

PIONEER POWER SOLUTIONS, INC.

Form 10-Q

November 12, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended: September 30, 2013**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**Commission file number: 333-155375**

**PIONEER POWER SOLUTIONS, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**                      **27-1347616**  
(State of incorporation) (I.R.S. Employer Identification No.)

**400 Kelby Street, 9th Floor**

**Fort Lee, New Jersey 07024**

(Address of principal executive offices)

**(212) 867-0700**

(Registrant's telephone number, including area code)

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 R No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer "	Accelerated filer "
Non-accelerated filer "	Smaller reporting company R

(Do not check if a smaller 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 R

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

<b>Class</b>	<b>Outstanding at November 11, 2013</b>
Common Stock, \$0.001 par value	7,172,255

**PIONEER POWER SOLUTIONS, INC.**

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****PIONEER POWER SOLUTIONS, INC.****Consolidated Statements of Earnings****(In thousands, except per share data)****(Unaudited)**

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
Revenues	\$22,447	\$19,226	\$66,993	\$61,362
Cost of goods sold	16,548	15,008	50,434	47,791
Gross profit	5,899	4,218	16,559	13,571
Operating expenses				
Selling, general and administrative	3,610	3,216	10,662	9,767
Foreign exchange (gain) loss	(4 )	(160 )	43	(245 )
Total operating expenses	3,606	3,056	10,705	9,522
Operating income	2,293	1,162	5,854	4,049
Interest expense	226	256	594	699
Other expense	236	39	403	69
Earnings from continuing operations before income taxes	1,831	867	4,857	3,281
Provision for income taxes	822	640	1,674	1,337
Earnings from continuing operations	1,009	227	3,183	1,944
Loss from discontinued operations, net of income taxes	-	-	-	(161 )
Net earnings	\$1,009	\$227	\$3,183	\$1,783
Earnings from continuing operations per share:				
Basic	\$0.17	\$0.04	\$0.53	\$0.33
Diluted	\$0.17	\$0.04	\$0.53	\$0.33
Earnings per common share:				
Basic	\$0.17	\$0.04	\$0.53	\$0.30
Diluted	\$0.17	\$0.04	\$0.53	\$0.30

Weighted average common shares outstanding:

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Basic	6,051	5,907	5,956	5,907
Diluted	6,083	5,915	5,977	5,910

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

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**PIONEER POWER SOLUTIONS, INC.**

**Consolidated Statements of Comprehensive Income**

**(In thousands)**

**(Unaudited)**

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	2013	2012	2013	2012
Net earnings	\$1,009	\$227	\$3,183	\$1,783
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	249	151	(235 )	48
Amortization of net prior service costs and net actuarial losses	53	34	83	25
Other comprehensive income (loss)	302	185	(152 )	73
Comprehensive income	\$1,311	\$412	\$3,031	\$1,856

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

**PIONEER POWER SOLUTIONS, INC.****Consolidated Balance Sheets****(In thousands)**

	September 30, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 3,290	\$ 467
Accounts receivable	12,135	10,579
Inventories	13,436	14,912
Income taxes receivable	67	69
Deferred income taxes	792	563
Prepaid expenses and other current assets	1,170	885
Current assets of discontinued operations	-	47
Total current assets	30,890	27,522
Property, plant and equipment	12,639	10,937
Noncurrent deferred income taxes	577	700
Other assets	968	798
Intangible assets	5,071	5,329
Goodwill	8,409	6,892
Total assets	\$ 58,554	\$ 52,178
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Revolving credit facilities	\$ 2,077	\$ -
Accounts payable and accrued liabilities	12,403	12,044
Current maturities of long-term debt and capital lease obligations	2,327	7,335
Income taxes payable	1,105	1,135
Current liabilities of discontinued operations	-	125
Total current liabilities	17,912	20,639
Long-term debt and capital lease obligations, net of current maturities	8,090	9,795
Pension deficit	653	837
Noncurrent deferred income taxes	2,933	2,992
Total liabilities	29,588	34,263
Shareholders' Equity		
Preferred stock, par value \$0.001; 5,000,000 shares authorized; none issued	-	-
Common stock, par value \$0.001; 30,000,000 shares authorized; 7,172,255 and 5,907,255 shares and issued and outstanding	7	6
Additional paid-in capital	16,084	8,065
Accumulated other comprehensive loss	(1,088)	(936)
Retained earnings	13,963	10,780



