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Performance Technologies Announces Third Quarter 2009 Financial Results

ROCHESTER, NY – October 27, 2009 -- Performance Technologies, Inc. (NASDAQ: PTIX), a leading provider of innovative network communications solutions, today announced its financial results for the third quarter 2009.

Revenue in the third quarter 2009 amounted to \$7.9 million, compared to \$6.4 million in the second quarter 2009 and \$9.2 million in the third quarter 2008. Revenue for the nine months ended September 30, 2009 amounted to \$21.2 million, compared to \$31.4 million during the corresponding period in 2008.

The Company incurred a net loss in the third quarter 2009 amounting to (\$.3 million), or (\$.03) per basic share, based on 11.1 million shares outstanding. This loss includes a discrete income tax benefit of \$.01 per share, a restructuring charge of \$.02 per share and stock compensation expense of \$.01 per share. Net income in the third quarter 2008 amounted to \$.02 per diluted share, including stock-based compensation expense of \$.01 per share and a discrete income tax benefit of \$.03 per share, based on 11.6 million shares outstanding.

The Company incurred a net loss for the nine months ended September 30, 2009 amounting to (\$6.5 million), or (\$.58) 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. The loss also includes a restructuring charge of \$.06 per share, discrete income tax benefits of \$.02 per share and stock-based compensation expense of \$.04 per share. Net income for the nine months ended September 30, 2008 amounted to \$.13 per diluted share, including stock-based compensation expense of \$.03 per share and a discrete income tax benefit of \$.03 per share, based on 11.7 million shares outstanding.

The Company had 11.1 million common shares outstanding at September 30, 2009. Under the Company's stock repurchase programs, approximately .5 million shares of its common stock were repurchased for an aggregate purchase price of \$1.6 million during the twelve months ended September 30, 2009.

Cash and investments amounted to \$29.9 million, or \$2.69 per share, and the Company had no long-term debt at September 30, 2009.

"Although our third quarter 2009 financial performance was in line with our projections, it continued to reflect softness in global economic conditions," said John Slusser, president and chief executive officer. "Despite the current business climate, we were pleased that we achieved our gross margin objectives, reduced our inventory levels and saw a meaningful increase in sales from our aerospace and defense market efforts. In addition, we appreciate the continued support from our employees with regard to expense control. In August, we offered a voluntary separation program to all our U.S.-based employees

as one element of our overall expense management initiative. The third quarter restructuring charge reflects the result of that program. Also during the quarter, we invested in the future by licensing certain key technology building blocks. These buildings blocks, in synergistic combination with our captive technologies, will result in several new end market products that we intend to initially announce within the next two quarters.”

Business Overview and Guidance

The Company 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 depend primarily 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.

John Slusser further remarked “Global economic conditions continue to make forward quarter forecasting most challenging. While we continue to see healthy market interest in our existing and evolving product portfolio, specific prediction of when that interest will convert into revenues remains very difficult. Although this demanding business climate will likely exist for some period of time, we remain clearly focused on the execution of our strategic plan for long-term growth. During the fourth quarter, we will continue to augment and broaden the value proposition of our network communications products in both our telecommunications and aerospace and defense vertical markets. We will also be further strengthening our sales and marketing efforts through the combination of an organizational re-alignment, closely tied to our ongoing product evolution, and by enhancing our presence in several key emerging markets.”

The Company provides guidance only on earnings per share expected in the next quarter. The following statements reflect the Company's current views with respect to future events and financial performance and are forward-looking statements covered within the “safe harbor” provisions described in the Private Securities Litigation Reform Act. Actual results may differ materially from these forward-looking statements. Given the current global economic environment, the Company's estimates are subject to a higher level of uncertainty than is customary. Furthermore, a substantial portion of the Company's revenue is derived from orders placed within a quarter and shipped in the final month of the same quarter. Management anticipates fourth quarter 2009 financial results to be in the range of a loss of (\$.03) per share to a loss of (\$.10) per share. These per share estimates exclude stock-based compensation expense and restructuring charges (if any). In the fourth quarter 2009, stock-based compensation expense is expected to be approximately \$.01 per share, excluding any stock options that may be granted during the quarter.

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

About Performance Technologies (www.pt.com)

Performance Technologies (NASDAQ: PTIX) 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. Its 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.

