

PERFORMANCE TECHNOLOGIES INC \DE\  
Form 10-Q  
August 09, 2002

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
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FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the Quarter Ended June 30, 2002  
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.)

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

-----  
Registrant's telephone number, including area code: (585) 256-0200  
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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 12,280,853 as of July 31, 2002.  
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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2002	December 31, 2001
	----- (unaudited)	-----
Current assets:		
Cash and cash equivalents	\$26,479,000	\$26,913,000
Marketable securities	2,016,000	

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Accounts receivable, net	5,470,000	6,905,000
Inventories, net	4,180,000	3,756,000
Prepaid expenses and other	258,000	359,000
Deferred taxes	620,000	608,000
	-----	-----
Total current assets	39,023,000	38,541,000
Property, equipment and improvements, net	2,582,000	2,465,000
Software development costs, net	2,214,000	1,948,000
	-----	-----
Total assets	\$43,819,000	\$42,954,000
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 778,000	\$ 417,000
Income taxes payable	571,000	350,000
Accrued expenses	2,199,000	3,046,000
	-----	-----
Total current liabilities	3,548,000	3,813,000
Deferred taxes	886,000	799,000
	-----	-----
Total liabilities	4,434,000	4,612,000
	-----	-----
Stockholders' equity:		
Preferred stock - \$.01 par value; 1,000,000 shares authorized; none issued		
Common stock - \$.01 par value; 50,000,000 shares authorized; 13,260,038 shares issued	133,000	133,000
Additional paid-in capital	10,934,000	11,305,000
Retained earnings	41,039,000	40,239,000
Treasury stock - at cost; 979,185 and 1,024,547 shares held at June 30, 2002 and December 31, 2001, respectively	(12,663,000)	(13,284,000)
Accumulated other comprehensive loss	(58,000)	(51,000)
	-----	-----
Total stockholders' equity	39,385,000	38,342,000
	-----	-----
Total liabilities and stockholders' equity	\$43,819,000	\$42,954,000
	=====	=====

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

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

	Three Months Ended June 30,		Six M
	2002	2001	2002
Sales	\$6,619,000	\$9,444,000	\$13,026,000
Cost of goods sold	2,676,000	3,611,000	5,328,000
Gross profit	3,943,000	5,833,000	7,698,000
Operating expenses:			
Selling and marketing	1,210,000	1,388,000	2,273,000
Research and development	1,683,000	1,975,000	3,181,000
General and administrative	582,000	832,000	1,159,000
Restructuring charge			163,000
Total operating expenses	3,475,000	4,195,000	6,776,000
Income from operations	468,000	1,638,000	922,000
Other income, net	121,000	241,000	237,000
Income before income taxes	589,000	1,879,000	1,159,000
Provision for income taxes	182,000	620,000	359,000
Net income	\$ 407,000	\$1,259,000	\$ 800,000
Basic earnings per share	\$ .03	\$ .10	\$ .07
Diluted earnings per share	\$ .03	\$ .10	\$ .06
Weighted average number of common shares used in basic earnings per share	12,260,554	12,196,674	12,249,325
Common equivalent shares	124,782	453,630	219,162
Weighted average number of common shares used in diluted earnings per share	12,385,336	12,650,304	12,468,487

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

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

	Six Months Ended June 30,	
	2002	2001
	-----	-----
Cash flows from operating activities:		
Net income	\$ 800,000	\$ 2,411,000
Non-cash adjustments:		
Depreciation and amortization	861,000	804,000
Other	246,000	265,000
Changes in operating assets and liabilities:		
Accounts receivable	1,261,000	(92,000)
Inventories	(424,000)	1,264,000
Prepaid expenses and other	101,000	124,000
Accounts payable and accrued expenses	(486,000)	(1,100,000)
Income taxes payable	221,000	(219,000)
	-----	-----
Net cash provided by operating activities	2,580,000	3,457,000
	-----	-----
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(615,000)	(712,000)
Capitalized software development costs	(633,000)	(832,000)
Purchase of marketable securities	(2,016,000)	(5,000)
Maturities of marketable securities		10,000,000
	-----	-----
Net cash (used) provided by investing activities	(3,264,000)	8,451,000
	-----	-----
Cash flows from financing activities:		
Exercise of stock options and warrants	250,000	318,000
Purchase of treasury stock		(6,821,000)
	-----	-----
Net cash provided (used) by financing activities	250,000	(6,503,000)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(434,000)	5,405,000
Cash and cash equivalents at beginning of period	26,913,000	17,187,000
	-----	-----