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Total shareholders' equity	28,966	17,915
Total liabilities and shareholders' equity	\$ 58,554	\$ 52,178

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

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**PIONEER POWER SOLUTIONS, INC.****Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Nine Months Ended September 30,	
	2013	2012
Operating activities		
Net earnings	\$3,183	\$1,783
Depreciation	881	910
Amortization of intangibles	213	214
Deferred tax expense	(147 )	(147 )
Accrued pension	(157 )	(49 )
Stock-based compensation	152	202
Restructuring and asset impairment charges, discontinued operations	-	49
Changes in current operating assets and liabilities		
Accounts receivable, net	(1,743)	(3,420)
Inventories	1,361	(1,398)
Prepaid expenses and other assets	(422 )	(358 )
Income taxes	(34 )	518
Accounts payable and accrued liabilities	(71 )	(92 )
Discontinued operations assets and liabilities, net	-	82
Net cash provided by (used in) operating activities	3,216	(1,706)
Investing activities		
Additions to property, plant and equipment	(2,501)	(1,544)
Business acquisitions, net of cash acquired	(1,601)	-
Note receivable	-	(300 )
Net cash used in investing activities	(4,102)	(1,844)
Financing activities		
Increase (decrease) in bank overdrafts	(1 )	949
Increase (decrease) in revolving credit facilities	(3,044)	1,071
Increase in long-term debt	455	1,074
Repayment of long-term debt and capital lease obligations	(1,688)	(683 )
Net proceeds from issuance of common stock	7,869	-
Net cash provided by financing activities	3,591	2,411
Increase (decrease) in cash and cash equivalents	2,705	(1,139)
Effect of foreign exchange on cash and cash equivalents	118	(176 )

Cash and cash equivalents

Beginning of year	467	1,398
End of period	\$3,290	\$83

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

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## **1. Basis of Presentation**

These unaudited consolidated financial statements include the accounts of the Pioneer Power Solutions, Inc. (referred to herein as the “Company,” “Pioneer,” “we,” “our” and “us”) and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation, including amounts related to discontinued operations.

These unaudited consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), have been condensed or omitted pursuant to those rules and regulations. We believe that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows with respect to the interim consolidated financial statements have been included. The results of operations for the interim period are not necessarily indicative of the results for the entire fiscal year. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP for a year end balance sheet.

These unaudited consolidated financial statements should be read in conjunction with the risk factors, included in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto of the Company and its subsidiaries included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the SEC on April 1, 2013.

## **2. Summary of Significant Accounting Policies**

The Company’s significant accounting policies were described in Note 2 to the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. There have been no significant changes in the Company’s accounting policies during the third quarter of 2013.

## **Recent Accounting Pronouncements**

There have been no recent accounting pronouncements not yet adopted by the Company which would have a material impact on our financial statements.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This standard, which amends the guidance on testing indefinite-lived intangible assets, other than goodwill, for impairment, provides companies with the option to first perform a qualitative assessment before performing the two-step quantitative impairment test. If the company determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not to exceed its carrying amount, then the company would not need to perform the two-step quantitative impairment test. This standard does not revise the requirement to test indefinite-lived intangible assets annually for impairment. This standard became effective for the Company on January 1, 2013. The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued Update No. 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05". The amendments in this Update supersede changes to those paragraphs in Update 2011-05 that pertain to how, when, and where reclassification adjustments are presented. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB has issued Update No. 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income”. This Update has been issued to improve the transparency of reporting these reclassifications. The amendments in this Update supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 and 2011-12 for all public and private organizations. The amendments would require an entity to provide additional information about reclassifications out of accumulated other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual), effective for reporting periods beginning after December 15, 2012. The adoption of these amendments did not have a material impact on the Company’s consolidated financial statements.

