,000	4,307,000	12,759,000	12,757,000
Income from operations	2,456,000	1,961,000	5,458,000	6,670,000
Other income, net	187,000	492,000	783,000	1,516,000
Income before income taxes	2,643,000	2,453,000	6,241,000	8,186,000
Provision for income taxes	873,000	932,000	2,060,000	3,110,000
Net income	$ 1,770,000	$ 1,521,000	$ 4,181,000	$ 5,076,000
Basic earnings per share	$ .14	$ .12	$ .34	$ .38
Diluted earnings per share	$ .14	$ .11	$ .33	$ .37
Net income available to common stockholders	$ 1,770,000	$ 1,521,000	$ 4,181,000	$ 5,076,000
Weighted average number of common shares used in basic earnings per share	12,225,890	13,199,178	12,298,859	13,227,889
Common equivalent shares	439,121	479,319	448,528	678,172
Weighted average number of common shares used in diluted earnings per share	12,665,011	13,678,497	12,747,387	13,906,061

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PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(unaudited)

Nine Months Ended

	September 30, 2001	September 30, 2000
Cash flows from operating activities:		
Net income	$ 4,181,000	$ 5,076,000
Non-cash adjustments:		
Depreciation and amortization	1,187,000	952,000
Other	417,000	(78,000)
Changes in operating assets and liabilities:		
Accounts receivable	(102,000)	2,118,000
Inventories	1,746,000	(1,483,000)
Prepaid expenses and other	315,000	44,000
Accounts payable	(672,000)	176,000
Accrued expenses	(531,000)	(1,630,000)
Income taxes payable	(219,000)	(1,340,000)
Net cash provided by operating activities	6,322,000	3,835,000
Cash flows from investing activities:		
Purchases of equipment and improvements	(1,139,000)	(943,000)
Capitalized software development	(1,278,000)	(639,000)
Purchase of marketable securities	(5,000)	(15,977,000)
Maturities of marketable securities	10,000,000	24,000,000
Net cash provided by investing activities	7,578,000	6,441,000
Cash flows from financing activities:		
Repayment of notes payable		(6,000)
Exercise of stock options	511,000	385,000
Purchase of treasury stock	(6,821,000)	(2,828,000)
Net cash used by financing activities	(6,310,000)	(2,449,000)
Net increase in cash and cash equivalents	7,590,000	7,827,000
Cash and cash equivalents at beginning of period	17,187,000	9,792,000
Cash and cash equivalents at end of period	$ 24,777,000	$ 17,619,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Non-cash financing activity:		
Exercise of stock options using 100 shares of common stock in 2000		$ 4,000

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(Unaudited)

Note - A The unaudited Consolidated Financial Statements of Performance Technologies, Incorporated and Subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles 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, 2000, as reported in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Note - B During the nine months ended September 30, 2001, 116,500 common shares were issued upon the exercise of stock options and warrants.

Note - C Inventories consisted of the following at September 30, 2001 and December 31, 2000:

	September 30, 2001	December 31, 2000
Purchased parts and components	$ 1,909,000	$ 2,656,000
Work in process	2,755,000	3,959,000
Finished goods	435,000	297,000
	5,099,000	6,912,000
Less: reserve for inventory obsolescence	(1,057,000)	(1,124,000)
Net	$ 4,042,000	$ 5,788,000

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES

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 and Section 21E of the Securities Exchange Act of 1934 and are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results could differ materially from those discussed in the forward-looking statements.

Overview

Business Strategy: Performance Technologies, Incorporated (the "Company") provides packet-based telecommunications and networking products for wireline, wireless and next-generation Internet Protocol networks. The Company's products are based on open system architectures and are generally integrated with its customers' network infrastructure products. The Company's products enable the network convergence of voice and data, the growth of the Internet, emerging broadband communications and global wireless services.