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Cash and cash equivalents at end of period	\$26,479,000	\$22,592,000
	=====	=====

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

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE SIX MONTHS ENDED JUNE 30, 2002  
 (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, 2001, as reported in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Note - B During the six months ended June 30, 2002, 45,362 common shares were issued upon the exercise of stock options.

Note - C Inventories consisted of the following at June 30, 2002 and December 31, 2001:

	June 30, 2002	December 31, 2001
	-----	-----
Purchased parts and components	\$1,394,000	\$1,329,000
Work in process	3,038,000	2,778,000
Finished goods	652,000	468,000
	-----	-----
	5,084,000	4,575,000
Less: reserve for inventory obsolescence	(904,000)	(819,000)
	-----	-----
Net	\$4,180,000	\$3,756,000
	=====	=====

Note - D On January 15, 2002, the Company announced plans to improve its cost structure primarily through reductions in the Company's staff. This plan has been completed and resulted in a reduction in workforce of approximately 10%. During the first quarter of 2002, the Company recorded a restructuring charge, primarily related to severance costs, of \$163,000.

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## 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, 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 of operations could differ materially from those discussed in the forward-looking statements.

#### Overview

**Business Strategy:** Performance Technologies, Incorporated (the "Company") is a global supplier of innovative embedded hardware and software systems products for a broad range of communications infrastructure including traditional data communications and wireline/wireless telecommunication systems. The Company's products fall into three distinct areas: SS7 signaling, IP Ethernet switch and network access. The Company's development efforts are directed at future growth opportunities that utilize the evolving IP (Internet Protocol) standards for communications and networking equipment. IP based communications and systems products are generally viewed in the industry as the foundation for next-generation telecommunications systems and services, as well as embedded systems for video, data communications and mass storage applications. Customers who use the Company's products and technologies include: telecommunications equipment manufacturers (TEMs), communications service providers/operators, international mobile/cellular wireless operators and embedded systems platform suppliers/integrators. The Company's products are based on open-architectures and are focused on high availability requirements.

**Financial Information:** Revenue in the second quarter 2002 was \$6.6 million, compared to \$9.4 million in the corresponding quarter a year earlier. Net income for the second quarter 2002 amounted to \$.4 million, or \$.03 per share, compared to \$1.3 million, or \$.10 per share for the second quarter 2001, based on 12.4 million and 12.7 million shares outstanding, respectively.

Revenue for the six months ended June 30, 2002 was \$13.0 million, compared to \$19.1 million in the corresponding period a year earlier. Net income for the first six months of 2002 amounted to \$.8 million, or \$.06 per share including expenses associated with a restructuring charge recorded in the first quarter amounting to \$.2 million (pre-tax), or \$.01 per share. Excluding the restructuring charge, net income for the six months amounted to \$.9 million, or \$.07 per share on 12.5 million shares outstanding. Net income amounted to \$2.4 million, or \$.19 per share for the comparable period in 2001, based on 12.8 million shares outstanding.

Cash, cash equivalents and marketable securities amounted to \$28.5 million at June 30, 2002, compared to \$26.9 million at the end of 2001 and no long-term debt existed at either date. For the first six months of 2002, the Company generated income from operations, excluding interest, taxes, depreciation and amortization (EBITDA), of \$1.8 million, compared to \$3.8 million for the same period in 2001.