In March 2013, the FASB issued Update No. 2013-05, “Foreign Currency Matters (Topic 830)—Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity”. The amendments in this Update resolve the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. For public entities, the amendments in this ASU are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. This pronouncement is not expected to have a material impact on the Company’s consolidated financial statements.

In July 2013, the FASB issued Update No. 2013-11, “Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists”. The amendments in this ASU provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Early adoption and retrospective application is permitted. This pronouncement is not expected to have a material impact on the Company’s consolidated financial statements.

### **3. Acquisitions**

On March 6, 2013, Pioneer Critical Power Inc., a wholly-owned subsidiary of the Company, acquired substantially all the assets and assumed certain trade liabilities comprising the business of Power Systems Solutions, Inc. The transaction was valued at approximately \$1.2 million and was accounted for under the purchase method of accounting. Power Systems Solutions, Inc. is a Minneapolis-based supplier of highly specified and engineered paralleling switchgear and generator controls used in on-site backup power and distributed generation applications.

On August 19, 2013, through its wholly-owned subsidiary Pioneer Custom Electrical Products Corp., or Pioneer CEP, the Company hired all the employees and acquired all the machinery and equipment, certain inventory assets and all of the intellectual property of Pico Electrical Equipment, Inc. and Pico Metal Products, Inc. The transaction was valued at approximately \$0.9 million, consisting of cash paid at closing, a non-interest bearing promissory note due to the sellers, and Pioneer CEP's obligations to make certain deferred payments for consulting fees and acquired inventory. The transaction was accounted for under the purchase method of accounting. Pioneer CEP is a manufacturer of electrical switchboards, panelboards and custom electrical enclosures operating from a 40,000 square foot facility in the Los Angeles metropolitan area.

The acquisitions resulted in the recognition of goodwill in the Company's consolidated financial statements because the purchase price exceeded the net tangible asset value and reflects the future earnings and cash flow potential of the acquired businesses. The Company made an initial allocation of the purchase price at the date of each acquisition, based upon its understanding of the fair value of the acquired assets and assumed liabilities. The Company obtained this information during due diligence and through other sources including asset appraisals. If additional information is obtained about these assets and liabilities within the measurement period (not to exceed one year from the dates of acquisition), including by learning more about the newly acquired businesses or revisions of preliminary estimates, the Company will then refine its estimate of fair value.

**4. Inventories**

The components of inventories are summarized below (in thousands):

	September 30, 2013	December 31, 2012
Raw materials	\$ 5,321	\$ 5,130
Work in process	3,403	4,360
Finished goods	5,025	5,779
Provision for excess and obsolete inventory	(313 )	(357 )
Total inventories	\$ 13,436	\$ 14,912

Included in raw materials and finished goods at September 30, 2013 and December 31, 2012 are goods in transit of approximately \$0.3 million, respectively.

**5. Goodwill and Other Intangible Assets**

Changes in goodwill and intangible asset balances for the nine months ended September 30, 2013, consisted of the following (in thousands):

	Goodwill	Intangible assets
Balance December 31, 2012	\$ 6,892	\$ 5,329
Additions due to acquisitions	1,564	-
Amortization	-	(213 )
Foreign currency translation	(47 )	(45 )
Balance as of September 30, 2013	\$ 8,409	\$ 5,071

The components of intangible assets as of September 30, 2013 are summarized below (in thousands):

	Intangible assets	Accumulated amortization	Foreign currency translation	Net book value
Customer relationships	\$ 2,962	\$ (809 )	\$ (55 )	\$ 2,098
Non-compete agreements	95	(85 )	(1 )	9



Trademarks	2,049	-	(17	)	2,032
Technology-related industry accreditations	950	-	(18	)	932
Total intangible assets	\$ 6,056	\$ (894	)	\$ (91	) \$5,071

## 6. Other Assets

In December 2011 and January 2012, the Company's Pioneer Transformers Ltd. subsidiary funded two promissory notes, each in the amount of \$300,000, from a developer of a renewable energy project in the U.S. The promissory notes accrue interest at a rate of 4.5% per annum with a final payment of all unpaid principal and interest becoming fully due and payable upon the earlier to occur of (i) the four year anniversary of the issuance date of the promissory notes, or (ii) an event of default. As defined in the promissory notes, an event of default includes, but is not limited to, the following: any bankruptcy, reorganization or similar proceeding involving the borrower, a sale or transfer of substantially all the assets of the borrower, a default by the borrower relating to any indebtedness due to third parties, the incurrence of additional indebtedness by the borrower without the Company's written consent and failure of the borrower to perform its obligations pursuant to its other agreements with the Company, including its purchase order for pad mount transformers.

