UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 March 31, 2008
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)	**(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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company: Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Small reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [ ]

The number of shares outstanding of the registrant's common stock was 11,821,287 as of April 30, 2008.

PERFORMANCE TECHNOLOGIES, INCORPORATED AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

ASSETS

	March 31, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 33,450,000	$ 15,592,000
Investments		14,150,000
Accounts receivable, net	7,386,000	7,933,000
Inventories	4,046,000	4,783,000
Prepaid income taxes	95,000	713,000
Prepaid expenses and other assets	730,000	916,000
Deferred taxes	2,011,000	2,037,000
Total current assets	47,718,000	46,124,000
Investment	2,251,000	2,500,000
Property, equipment and improvements, net	2,165,000	2,260,000
Software development costs, net	3,483,000	3,297,000
Deferred taxes	1,121,000	1,196,000
Goodwill	4,143,000	4,143,000
Total assets	$ 60,881,000	$ 59,520,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,354,000	$ 1,392,000
Accrued expenses	4,935,000	4,425,000
Total current liabilities	6,289,000	5,817,000
Income taxes payable	803,000	807,000
Total liabilities	7,092,000	6,624,000
Stockholders' equity:		
Preferred stock - $.01 par value; 1,000,000 shares authorized; none issued		
Common stock - $.01 par value; 50,000,000 shares authorized; 13,304,596 shares issued; 11,747,094 and 11,684,816 shares outstanding	133,000	133,000
Additional paid-in capital	15,677,000	15,483,000
Retained earnings	45,742,000	45,231,000
Accumulated other comprehensive loss	(127,000)	
Treasury stock - at cost; 1,557,502 and 1,619,780 shares held at March 31, 2008 and December 31, 2007	(7,636,000)	(7,951,000)
Total stockholders' equity	53,789,000	52,896,000
Total liabilities and stockholders' equity	$ 60,881,000	$ 59,520,000

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 March 31, 2008	Three Months Ended March 31, 2007
Sales	$ 10,981,000	$ 9,356,000
Cost of goods sold	4,845,000	4,701,000
Gross profit	6,136,000	4,655,000
Operating expenses:		
Selling and marketing	2,104,000	1,603,000
Research and development	2,412,000	2,910,000
General and administrative	1,182,000	1,320,000
Total operating expenses	5,698,000	5,833,000
Income (loss) from operations	438,000	(1,178,000)
Other income, net	389,000	433,000
Income (loss) before income taxes	827,000	(745,000)
Income tax provision (benefit)	236,000	(127,000)
Net income (loss)	$ 591,000	$ (618,000)
Basic earnings (loss) per share	$ 0.05	$ (0.05)
Diluted earnings per share	$ 0.05	
Weighted average number of common shares used in basic earnings per share	11,695,348	13,210,040
Potential common shares	33,609	
Weighted average number of common shares used in diluted earnings per share	11,728,957	

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

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

	Three Months Ended March 31, 2008	2007
Cash flows from operating activities:		
Net income (loss)	$ 591,000	$ (618,000)
Non-cash adjustments:		
Depreciation and amortization	514,000	563,000
Tax benefit from stock option exercises	27,000	15,000
Stock-based compensation expense	167,000	159,000
Deferred income taxes	173,000	64,000
Gain on disposal of fixed assets	(17,000)	
Changes in operating assets and liabilities:		
Accounts receivable	547,000	2,730,000
Inventories	737,000	958,000
Prepaid expenses and other assets	186,000	215,000
Accounts payable and accrued expenses	472,000	28,000
Prepaid income taxes and income taxes payable	614,000	(231,000)
Net cash provided by operating activities	4,011,000	3,883,000
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(94,000)	(100,000)
Capitalized software development costs	(511,000)	(528,000)
Proceeds from disposal of fixed assets	17,000	
Purchases of investments	(4,000,000)	(41,000,000)
Proceeds from sales of investments	18,200,000	41,325,000
Net cash provided (used) by investing activities	13,612,000	(303,000)
Cash flows from financing activities:		
Purchases of treasury stock	(37,000)	(1,517,000)
Tax windfall benefit from stock option exercises		4,000
Exercise of stock options	272,000	111,000
Net cash provided (used) by financing activities	235,000	(1,402,000)
Net increase in cash and cash equivalents	17,858,000	2,178,000
Cash and cash equivalents at beginning of period	15,592,000	10,518,000
Cash and cash equivalents at end of period	$ 33,450,000	$ 12,696,000