The Company's engineering efforts are directed toward developing three distinct product lines for these emerging markets: SS7/IP Signaling products, IP Ethernet switching products and network access products. The Company's products are targeted at customers in the following sectors: telecommunications equipment manufacturers, telecommunications service providers and operators, wireless carriers and platform manufacturers.

The Company pioneered a new architecture for embedded platforms using Ethernet and recommended adoption of this architecture by the industry standards board in September 2000. The standards board established a committee to evaluate this new architecture and designated a member of the Company's management team to chair the process. This new industry standard was adopted by the standards board in September 2001. The Company has developed several new IP Ethernet switch, network access and SS7/IP signaling products based on this new industry standard. Four of these new IPnexus(TM) products began shipping to customers in September 2001 and two more new IPnexus products are scheduled for delivery in the fourth quarter. The Company's leadership on the standards board committee, plus the introduction of the IPnexus product family, have significantly increased the Company's visibility within the telecommunications industry and have resulted in design wins with numerous new telecom customers.

Financial Information: Net income for the third quarter 2001 amounted to $1.8 million, or $.14 per share based on 12.7 million fully diluted shares outstanding, compared to net income of $1.5 million, or $.11 per share based on 13.7 million fully diluted shares outstanding for the third quarter in 2000. Revenue for the third quarter 2001 amounted to $9.9 million, compared to $9.2 million for the same quarter in 2000.

For the first nine months of 2001, net income amounted to $4.2 million, or $.33 per share based on 12.7 million fully diluted shares outstanding, compared to net income of $5.1 million, or $.37 per share based on 13.9 million fully diluted shares outstanding for the same period in 2000. Revenue for the nine months ended September 30, 2001 amounted to $29.0 million, compared to $28.9 million for the same period in 2000.

At September 30, 2001, the Company had $24.8 million of cash and cash equivalents and no long-term debt. For the first nine months of 2001, the Company generated income from operations, excluding depreciation and amortization (EBITDA), of $6.6 million, compared to $7.6 million for the same period in 2000.

Performance Technologies continued to experience the effects of the turbulent economic conditions and the slow down in capital spending in the broader communications market during the third quarter. While management remains confident that the Company is well positioned when the deployment of IP network applications and embedded Ethernet platform architectures accelerates, they are uncertain when economic conditions will improve. Therefore, management has focused on the preservation of cash and continues to maintain tight fiscal control over discretionary expenses and hiring. At the same time, engineering efforts continue to be focused on an aggressive product road map for the embedded switch market and development of the SS7/IP Signaling Blade and the SEGway(TM) Link Concentrator, products announced earlier this year.

Management believes one of the most important measurements of progress in executing the Company's product and marketing strategies is the number of "design wins" realized with its customer base. A "design win" is when a customer or prospective customer notifies the Company that its product has been selected to be integrated with their product. As of October 24, 2001, the Company has received notification of thirty-one new "design wins" this year for its SS7/IP Signaling products, IP Ethernet switch and network access products. In each of these "design wins", the Company expects to provide products that play a key role in wireline, wireless and next-generation IP networks. During the third quarter, design activity for new IP applications appeared to have slowed and production orders from a number of "design wins" were anticipated, but were not received. While the months of July and August are seasonally slow months for design activity, this activity level typically accelerates in the month of September. With the slower economy and the September 11th tragedy, this did not occur in September.

Several noteworthy customer relationships were announced during the past three months: Siemens Carrier Networks LLC, a subsidiary of Siemens AG and a leading supplier of carrier-grade switching, selected the Company's IPnexus line of Ethernet switches for use within Siemens' SURPASS hiQ(TM) softswitch; NAV Canada, Canada's provider of civil air navigation services, selected the Company's MPS800 communications server to migrate its radar information to new IP/Ethernet based systems; and Teleglobe, a leading supplier of global communications and Internet services, announced operation of a new system to increase international roaming capacity between wireless networks in North America and the rest of the world. This enhanced service capability is built on a platform developed in conjunction with Performance Technologies' Ottawa-based signaling group.