Also included in Other Assets are deferred financing costs of \$0.4 and \$0.2 million for the periods ended September 30, 2013 and December 31, 2012, respectively.

## 7. Debt

### *Canadian Credit Facilities*

The Company's Canadian subsidiaries have maintained credit facilities with Bank of Montreal since October 2009. In June 2011, Pioneer Electrogrouop Canada Inc., together with its subsidiaries, Pioneer Transformers Ltd. and Bemag Transformer Inc., entered into a letter loan agreement with Bank of Montreal (the "Canadian Facilities") that replaced and superseded all prior financing arrangements with the bank. Bemag Transformer Inc. became a party to the Canadian Facilities on July 1, 2011, upon the acquisition of all of its capital shares by the Company.

The Canadian Facilities provide for up to \$23.0 million Canadian dollars ("CAD") (approximately \$22.3 million expressed in U.S. dollars) consisting of a \$10.0 million demand revolving credit facility ("Facility A") to finance ongoing operations, a \$2.0 million term credit facility ("Facility B") that financed a plant expansion, a \$10.0 million term credit facility ("Facility C") to finance acquisitions, capital expenditures or to provide funding to the Company's U.S. operations, a \$50,000 Corporate MasterCard credit facility ("Facility D") and a \$1.0 million foreign exchange settlement risk facility ("Facility E").

The Canadian Facilities are secured by a first-ranking lien in the amount of approximately \$30 million CAD on all of the present and future movable and immovable property of the Company's Canadian subsidiaries.

The Canadian Facilities require the Company's Canadian operations to comply on a consolidated basis with various financial covenants, including maintaining a minimum fixed charge coverage ratio of 1.25, a maximum funded debt to EBITDA ratio of 2.75 and a limitation on funded debt to less than 60% of capitalization. The Canadian Facilities also restrict the ability of the Company's Canadian operations to, among other things, (i) provide any funding to any person, including affiliates, in an aggregate amount exceeding \$5.0 million CAD or (ii) make distributions in an aggregate amount exceeding 50% of Pioneer Electrogrouop Canada Inc.'s previous year's net income.

Facility A is subject to margin criteria and borrowings bear interest at the bank's prime rate plus 0.50% per annum on amounts borrowed in Canadian dollars, or the bank's U.S. base rate plus 0.50% per annum or LIBOR plus 2.00% per annum on amounts borrowed in U.S. dollars.

Borrowings under Facility B bear interest at the bank's prime rate plus 1.00% per annum with principal repayments becoming due on a five year amortization schedule.

Borrowings under Facility C are repayable according to a five year principal amortization schedule and bear interest at the following rates: if the funded debt to EBITDA ratio is equal to or greater than 2.00, the bank's prime rate plus 1.25% per annum on amounts borrowed in Canadian dollars, or the U.S. base rate plus 1.25% per annum or LIBOR plus 2.50% per annum on amounts borrowed in U.S. dollars; or, if the funded debt to EBITDA ratio is less than 2.00, the bank's prime rate plus 1.00% per annum on amounts borrowed in Canadian dollars, or the U.S. base rate plus 1.00% per annum or LIBOR plus 2.25% per annum on amounts borrowed in U.S. dollars. In addition, Facility C is subject to a standby fee which is calculated monthly using the unused portion of the facility at either 0.625% per annum if the funded debt to EBITDA ratio is equal to or greater than 2.00, or 0.5625% per annum if the funded debt to EBITDA ratio is less than 2.00.

On June 28, 2013, Pioneer Electrogroupp Canada Inc. and certain subsidiary guarantors amended and restated the Canadian Facilities with Bank of Montreal in order to, among other things, provide an additional six months to borrow any amounts not already drawn from Facility C. The Company also entered into a guaranty agreement to guarantee the obligations under the Canadian Facilities.