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

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

Note A Basis of Presentation

The unaudited Consolidated Financial Statements of Performance Technologies, Incorporated and Subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results for the interim periods are not necessarily indicative of the results to be expected for the year. The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company as of December 31, 2007, as reported in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Note B Stock-Based Compensation

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

The Company recognizes compensation expense in the financial statements for stock option awards based on the grant-date fair value of those awards, estimated using the Black-Scholes-Merton option pricing model. The table below summarizes the impact of outstanding stock options on the results of operations for the three month periods ended March 31, 2008 and 2007, respectively, under the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment :

	Three Months Ended March 31,	
	2008	**2007**
Stock-based compensation expense:		
Stock options	$ 167,000	$ 159,000
Income tax benefit	(53,000)	(60,000)
Net decrease in net income	$ 114,000	$ 99,000
Decrease in earnings per share:		
Basic	$ 0.01	$ 0.01
Diluted	$ 0.01	

The following table summarizes stock option activity for the first quarter 2008:

	Number of shares	**Average Exercise Price**
Outstanding at January 1, 2008	1,699,723	$ 7.54
Granted	0	-
Exercised	(70,034)	3.85
Expired	(206,826)	8.49
Outstanding at March 31, 2008	1,422,863	7.58
Exercisable at March 31, 2008	701,630	$ 10.02

The weighted average fair value of option grants was estimated using the Black-Scholes-Merton option pricing method. At March 31, 2008, the Company had approximately $1,107,000 of unrecognized stock compensation expense which will be recognized over a weighted average period of approximately 2.2 years.

Note C Earnings Per Share

Basic earnings per share is computed by dividing net income or loss by the weighted average number of common shares outstanding for the period. Diluted earnings per share calculations reflect the assumed exercise and conversion of dilutive stock options, using the treasury stock method. Due to the net loss incurred in the first quarter 2007, there were no dilutive options considered for that quarter. The diluted earnings per share calculation excludes the effect of approximately 1,293,000 options for the three months ended March 31, 2008, since such options had an exercise price in excess of the average market price of the Company s common stock for the period.

Note D Inventories, net

Inventories consisted of the following:

	March 31, 2008	December 31, 2007
Purchased parts and components	$ 2,323,000	$ 2,620,000
Work in process	1,355,000	1,674,000
Finished goods	368,000	489,000
Net	$ 4,046,000	$ 4,783,000

Note E Software Development Costs

Software development costs consisted of the following:

	March 31, 2008	December 31, 2007
Capitalized software development costs	$ 13,974,000	$ 13,463,000
Less: accumulated amortization	(10,491,000)	(10,166,000)
Net	$ 3,483,000	$ 3,297,000

Amortization of software development costs included in cost of goods sold was $325,000 and $385,000 in the first quarter 2008 and 2007, respectively.

Note F Investments

At March 31, 2008, the Company held one auction rate municipal security with an original cost of $2,450,000, after having received a partial redemption of $50,000 at par in the first quarter 2008. This security was involved in a successful auction in January 2008, but the February, March and April auctions have failed. As such, the Company has not been able to sell this security and the Company believes its ability to liquidate this security without loss in the near term is limited. This security, originally acquired in December 2007, has a maturity date of May 2040, carries MBIA bond credit insurance, and is secured by student loans, which are partially guaranteed by the Federal Family Educational Loan Program of the United States Department of Education (FFELP). This security carries a AAA rating from two rating agencies and a AA rating from a third. The Company continues to earn interest on this investment at a rate, which at the time the auction failed, was increased to the contract maximum rate of 14% through May 31, 2008, at which time the contract rate will adjust to the default rate equal to 175% of the J.J. Kenny Intermediate Index.