Performance Technologies maximizes 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. 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.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. This press release 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 is subject to the safe harbor provisions of those Sections. 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 risks and uncertainties include, among other factors, 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 investments, 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. Forward-looking statements should be read in conjunction with the audited Consolidated Financial Statements, the Notes thereto, Risk Factors, 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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A conference call will be held on Wednesday, October 28 at 10:00 a.m., New York time, to discuss the Company's financial performance for the third quarter 2009. All institutional investors can participate in the conference by dialing (866) 250-5144 or (416) 849-6163. The call will be available simultaneously for all other investors at (866) 494-3387 or (416) 915-1198. A digital recording of this conference call may be accessed immediately after its completion from October 28 through November 1, 2009. To access the recording, participants should dial (866) 245-6755 or (416) 915-1035 using passcode 582895. A live webcast of the conference call will be available on the Performance Technologies website at www.pt.com and will be archived to the site within two hours after the completion of the call.

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

ASSETS

	September 30, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents	\$ 19,560,000	\$ 29,218,000
Investments	6,284,000	2,450,000
Accounts receivable	5,473,000	6,677,000
Inventories	4,951,000	5,303,000
Prepaid income taxes	132,000	299,000
Prepaid expenses and other assets	737,000	796,000
Deferred taxes	172,000	1,841,000
Fair value of foreign currency hedges	343,000	107,000
Total current assets	37,652,000	46,691,000
Investments	4,057,000	1,797,000
Property, equipment and improvements	1,879,000	2,069,000
Software development costs	5,123,000	3,840,000
Deferred taxes		778,000
Goodwill	4,143,000	4,143,000
Total assets	\$ 52,854,000	\$ 59,318,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 786,000	\$ 922,000
Accrued expenses	4,189,000	4,549,000
Total current liabilities	4,975,000	5,471,000
Deferred taxes	586,000	
Income taxes payable	104,000	400,000
Total liabilities	5,665,000	5,871,000
Stockholders' equity:		
Preferred stock		
Common stock	133,000	133,000
Additional paid-in capital	16,466,000	16,052,000
Retained earnings	40,188,000	46,689,000
Accumulated other comprehensive income	220,000	73,000
Treasury stock	(9,818,000)	(9,500,000)
Total stockholders' equity	47,189,000	53,447,000
Total liabilities and stockholders' equity	\$ 52,854,000	\$ 59,318,000

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Sales	\$ 7,876,000	\$ 9,181,000	\$21,159,000	\$31,387,000
Cost of goods sold	<u>3,581,000</u>	<u>4,172,000</u>	<u>9,906,000</u>	<u>13,874,000</u>
Gross profit	<u>4,295,000</u>	<u>5,009,000</u>	<u>11,253,000</u>	<u>17,513,000</u>
Operating expenses:				
Selling and marketing	1,628,000	1,907,000	5,262,000	6,147,000
Research and development	1,830,000	2,210,000	5,932,000	6,894,000
General and administrative	1,275,000	1,394,000	3,594,000	3,889,000
Restructuring charges	181,000		626,000	
Total operating expenses	<u>4,914,000</u>	<u>5,511,000</u>	<u>15,414,000</u>	<u>16,930,000</u>
(Loss) income from operations	<u>(619,000)</u>	<u>(502,000)</u>	<u>(4,161,000)</u>	<u>583,000</u>
Other income, net	79,000	156,000	335,000	814,000
(Loss) income before income taxes	<u>(540,000)</u>	<u>(346,000)</u>	<u>(3,826,000)</u>	<u>1,397,000</u>
Income tax (benefit) provision	<u>(192,000)</u>	<u>(602,000)</u>	<u>2,679,000</u>	<u>(86,000)</u>
Net (loss) income	<u>\$ (348,000)</u>	<u>\$ 256,000</u>	<u>\$(6,505,000)</u>	<u>\$ 1,483,000</u>
Basic (loss) earnings per share	<u>\$ (.03)</u>	<u>\$.02</u>	<u>\$ (.58)</u>	<u>\$.13</u>
Weighted average common shares	<u>11,116,000</u>	<u>11,604,000</u>	<u>11,134,000</u>	<u>11,662,000</u>
Diluted earnings per share		<u>\$.02</u>		<u>\$.13</u>
Weighted average common and common equivalent shares		<u>11,607,000</u>		<u>11,676,000</u>