As of September 30, 2013, the Company had approximately \$10.9 million in U.S. dollar equivalents outstanding under the Canadian Facilities and was in compliance with its financial covenant requirements. The Company's borrowings consisted of approximately \$2.1 million outstanding under Facility A, \$1.2 million outstanding under Facility B and \$7.6 million outstanding under Facility C.

#### *United States Credit Facilities*

The Company's Jefferson Electric, Inc. subsidiary had a loan agreement with a Johnson Bank that included a revolving credit facility and a term credit facility. In November 2011, the loan agreement was revised to provide for an increase in the borrowing base limit of the revolving credit facility to \$6.0 million and a decrease in the interest rate to the U.S. prime rate plus 2.0%. In connection with the amendment, the interest rate under the term credit facility was reduced to 6.0% annually.

In October 2012, the loan agreement was amended to reduce the interest rate under the revolving credit facility to a floating rate subject to a pricing grid, ranging from 2.25% to 3.50% above one month LIBOR, depending on Jefferson Electric, Inc.'s debt service coverage ratio. The term credit facility, which was repaid in full during July 2012, was removed from the Johnson Bank loan agreement in its entirety. Borrowings under the Johnson Bank loan agreement were collateralized by substantially all the U.S. assets of Jefferson Electric, Inc., and an officer of the subsidiary was a guarantor. The Johnson Bank loan agreement, as amended, required Jefferson Electric, Inc. to comply with certain financial covenants, including a requirement to exceed a minimum target for tangible net worth and maintain a minimum debt service coverage ratio. The loan agreement also restricted Jefferson Electric, Inc.'s ability to pay dividends or make distributions, advances or other transfers of assets.

On June 28, 2013, the Company and its wholly-owned U.S. subsidiaries entered into a credit agreement with Bank of Montreal, Chicago Branch (the "U.S. Facilities"). The U.S. Facilities consist of a \$10.0 million demand revolving credit facility that was used to pay off all amounts outstanding under the Johnson Bank loan agreement and is intended to be used to finance ongoing operations; and a \$6.0 million term loan facility, with principal repayments becoming due on a five year amortization schedule, that is to be used to finance certain permitted acquisitions by the Company and its subsidiaries.

The U.S. Facilities require the Company's U.S. operations to comply with various financial covenants, including (a) maintaining a minimum fixed charge coverage ratio of (i) 1.25 for fiscal quarters ending June 30, 2013 to December 31, 2013, and (ii) 1.35 for fiscal quarters ending on or after March 31, 2014, (b) limiting funded debt to less than 50% of capitalization, and (c) maintaining a maximum funded debt to adjusted EBITDA ratio of (i) 5.25 for fiscal quarters ending June 30, 2013 to December 31, 2013, (ii) 5.00 for the fiscal quarter ending March 31, 2014, (iii) 4.50 for the fiscal quarter ending June 30, 2014, (iv) 4.00 for the fiscal quarter ending September 30, 2014, and (v) 3.75 for fiscal quarters ending on or after December 31, 2014. The U.S. Facilities also restrict the ability of the Company and its U.S. subsidiaries to incur indebtedness, create or incur liens, make investments, make distributions or dividends and enter

into merger agreements or agreements for the sale of any or all assets.

Borrowings under the demand revolving credit facility bear interest, at the Company's option, at the bank's prime rate plus 1.00% per annum on U.S. prime rate loans, or an adjusted LIBOR rate plus 2.25% per annum on Eurodollar loans. Borrowings under the term loan facility bear interest, at the Company's option, at the bank's prime rate plus 1.25% per annum on U.S. prime rate loans, or an adjusted LIBOR rate plus 2.50% per annum on Eurodollar loans. In addition, the term loan facility is subject to a standby fee from June 28, 2013 to December 28, 2013, which is calculated monthly, using the unused portion of the facility, at a rate of 0.625% per annum.