Because of the uncertainty of when the Company will be able to liquidate this investment, the Company believes that the fair value of this investment is likely less than its par value at March 31, 2008 due to its illiquidity. The Company has estimated the fair value of this security to be $2,251,000 at March 31, 2008. The estimated unrealized loss on this investment amounts to $199,000 and has been classified as a temporary impairment, as the Company has the ability and intent to hold the security until such time as it can be sold in an orderly manner without loss. As such, the unrealized loss has been recorded as a charge to accumulated other comprehensive loss on the March 31, 2008 balance sheet. The investment has been classified as a non-current asset at both March 31, 2008 and December 31, 2007.

At December 31, 2007, investments generally consisted only of high-grade, AAA-rated auction rate municipal securities which the Company classified as available-for-sale. The Company successfully sold all but one of its auction rate municipal securities at par during the first quarter 2008.

In estimating the fair value of this investment, the Company has adopted the provisions of SFAS No. 157, Fair Value Measurements effective as of January 1, 2008 for its financial assets. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements.

SFAS No. 157 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability. Such inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are unobservable inputs for the asset or liability. Such inputs are used to measure fair value when observable inputs are not available.

The Company s investment has been valued using Level 3 inputs. In order to estimate the fair value of the investment, the Company has employed a discounted future cash flows model, using the following estimated assumptions: the receipt of interest only over an assumed liquidity horizon of five years, calculated at the default rate (assuming such rate stays constant over the term); a sale of the investment at par after five years; and a discount rate of 11% on a pre-tax basis, which represents approximately a 4% illiquidity premium. The discounted cash flows model results in an estimated fair value impairment of approximately 8% below par.

The following table presents a reconciliation of beginning and ending balances of non-current investments valued using Level 3 inputs:

Beginning, January 1, 2008	$2,500,000
Partial redemption at par	(50,000)
Unrealized gains or losses -	
included in other comprehensive income	(199,000)
Transfers in/out of Level 3	-
Balance, March 31, 2008	$2,251,000

All income generated from the Company s investments is recorded in other income, net.

In February 2008, the Financial Accounting Standards Board (FASB) issued Staff Position 157-2 which delayed the effective date for implementation of SFAS No. 157 for one year for any non-financial assets and liabilities which must be recorded at fair value or for which fair value disclosures apply. The Company will fully adopt SFAS No. 157 effective as of January 1, 2009.

Note G **Comprehensive Income**

The components of comprehensive income (loss) for the three months ended March 31, 2008 and 2007, respectively, are as follows:

	Three Months Ended March 31,	
	2008	**2007**
Net income (loss)	$ 591,000	$ (618,000)
Increase in unrealized loss on		
investment, net of tax	(127,000)	-
Comprehensive income (loss)	$ 464,000	$ (618,000)

Note H **Warranty Obligations**

Warranty obligations are incurred in connection with the sale of certain products. The warranty period for the Company s products is generally one year from date of sale. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. Future warranty costs are estimated based on product-based historical performance rates and related costs to repair. Changes in accrued warranty obligations for the three months ended March 31, 2008 and 2007 were as follows:

	Three Months Ended March 31,	
	2008	**2007**
Accrued warranty obligations, January 1	$ 215,000	$ 309,000
Actual warranty experience	(23,000)	(21,000)
Warranty provisions	23,000	(76,000)
Accrued warranty obligations, March 31	$ 215,000	$ 212,000

Note I **Stock Repurchase Program**

On July 11, 2005, the Board of Directors authorized the Company to repurchase shares of its Common Stock for an aggregate amount not to exceed $10,000,000. Under this program, shares of the Company's Common Stock may be repurchased through open market or private transactions, including block purchases. This program has been extended through July 2008. Repurchased shares can be used for the Company's stock option plans, potential acquisition initiatives and general corporate purposes. Under this program, the Company repurchased 7,756 shares during the first quarter 2008 for an aggregate purchase price of $37,000. For the program-to-date through March 31, 2008, the Company has repurchased 1,640,356 shares for an aggregate purchase price of $8,053,000.

