

PERFORMANCE TECHNOLOGIES, INCORPORATED

AUDIT COMMITTEE CHARTER

Mission Statement

The Audit Committee (the “Committee”) will, on behalf of the Board of Directors (the “Board”), have responsibility for oversight of reliable financial reporting, effective internal controls, compliance with regulatory matters, and compliance with appropriate ethical conduct.

In performing its duties, the Committee will maintain effective working relationships with the Board, management and the independent auditors. To effectively perform his or her role, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the business, operations, and risks of Performance Technologies, Inc. (the “Company”).

Organization

The Committee will be comprised of three or more directors each of whom will be independent (an “Independent Director”). An Independent Director is a person other than an officer or employee of the Company, or any subsidiary thereof, or any other person having a relationship, which in the opinion of the Company’s directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a member of the Committee. The following persons will NOT be considered an Independent Director:

- a) A director employed by the Company, or any subsidiary thereof, for the current year and any of the past three years;
- b) A director who accepted, or who has a Family Member who accepted from the Company, or any subsidiary thereof, any compensation during the current or any of the past three fiscal years, *other than* (i) compensation for board and related committee service, (ii) payments arising solely from investments in the Company’s securities, (iii) compensation paid to a Family Member who is a non-executive employee of the Company, (iv) benefits under a tax-qualified retirement plan (v) benefits under non-discretionary compensation or (vi) loans permitted under Section 13(k) of the Securities Exchange Act of 1934. Family Member, as used herein includes: spouse, parents, siblings, children, mother and father in-laws, brother and sister-in-laws, son and daughter-in-laws and anyone who resides in the home of such individual;
- c) A director who is a Family Member of an individual who, over the last three years was employed by the Company, or any subsidiary thereof, as an executive officer;
- d) A director who is, or has a Family Member who is, a partner in, a controlling shareholder of, or an executive officer of any organization to which the Company made or received as payments (other than in the form of equity investments in the Company’s securities, or payments made under non-discretionary charitable contribution matching programs) an amount that exceeded 5% of the Company’s consolidated gross revenues for that year of \$200,000, whichever is more, in any of the past three years;
- e) A director who is, or who has a Family Member who is, employed as an executive officer of another entity where any of the Company’s executives serve, or served at any time during the past three years, on that entity’s compensation committee; and
- f) A director who is, or who has a Family Member who is, a current partner of the Company’s outside auditor, or was a partner or employee of the Company’s outside auditor who worked on the Company’s audit at any time during any of the past three years.

A member of the Committee may not, other than in the capacity as member of the Committee, the Board, or any other board committee, accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company, or any subsidiary thereof. Compensatory fees do not include fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company.

A member of the Committee may not be affiliated with the Company, or any subsidiary thereof. Affiliated, as used herein means controls, is controlled by, or is under common control with the Company.

A member of the Committee shall not have participated in the preparation of the financial statements of the Company, or any subsidiary thereof, at any time during the past three years.

The Committee may, under exceptional and limited circumstances, act in the best interests of the Company and its stockholders by appointing a Committee member who is not an Independent Director, provided however, the member shall not be a current employee or a Family Member of an employee. In such an instance, the Board shall disclose in its annual proxy statement the nature of the relationship and the reason(s) for appointing such individual as a Committee member. However, a member appointed under this exception may not serve more than two years and may not chair the Committee.

All members of the Committee must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. The Committee has, and will continue to have, at least one member who has accounting or related financial management expertise such as that gained from past employment in finance or accounting, professional certification in accounting, or other comparable experience or background such as being, or having been, a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

Meetings

Committee meetings will generally coincide with regular Board meetings. Topics at scheduled meetings will generally include:

- Review of the Annual and Quarterly Reports to be submitted to the Securities and Exchange Commission; and
- Meetings with the independent auditors to discuss the scope of the annual audit and to review the financial statements for the year and the results of the audit.