In connection with the U.S. Facilities, the Company and its U.S. subsidiaries and the bank entered into a security agreement, pursuant to which the Company granted a security interest in substantially all of its assets in the U.S., and including 65% of the shares of Pioneer Electrogroup Canada Inc. held by the Company, to secure the Company's obligations under the U.S. Facilities.

As of September 30, 2013, the Company had no borrowings outstanding under the U.S. Facilities and the Company was in compliance with its financial covenant requirements.

*Nexus Promissory Note*

On July 25, 2012, the Company's indirect wholly owned Mexican subsidiary, Nexus Magneticos de Mexico, S. de R.L. de C.V. ("Nexus"), entered into a term loan agreement with GE CF Mexico, S.A. de C.V. ("GE Capital Mexico"). At closing, GE Capital Mexico advanced to Nexus \$1.65 million under the term loan agreement, less a non-refundable commission of 1% and less a pledge of cash representing 10% of the loan amount. Immediately upon receiving the term loan advance, Nexus made an intercompany loan in the same principal amount to Jefferson Electric, Inc., its controlling shareholder. In turn, Jefferson Electric, Inc. used the intercompany loan proceeds to repay a portion of its outstanding secured indebtedness owed to its U.S. bank. The net proceeds were used by Jefferson Electric, Inc. to fully repay the principal and accrued interest that was then outstanding under its term credit facility with its U.S. bank, as well as to reduce the outstanding balance under its revolving credit facility.

The term loan from GE Capital Mexico is payable in 60 consecutive monthly installments and bears interest, payable monthly, at a rate of 6.93% per annum. The term loan may be prepaid by Nexus in increments of at least \$100,000, subject to the application of certain prepayment and other fees as established in the term loan agreement. The term loan agreement contains customary representations and warranties, affirmative and negative covenants and events of default, including covenants that restrict Nexus' ability to create certain liens, incur additional liabilities, make certain types of investments, engage in mergers, consolidations, significant asset sales and affiliate transactions, pay dividends, redeem or repurchase outstanding equity and make capital expenditures.

The obligations of Nexus under the term loan are secured by (i) a pledge of cash in the amount of 10% of the term loan amount, (ii) a trust agreement, pursuant to which Nexus and Jefferson Electric, Inc. transferred title to substantially all of their equipment and machinery assets located in Mexico to a Mexican bank as trustee, to serve as security for all of Nexus' obligations under the term loan agreement, and (iii) a corporate guaranty by the Company of all of Nexus' obligations under the term loan agreement.

*Pico Promissory Note*

On August 19, 2013, in connection with the acquisition of certain assets from Pico Electrical Equipment, Inc. and Pico Metal Products, Inc., the Company's Pioneer Custom Electrical Products Inc. subsidiary issued a \$455,000 non-interest bearing promissory note to the sellers of the assets. The promissory note is payable in six installments of principal ending on June 19, 2014. The obligations under the Pico promissory note are secured by (i) a security agreement, pursuant to which the note holders were granted a security interest in certain equipment and other collateral owned by Pioneer Custom Electrical Products Inc., and (ii) a corporate guaranty by the Company of all of Pioneer Custom Electrical Products Inc.'s obligations under the Pico promissory note.

Long-term debt consists of the following (in thousands):

	September 30, 2013	December 31, 2012
Revolving credit facilities	\$ -	\$ 5,141
Term credit facilities	8,850	10,615
Nexus promissory note	1,151	1,371
Pico promissory note	415	-
Capital lease obligations	1	3
Total debt and capital lease obligations	10,417	17,130
Less current portion	(2,327 )	(7,335 )
Total long-term debt and capital lease obligations	\$ 8,090	\$ 9,795

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## 8. Shareholders' Equity

The Company had common stock, \$0.001 par value per share, outstanding of 7,172,255 and 5,907,255 shares as of September 30, 2013 and December 31, 2012, respectively. In September 2013, the Company completed a public offering and issued 1,265,000 shares of its common stock at a gross sales price of \$7.00 per share, resulting in \$7.9 million in net proceeds after deducting the underwriting discount and costs directly attributable to the offering. In connection with the public offering, the Company issued warrants to the underwriters to purchase 50,600 shares of common stock, exercisable at the public offering price, or \$7.00 per share.