Forward Looking Guidance for the Fourth Quarter 2001:

The following includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Performance Technologies supplies products to telecommunications equipment suppliers that are integrated into current and next-generation network infrastructure. Ordinarily, there are a number of steps between the "design win" and when customers initiate production shipments. This process typically can take twelve to eighteen months, or longer, to complete. A variety of risks such as schedule delays, cancellations, changes in customer markets and general economic conditions can adversely affect a "design win" before production is reached or during deployment.

Despite healthier financial results for the third quarter, Performance Technologies continued to experience the effects of the turbulent economic conditions and the slowdown in capital spending in the broader communications market. During the third quarter, new deployments of IP networks appear to have slowed and a number of customers requested delays in shipments.

Notwithstanding the current economic environment, management continues to feel that Performance Technologies is well positioned when the deployment of IP network applications and embedded Ethernet platform architectures accelerates. Based upon the current distribution of business, the current backlog and the review of customer forecasts, management expects revenue in the fourth quarter to be $8.0 million to $9.5 million. Gross margin is expected to be approximately 62% to 65% and diluted earnings per share for the fourth quarter is expected to be $.08 to $.12.

More in-depth discussions of the Company's strategy and financial performance can be found in the Company's recent Annual and Quarterly Reports, on Form 10-K and Form 10-Q, as filed with the Securities and Exchange Commission.

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Quarter and Nine Months Ended September 30, 2001, Compared with
the Quarter and Nine Months Ended September 30, 2000

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	34.2	32.2	37.2	32.8
Gross profit	65.8	67.8	62.8	67.2
Operating expenses:				
Selling and marketing	13.8	16.0	14.7	13.7
Research and development	19.2	24.9	21.2	23.2
General and administrative	7.9	5.7	8.1	7.2
Total operating expenses	40.9	46.6	44.0	44.1
Income from operations	24.9	21.2	18.8	23.1
Other income, net	1.9	5.3	2.7	5.2
Income before income taxes	26.8	26.5	21.5	28.3
Provision for income taxes	(8.9)	(10.1)	(7.1)	(10.8)
Net income	17.9	16.4	14.4	17.5

Sales. Sales for the third quarter 2001 were $9.9 million, compared to $9.2 million for the same quarter in 2000. Sales for the first nine months of 2001 were $29.0 million, compared to $28.9 million for the respective period in 2000. The Company's products are grouped into four distinct categories in one market segment: IP Signaling System 7 and network access products, IP switching products, Lockheed Martin/LAN interface (U.S. Government/COTS) products, and other (legacy) products. Revenue from each product category is expressed as a percentage of sales for the three and nine months ending September 30, 2001 and 2000:

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
IP/SS7 and network access products	90%	87%	87%	84%
IP switching products	4%	1%	4%	0%
Lockheed Martin/LAN interface produc	0%	0%	0%	4%
Other	6%	12%	9%	12%
Total	100%	100%	100%	100%

IP/Signaling System 7 and network access product revenue increased 10% to $8.8 million during the third quarter 2001, from $8.0 million for the third quarter 2000. During the third quarter 2001, the Company solidified relationships with a number of global GSM service providers by providing application specific engineering along with its signaling gateway products. For the nine months, IP/Signaling System 7 and network access product revenue increased 3% to $25.1 million in 2001, from $24.4 million during the same period in 2000. The Company has invested heavily in new IP Signaling System 7 and network access products and management expects this product group to be the key revenue growth driver for the Company.

IP switching products: The first member of the IP switch family was introduced in September 2000. During the third quarter 2001, the Company began shipping two new IPnexus switch models, the CPC4401, which has a gigabit fiber uplink, and the CPC4406, which has a gigabit wireline uplink. The Company also has orders for the CPC3400, the unmanaged, low cost model that is expected to begin shipping in the fourth quarter 2001. Revenue for these products is still modest but is expected to increase when customers move into production of their new platforms using the recently ratified PICMG 2.16 embedded architecture.