During January 2002, the Company improved its cost structure by reducing annualized expenses by approximately \$1.6 million due to the uncertainty of the economic conditions and lack of visibility for orders from its customers. These

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reductions were primarily personnel related and were initiated throughout the organization.

During April 2002, the Company's Rochester operations completed a smooth transition to a new, larger facility and new manufacturing equipment became operational to accommodate several new products that require leading-edge manufacturing processes. The incremental expense for the new facility is expected to be approximately \$.1 million per quarter.

Following increased order momentum for the Company's products in general during the first quarter 2002, the Company experienced continuing momentum during the second quarter for its IPnexus<sup>TM</sup> switch products, which address broader markets than just telecommunications, but the order momentum for its other products was not sustained. The largest single customer during the second quarter represented 10% of revenue and the largest four customers represented 33% of the Company's revenue. Two of these four customers sell into non-telecommunications markets.

During the second quarter, the Company continued to focus on realizing "design wins" with its customers and prospective customers. 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. During the second quarter 2002, the Company realized five new "design wins" for its products, following seven new "design wins" in the first quarter 2002 and thirty-five new "design wins" during 2001. Recently announced design wins include Siemens Carrier Networks LLC for an IPnexus network access product and NexusWare<sup>TM</sup> software for use in their softswitch platform; Optibase for an IPnexus embedded Ethernet switch for use in its video streaming platform; net.com for using an IPnexus network access product in its telephony platform; and Northrop Grumman Information Technology for a network access product for use within the National Weather Service's Advanced Weather Interactive Processing System. Management believes that as economic conditions improve, a greater number of customers will begin to move their new products into production thereby accelerating the pace of orders for the Company's products.

SEGway<sup>TM</sup> SS7 link replacement products offer wireless and wireline carriers the ability to reduce operating costs, enhance services and expand their networks by utilizing lower cost IP networks for signaling. The SEGway Edge, introduced fifteen months ago, was the first product in this family. General release and initial shipments of the SEGway Link Concentrator began during the second quarter of 2002. In May, the Company announced the SEGway IP-STP, the third product in this family. This new product is a modular SS7 signaling router that enables carriers to reliably perform traditional STP functions over IP networks. This product is being deployed by one European customer and is generating interest from a number of prospective customers.

On August 5, 2002, the Company announced that its Board of Directors had authorized the Company to repurchase up to an additional one million shares of its common stock. Under this new program, shares may be repurchased through open market purchases over the next twelve months and may be used for the Company's stock option plan, ongoing acquisition initiatives and general corporate purposes.

The Company also disclosed that it is currently negotiating an acquisition that would expand its line of embedded system level products. The terms of the acquisition are being negotiated and the Company is still engaged in its due diligence review.

The Company further disclosed that it is completing details of a minority investment in an organization that provides custom embedded processor technology. The investment includes an option to purchase the organization within 24 months based on a performance related valuation model.



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The two initiatives noted above, if successful, represent a total cost of less than \$10 million dollars to the Company.

FAS 144 - In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets to be held and used, to be disposed of other than by sale, and to be disposed of by sale. On January 1, 2002 the Company adopted SFAS No. 144. Adoption of this statement did not have an impact on the results of operations or the financial position of the Company.

FAS 145 - In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002." SFAS No. 145 rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishments of Debt, and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This Statement also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement also amends FASB Statement No. 13, Accounting for Leases, as it relates to sale-leaseback transactions. This Statement also amends certain other existing authoritative pronouncements. On May 15, 2002 the Company adopted SFAS No. 145. Adoption of this statement did not have an impact on the results of operations or the financial position of the Company.

Forward Looking Guidance for the Third Quarter 2002 (published July 24, 2002):

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 provides products to communications and network equipment suppliers that are integrated into current and next-generation network infrastructure products. Design wins are an important metric for management to judge the Company's success in its marketplace. Design wins reach production volumes at varying rates, typically beginning twelve to eighteen months after the design win occurs. 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. Not all design wins can be expected to result in production orders. Furthermore, when economic conditions deteriorate, customers' visibility also deteriorates, causing delays in the placement of orders. These factors often result in a substantial portion of the Company's revenue being derived from orders placed within the quarter and often shipped in the final month of the quarter.