Note J **Income Taxes**

The Company s effective income tax rate is a combination of federal, state and foreign tax rates and is generally lower than statutory rates because it includes benefits derived from international operations, and significant permanent tax differences including research activities and tax-exempt interest. The Company s estimated effective annual tax rate was 29% for the three months ended March 31, 2008, and the tax provision for this period does not include any material discrete items. The estimated effective annual tax rate used for the three months ended March 31, 2007 was 18% and did not include any material discrete items. The change in the 2008 rate over 2007 is due to lower tax-exempt interest and the non-inclusion in 2008 of the United States research and development tax credit, for which Congress has not yet enacted legislation to renew.

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The Company had unrecognized tax benefits of $803,000 and $807,000 at March 31, 2008 and December 31, 2007, respectively. Included in the balance of unrecognized tax benefits as of March 31, 2008 and December 31, 2007 are accrued interest and penalties in the amount of $139,000 and $146,000, respectively.

The Company files U.S. federal, U.S. state, and foreign tax returns. For federal tax returns, the Company is generally no longer subject to tax examinations for years prior to 2004. For state and foreign tax returns, the Company is no longer subject to tax examinations for years prior to 2003. Based upon the closing of the tax years in these various jurisdictions, the Company may adjust its liability for unrecognized tax benefits.

Note K **Recent Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115. This statement permits companies to elect to measure certain financial instruments at fair value on an instrument-by-instrument basis, with changes in fair value recognized in earnings each reporting period. In addition, SFAS No. 159 establishes financial statement presentation and disclosure requirements for assets and liabilities reported at fair value under the election. Although the Company adopted SFAS No. 159 in the first quarter 2008, it has not elected to measure financial instruments at fair value other than as required by other accounting standards.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, a revision to SFAS No. 141, Business Combinations. SFAS No. 141R provides revised guidance for recognition and measurement of identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree at fair value. The Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of a business combination. SFAS No. 141R is required to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (January 1, 2009 for the Company). The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. This Statement establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent. Specifically, SFAS No. 160 requires the presentation of noncontrolling interests as equity in the Consolidated Balance Sheets, and separate identification and presentation in the Consolidated Statements of Income of net income attributable to the entity and the noncontrolling interest. It also establishes accounting and reporting standards regarding deconsolidation and changes in a parent s ownership interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for the Company). The provisions of SFAS No. 160 are generally required to be applied prospectively, except for the presentation and disclosure requirements, which must be applied retrospectively. The Company does not expect the adoption of SFAS No. 160 to have a material effect on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends and expands the disclosure requirements of Statement 133 to provide a better understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and their effect on an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. As the Company does not use derivative instruments, it is not expected that this statement will have a material effect on our financial position or results of operations.

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

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

Critical Accounting Estimates and Assumptions

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

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

- Revenue Recognition
- Software Development Costs
- Valuation of Inventories
- Income Taxes
- Product Warranty
- Carrying Value of Goodwill
- Stock-Based Compensation
- Restructuring Costs
- Valuation of Investments

Revenue Recognition: Revenue is recognized from product sales in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition. Product sales represent the majority of our revenue and include both hardware products and hardware products with embedded software. Revenue is recognized from these product sales when persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, the sale price is fixed or determinable, and collectibility is reasonably assured. Additionally, products are sold on terms which transfer title and risk of loss at a specified location, typically the shipping point. Accordingly, revenue recognition from product sales occurs when all factors are met, including transfer of title and risk of loss, which typically occurs upon shipment. If these condi