Lockheed Martin/LAN interface product (U.S. Government/COTS) shipments were zero for the nine months ending September 30, 2001, compared to $1.0 million for the first nine months of 2000. This sub-contract ended in June 2000.

Other products represented $.6 million of sales in the third quarter 2001, compared to $1.1 million for the same period in 2000. This revenue is related to legacy products. Shipments can fluctuate on a quarterly basis and revenue is expected to continue to decline over future periods.

Gross profit. Gross profit consists of sales, less cost of goods sold including material costs, manufacturing expenses, amortization of software development costs, expenses associated with engineering contracts and technical support function expenses. In the third quarter, gross margin was 65.8% and 67.8% of sales in 2001 and 2000, respectively. For the nine months, gross margin was 62.8% and 67.2% of sales in 2001 and 2000, respectively. For the three and nine month periods in 2001, product mix and an increase in the technical support staff to support customers impacted gross margin as a percentage of sales.

Operating expenses. Early in the second quarter 2001, the Company tightened control over discretionary expenses. In the third quarter, total operating expenses were $4.0 million and $4.3 million in 2001 and 2000, respectively. For the nine months, total operating expenses were $12.8 million and $12.8 million in 2001 and 2000, respectively.

Selling and marketing expenses. Early in the second quarter 2001, the Company tightened control over advertising, travel and trade show participation. The Company did advertise its IPnexus family of switch products and the SEGway Signaling products during the second and third quarters of 2001. In the third quarter, selling and marketing expenses were $1.4 million and $1.5 million in 2001 and 2000, respectively. For the nine months, selling and marketing expenses amounted to $4.3 million and $4.0 million in 2001 and 2000, respectively. This year-over-year increase in expense is primarily attributable to expansion of the sales force and compensation plans.

Research and development expenses were $1.9 million and $2.3 million for the third quarter 2001 and 2000, respectively. During the third quarter of 2001, the Company focused its engineering efforts on the development of the IPnexus embedded switch products, the SS7/IP Signaling Blade and the SEGway Link Concentrator. Research and development expenses were $6.2 million and $6.7 million for the first nine months of 2001 and 2000, respectively. In addition, the Company capitalizes certain software development costs. During the third quarter, amounts capitalized were $.4 million and $.2 million for 2001 and 2000, respectively. During the first nine months, amounts capitalized were $1.3 million and $.6 million for 2001 and 2000, respectively.

General and administrative expenses were $.8 million and $.5 million for the third quarter 2001 and 2000, respectively. General and administrative expenses were $2.3 million and $2.1 million for the first nine months of 2001 and 2000, respectively. An incentive related expense amounting to $.2 million was recorded in the third quarter 2001 to reflect the attainment of certain corporate goals.

Other income, net. Other income consists primarily of interest income from marketable securities and cash equivalents. The funds are primarily invested in high quality Municipal and U.S. Treasury securities with maturities of less than one year.

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Income taxes. The provision for income taxes for the third quarter and first nine months of 2001 is based on the combined federal, state and foreign effective tax rate of 33%, compared to 38% for the third quarter and first nine months of 2000. Based on operational decisions implemented during 2000, the Company is utilizing Canadian tax incentives to lower its net effective tax rate in 2001.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2001, the Company's primary source of liquidity included cash and cash equivalents of $24.8 million and available borrowings of $5.0 million under a revolving credit facility with a bank. No amounts were outstanding under this credit facility as of September 30, 2001.

The Company had working capital of $34.1 million at September 30, 2001, compared to $37.0 million at December 31, 2000. During the first nine months of 2001, the Company repurchased its shares in the open market for $6.8 million resulting in a reduction in working capital.