As of September 30, 2013, the Company had warrants outstanding to purchase 690,600 shares of common stock with a weighted average exercise price of \$13.49 per share. The warrants expire on dates beginning on December 2, 2014 and ending on September 18, 2018. No warrants were exercised during the three and nine month periods ended September 30, 2013.

The board of directors is authorized, subject to any limitations prescribed by law, without further vote or action by the shareholders, to issue from time to time up to 5,000,000 shares of preferred stock, \$0.001 par value, in one or more series. Each such series of preferred stock shall have such number of shares, designations, preferences, voting powers, qualifications, and special or relative rights or privileges as shall be determined by the board of directors, which may include, among others, dividend rights, voting rights, liquidation preferences, conversion rights and preemptive rights.

## 9. Stock-Based Compensation

A summary of stock option activity under the 2011 Long-Term Incentive Plan as of September 30, 2013, and changes during the nine months ended September 30, 2013, are presented below:

	Stock options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Balance December 31, 2012	168,400	\$ 11.85	6.6	\$ 209,500
Granted	78,000	\$ 5.66	9.8	206,100
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding as of September 30, 2013	246,400	\$ 9.89	7.3	\$ 415,600
Exercisable as of September 30, 2013	143,667	\$ 13.11	6.0	\$ 108,473



As of September 30, 2013, there were 453,600 shares available for future grants under the Company's 2011 Long-Term Incentive Plan.

Expense for stock-based compensation recorded for the nine months ended September 30, 2013 and 2012 was approximately \$152,000 and \$202,000, respectively. At September 30, 2013, the Company had total stock-based compensation expense remaining to be recognized in the statement of earnings of approximately \$0.2 million.

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**10. Pension Plan**

One of the Company's Canadian subsidiaries sponsors a defined benefit pension plan in which a majority of its employees are members. The subsidiary funds 100% of all contributions to the plan. The benefits, or the rate per year of credit service, are established by the Company and updated at its discretion.

The components of the expense the Company incurred under the pension plan are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Current service cost, net of employee contributions	\$13	\$9	\$44	\$30
Interest cost on accrued benefit obligation	32	36	95	106
Expected return on plan assets	(43)	(39)	(125)	(117)
Amortization of transitional obligation	3	3	10	10
Amortization of past service costs	2	2	7	7
Amortization of net actuarial gain	15	13	43	37
Total cost of benefit	\$22	\$24	\$74	\$73

**Cost of Benefits**

The Company's policy is to fund the pension plan at or above the minimum level required by law. The Company made \$117,000 and \$64,000 of contributions to its defined benefit pension plan during the nine months ended September 30, 2013 and 2012, respectively. Changes in the discount rate and actual investment returns that are lower than the long-term expected return on plan assets could result in the Company making additional contributions.

**11. Geographical Information**

The Company has one material operating segment, being the sale of electrical equipment. Revenues are attributable to countries based on the location of the Company's customers (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Canada	\$12,816	\$11,794	\$39,447	\$38,005
United States	9,351	7,372	25,591	22,965
Others	280	60	1,955	392
Total	\$22,447	\$19,226	\$66,993	\$61,362

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**12. Basic and Diluted Earnings Per Share**

Basic and diluted earnings per common share are calculated based on the weighted average number of shares outstanding during the period. The Company's employee and director stock option awards, as well as incremental shares issuable upon exercise of warrants, are not considered in the calculations if the effect would be anti-dilutive. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
Numerator:				
Earnings from continuing operations	\$1,009	\$227	\$3,183	\$1,944
Denominator:				
Weighted average basic shares outstanding	6,051	5,907	5,956	5,907
Effect of dilutive securities - equity based compensation plans	32	8	21	3
Net dilutive effect of warrants outstanding	-	-	-	-
Denominator for diluted earnings per common share	6,083	5,915	5,977	5,910
Earnings from continuing operations per common share:				
Basic	\$0.17	\$0.04	\$0.53	\$0.33
Diluted	\$0.17	\$0.04	\$0.53	\$0.33
Anti-dilutive securities (excluded from per share calculation):				
Equity based compensation plans	118	118	118	118
Warrants	640	640	640	640