Roles and Responsibilities

Internal Control

- Evaluate whether management is setting the appropriate tone at the top by communicating the importance of internal control and ensuring that all individuals possess an understanding of their roles and responsibilities;
- Establish procedures for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- Focus on the extent to which independent auditors review computer systems and applications, and the security of such systems and applications;
- Gain an understanding of whether internal control recommendations made by the independent auditors have been implemented by management; and
- Ensure that the independent auditors keep the Committee informed about fraud, illegal acts, deficiencies in internal control, and certain other matters.

Financial Reporting

General

- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements; and
- Ask management and the external auditors about significant risks and exposures and the plans to minimize such risks.
- Discuss earnings press releases and financial information and earnings guidance provided to analysts and rating agencies.

Annual Financial Statements

- Review the annual consolidated financial statements and determine whether they are complete and consistent with the information known to Committee members, and assess whether the financial statements reflect appropriate accounting principles;
- Pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures;

- Focus on judgmental areas such as those involving valuation of assets and liabilities, including, for example, the accounting and disclosure of obsolete or slow-moving inventory; receivable losses; software capitalization and amortization; warranty liability; litigation reserves; and other commitments and contingencies;
- Meet with management and independent auditors to review the financial statements and the results of the audit;
- Consider management's handling of proposed audit adjustments identified by the independent auditors;
- Review the MD&A and other sections of the Annual Report before its release and consider whether the information is adequate and consistent with members' knowledge about the Company and its operations; and
- Ensure that the independent auditors communicate certain required matters to the Committee.

Interim Financial Statements

- Be briefed on how management develops and summarizes quarterly financial information, the extent to which the independent auditors review quarterly financial information, and whether that review is performed on a pre- or post-issuance basis;
- Meet with management to review the interim financial statements and the results of the review. (This may be done by the Committee chairperson or the entire Committee);
- To gain insight into the fairness of the interim statements and disclosures, obtain explanations from management on whether:
 - Actual financial results for the quarter varied significantly from projected results;
 - Generally accepted accounting principles have been consistently applied;
 - There are any actual or proposed changes in accounting or financial reporting practices;
 - There are any significant or unusual events or transactions;
 - The Company's financial and operating controls are functioning effectively;
 - The Company has complied with the terms of loan agreements or security indentures; and
 - The interim financial statements contain adequate and appropriate disclosures.
- Ensure that the independent auditors communicate certain required matters to the Committee, as is necessary.

Compliance with Laws and Regulations

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) on any fraudulent acts or accounting irregularities;
- Periodically obtain updates from management, general counsel, and tax advisors regarding compliance;
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements; and
- Review the findings of any examinations by regulatory agencies such as the Securities and Exchange Commission.

Compliance with Ethical Conduct

- Evaluate whether management is setting the appropriate tone at the top by communicating the importance of ethical conduct to the organization; and
- Periodically obtain updates from management regarding compliance.

External Audit

- Be directly responsible for the appointment, compensation, retention and oversight of the work of any public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, with the understanding that each public accounting firm must report directly to the Committee;
- Understand the independent auditors' proposed audit scope and approach;
- Review the performance of the independent auditors; and
- Review and confirm the independence of the independent auditors by reviewing the non-audit services provided and the auditors' assertion of their independence in accordance with professional standards.

Non-Audit Services

- The Chairperson for the Committee can authorize Management in advance to secure non-audit services costing up to \$25,000 provided the Committee is informed on a timely basis of such commitment.
- The Committee must pre-approve each non-audit service that is expected to cost in excess of \$25,000.

Other Responsibilities

- Meet with the independent auditors, and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately;
- Ensure that significant findings and recommendations made by the independent auditors are received and discussed on a timely basis;
- Review, with the Company's counsel, any legal matters that could have a significant impact on the Company's financial statements;
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist;
- Authorize, when deemed necessary to carry out the duty of the Committee, the engagement of independent counsel and other advisors.
- Ensure that appropriate funding is made available for payment of (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report, or performing other audit, review or attest services for the Company, (ii) compensation to any advisors employed by the Committee, and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
- Perform other oversight functions as requested by the full Board; and
- Review, reassess the adequacy of, and update the charter on an annual basis; receive approval of changes from the Board.

Reporting Responsibilities

Regularly update the Board about Committee activities and make appropriate recommendations.