Performance Technologies continued to experience the effects of the difficult economic conditions and slowdown of capital spending in the communications market during the second quarter 2002. New project deployments and design activity were sluggish and a number of customers requested cancellations or delays in shipments.

Based upon the current distribution of business, the current backlog, review of sales forecasts, possible postponement of product deliveries to a particular customer, and the general softness of European business during the summer months, management expects revenue in the third quarter 2002 to be \$6.0 million to \$7.5 million. Gross margin is expected to be approximately 57% to 62% and diluted earnings per share for the third quarter is expected to be \$.02 to \$.06.

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 Six Months Ended June 30, 2002, Compared with  
the Quarter and Six Months Ended June 30, 2001

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 June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	40.4	38.2	40.9	38.8
Gross profit	59.6	61.8	59.1	61.2
Operating expenses:				
Selling and marketing	18.3	14.7	17.4	15.1
Research and development	25.4	20.9	24.4	22.2
General and administrative	8.8	8.8	8.9	8.2
Restructuring charge			1.3	
Total operating expenses	52.5	44.4	52.0	45.5
Income from operations	7.1	17.4	7.1	15.7
Other income, net	1.8	2.5	1.8	3.1
Income before income taxes	8.9	19.9	8.9	18.8
Provision for income taxes	(2.8)	(6.6)	(2.8)	(6.2)
Net income	6.1	13.3	6.1	12.6

Sales. Total revenue for the second quarter 2002 was \$6.6 million, compared to \$9.4 million for the same quarter in 2001. Revenue for the first six months of 2002 was \$13.0 million, compared to \$19.1 million for the same period in 2001. For the periods indicated, the Company's products are grouped into three distinct categories in one market segment: Signaling and network access products, IP Switching products and Other products. Revenue from each product category is expressed as a percentage of sales for the three and six months ending June 30, 2002 and 2001:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Signaling and network access products	89%	87%	88%	
IP Switching products	10%	5%	9%	
Other	1%	8%	3%	

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Total	----- 100% =====	----- 100% =====	----- 100% =====
-------	------------------------	------------------------	------------------------

Signaling and Network Access Products: During the past twelve months, the decline in capital expenditure investments by carriers has significantly reduced the Company's signaling and network access products revenue.

IP Switching Products: The Company's IPnexus switch product family has been designed for the embedded systems market and is based on the PICMG 2.16 systems architecture, which was ratified in September 2001. While still a modest percentage of the Company's revenue, IP switch product revenue increased by 34% to \$.6 million in the second quarter 2002, compared to the respective quarter in 2001. During the second quarter, the Company began shipping the production version of the CPC5400, an 8-port gigabit switch and pre-production units of the CPC6400, a 24 port gigabit switch. The Company also realized its first design win for the CPC5400 during the second quarter 2002.

Other product revenue: This revenue is related to legacy products. Customer demand for these products has declined significantly over the past twelve months as customers move to newer technology. Many of these products are project oriented and shipments can fluctuate on a quarterly basis.

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. Gross margin was 59.6% of sales for the second quarter 2002, compared to 61.8% in the second quarter of 2001. Fixed expenses spread over lower sales volumes impacted gross margin as a percentage of sales during the second quarter 2002.

Selling and marketing expenses were \$1.2 million and \$1.4 million for the second quarter 2002 and 2001, respectively. For the six months, selling and marketing expenses were \$2.3 million and \$2.9 million in 2002 and 2001, respectively. The decrease in expense during 2002 is primarily the result of lower personnel and commission expenses, and reductions in advertising, travel and trade show participation. During the second quarter 2002, the Company increased its allowance for doubtful accounts by \$.1 million to reserve a specific customer receivable.