Cash provided by operating activities for the first nine months of 2001 was $6.3 million, compared to $3.8 million for the same period in 2000. This increase in cash provided by operating activities, over the respective 2000 period, is primarily attributable to changes in the components of working capital (inventories, receivables and payables) partially offset by lower net income for the first nine months of 2001. (See the Consolidated Statements of Cash Flows appearing in the Financial Statements included in this report).

In August 2000, the Board of Directors authorized the repurchase of up to 1 million shares of the Company's Common Stock and the Company completed this repurchase program in March 2001. In March 2001, the Board of Directors authorized the repurchase of up to an additional 500,000 shares of the Company's Common Stock. Based on deteriorating economic conditions and an effort to preserve cash, the Company did not repurchase any shares during the third quarter of 2001. For the first nine months of 2001, the Company repurchased a total of 541,000 shares at a total cost of $6.8 million, compared to a total of 211,000 shares at a total cost of $2.8 million for the same period in 2000.

Assuming there is no significant change in the Company's business, management believes that its current cash, cash equivalents, and marketable securities together with cash generated from operations and available borrowings under the Company's loan agreement will be sufficient to meet the Company's anticipated needs, including working capital and capital expenditure requirements, for at least the next twelve months. However, an unfavorable determination in the outstanding class action litigation could have a material adverse effect on the Company's working capital. Furthermore, management is continuing its strategic acquisition program to further accelerate new product and market penetration efforts. This program could have an impact on the Company's working capital, liquidity or capital resources.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This Quarterly Report on Form 10-Q contains forward-looking statements, which reflect the Company's current views with respect to future events and financial performance, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are subject to certain risks and uncertainties, including those identified below, which could cause actual results to differ materially from historical results or those anticipated. The words "believes," "anticipates," "plans," "may," "intend," "estimate," "will," "should," "could," "feels," "is optimistic," "expects," and other expressions which indicate future events and trends also identify forward-looking statements. However, the absence of such words does not mean that a statement is not forward-looking.

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The Company's future operating results are subject to various risks and uncertainties and could differ materially from those discussed in the forward-looking statements and may be affected by various trends and factors which are beyond the Company's control. These include, among other factors, general business and economic conditions, rapid or unexpected changes in technologies, cancellation or delay of customer orders including those relating to the "design wins" referenced above, unreliability of customer forecasts, changes in the product or customer mix of sales, delays in new product development, delays or lack of availability of electronic components, customer acceptance of new products and customer delays in qualification of products. Furthermore, an unfavorable determination in the outstanding class action litigation could have a material adverse effect on the Company's working capital. This report on Form 10-Q should be read in conjunction with the Consolidated Financial Statements, the notes thereto, Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2000 and "Risk Factors" as reported in the Company's Annual Report on Form 10-K, and other reports as filed with the Securities and Exchange 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 its investments and believes its exposure to such risk is minimal. The Company's investments are made in accordance with the Company's investment policy and primarily consist of U.S. Treasury securities, municipal securities and corporate obligations. The Company does not participate in the investment of derivative financial instruments.

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On and after May 24, 2000, several class action lawsuits were filed against the Company, as well as several of its officers and directors, alleging violations of federal securities laws. The lawsuits were filed in United States District Court for the Western District of New York. On May 18, 2001, the Company filed a motion to dismiss the consolidated complaint. On June 25, 2001, the Plaintiffs filed a memorandum of law in opposition to the Company's motion to dismiss. On

July 20, 2001, the Company filed a memorandum of law in further support of the Company's motion to dismiss the Plaintiffs' class action complaint. The Company believes these claims to be without merit and continues to mount a vigorous defense against those allegations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

None.

B. Reports on Form 8-K

There were no reports filed on Form 8-K during the three month period ended September 30, 2001.

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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

November 5, 2001 By: /s/ Donald L. Turrell

Donald L. Turrell
President and
Chief Executive Officer

November 5, 2001 By: /s/ Dorrance W. Lamb

Dorrance W. Lamb
Chief Financial Officer and
Vice President, Finance