Research and development expenses were \$1.7 million and \$2.0 million for the second quarter 2002 and 2001, respectively. During the second quarter 2002, the Company continued to focus engineering development efforts on new products for IP networks and signaling applications. New products introduced during the quarter include the SEGway IP-STP and the IPnexus Signaling Blade. For the six months, research and development expenses were \$3.2 million and \$4.3 million in 2002 and 2001, respectively. The reduction in expense is primarily attributable to lower headcount. In addition, the Company capitalizes certain software development costs which reduce the amount of software development charged to operating expense. During the second quarter, amounts capitalized were \$.3 million and \$.5 million for 2002 and 2001, respectively. During the six months, amounts capitalized were \$.6 million and \$.8 million for 2002 and 2001, respectively.

General and administrative expenses were \$.6 million and \$.8 million for the second quarter 2002 and 2001, respectively. For the first six months, general and administrative expenses were \$1.2 million and \$1.6 million in 2002 and 2001, respectively. This decrease in expense is the result of tightened control over general and administrative expenses and lower personnel related expenses.

Restructuring charges were \$.2 million and zero for the first six months of 2002

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and 2001, respectively. In January 2002, the Company improved its cost structure primarily through the reduction of the Company's staff resulting in a decrease in its workforce of approximately 10%.

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. Over the past twelve months, interest rates have declined and investment balances have increased.

Income taxes. The provision for income taxes for the second quarter and first six months of 2002 is based on the combined federal, state and foreign effective tax rate of 31%, compared to 33% for the comparable periods in 2001. Canadian tax incentives contributed to a lower effective tax rate in 2002.

### LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2002, the Company's primary source of liquidity included cash and cash equivalents of \$26.5 million, marketable securities of \$2.0 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 June 30, 2002. The Company had working capital of \$35.5 million at June 30, 2002, compared to \$34.7 million at December 31, 2001.

Cash provided by operating activities for the first six months of 2002 was \$2.6 million, compared to \$3.5 million for the same period in 2001.

Capital equipment purchases amounted to \$.6 million for the first six months of 2002, compared to \$.7 million for the same period in 2001. Capitalization of certain software development costs amounted to \$.6 million for the first six months of 2002, compared to \$.8 million for the same period in 2001.

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 a one-year plan to repurchase up to an additional 500,000 shares of the Company's Common Stock under which the Company repurchased 206,000 shares. Based on deteriorating economic conditions and an effort to preserve cash, the Company did not repurchase any shares during the first six months of 2002, compared to 541,000 shares repurchased at a total cost of \$6.8 million during the first six months of 2001. In August 2002, the Board of Directors authorized a plan to repurchase up to 1 million shares of the Company's Common Stock.

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

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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.

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, 2001 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

No material changes have transpired since the Company's last filing relative to the class action lawsuits filed on May 19, 2000.

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

The 2002 Annual Meeting of Stockholders was held June 4, 2002. The Directors elected at the meeting were as follows:

Nominees	Votes Cast	
	For	Withheld
Bernard Kozel	11,089,508	110,184
Charles E. Maginness	11,089,508	110,184
Arlen Vanderwel	11,089,508	110,184



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Form of Certification Pursuant to Section 1350 of Chapter 63  
Of Title 18 of the United States Code

I, Donald L. Turrell, the Chief Executive Officer of Performance Technologies, Incorporated, certify that (i) the Form 10-Q for the quarter ended June 2002 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 the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Performance Technologies, Incorporated.

By:s/s Donald L. Turrell  
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Donald L. Turrell  
Chief Executive Officer

August 8, 2002

Exhibit 99.2

Form of Certification Pursuant to Section 1350 of Chapter 63  
Of Title 18 of the United States Code

I, Dorrance W. Lamb, the Chief Financial Officer of Performance Technologies, Incorporated, certify that (i) the Form 10-Q for the quarter ended June 2002 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 the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Performance Technologies, Incorporated.

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

August 8, 2002