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying consolidated interim financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the Securities and Exchange Commission on April 1, 2013 and is available on the SEC's website at [www.sec.gov](http://www.sec.gov).*

*Unless the context requires otherwise, references in this Form 10-Q to the "Company," "Pioneer," "we," "our" and "us" refer to Pioneer Power Solutions, Inc. and its subsidiaries.*

### Special Note Regarding Forward-Looking Statements

This Form 10-Q contains "forward-looking statements," which include information relating to future events, future financial performance, financial projections, strategies, expectations, competitive environment and regulation. Words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and may not be accurate indications of when such performance or results will be achieved. Forward-looking statements are based on information we have when those statements are made or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

General economic conditions and their effect on demand for electrical equipment, particularly in the commercial construction market, but also in the power generation, industrial production, data center, oil and gas, marine and infrastructure industries.

The effects of fluctuations in sales on our business, revenues, expenses, net income, earnings per share, margins and profitability.

Many of our competitors are better established and have significantly greater resources, and may subsidize their competitive offerings with other products and services, which may make it difficult for us to attract and retain customers.

We depend on Hydro-Quebec Utility Company and Siemens Industry, Inc. for a large portion of our business, and any change in the level of orders from Hydro-Quebec Utility Company or Siemens Industry, Inc., could have a significant impact on our results of operations.

The potential loss or departure of key personnel, including Nathan J. Mazurek, our chairman, president and chief executive officer.

Our ability to expand our business through strategic acquisitions.

Our ability to integrate acquisitions and related businesses.

Our ability to generate internal growth, maintain market acceptance of our existing products and gain acceptance for our new products.

Unanticipated increases in raw material prices or disruptions in supply could increase production costs and adversely affect our profitability.

Restrictive loan covenants and/or our ability to repay or refinance debt under our credit facilities could limit our future financing options and liquidity position and may limit our ability to grow our business.

Our ability to realize revenue reported in our backlog.

Operating margin risk due to competitive pricing and operating efficiencies, supply chain risk, material, labor or overhead cost increases, interest rate risk and commodity risk.

· Strikes or labor disputes with our employees may adversely affect our ability to conduct our business.

· A majority of our revenue and a significant portion of our expenditures are derived or spent in Canadian dollars. However, we report our financial condition and results of operations in U.S. dollars. As a result, fluctuations between the U.S. dollar and the Canadian dollar will impact the amount of our revenues and earnings.

The impact of geopolitical activity on the economy, changes in government regulations such as income taxes, climate control initiatives, the timing or strength of an economic recovery in our markets and our ability to access capital markets.

Our chairman controls a majority of our combined voting power, and may have, or may develop in the future, interests that may diverge from yours.

Future sales of large blocks of our common stock may adversely impact our stock price.

The liquidity and trading volume of our common stock.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipated in our forward-looking statements. Moreover, new risks regularly emerge and it is not possible for us to predict or articulate all risks we face, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should carefully review the risk factors and other cautionary statements in this Form 10-Q and those described from time to time in our other reports filed with the Securities and Exchange Commission for a discussion of the foregoing and other risks that relate to our business and investing in shares of our common stock.

## Overview

We manufacture specialty electrical transmission and distribution equipment and provide a broad range of custom-engineered and general purpose solutions for applications in the utility, industrial and commercial markets. We are headquartered in Fort Lee, New Jersey and operate from eight additional locations in the U.S., Canada and Mexico for manufacturing, centralized distribution, engineering, sales and administration.

## Recent Events

On March 6, 2013, through our wholly-owned subsidiary Pioneer Critical Power Inc., we acquired substantially all the assets and assumed certain liabilities of Power Systems Solutions, Inc., a Minneapolis-based provider of paralleling switchgear and engine generator controls used in on-site backup power and distributed generation applications

On August 19, 2013, our wholly-owned subsidiary Pioneer Custom Electrical Products Corp., or Pioneer CEP, hired all the employees and acquired all the machinery and equipment, certain inventory assets and all of the intellectual property of Pico Electrical Equipment, Inc. and Pico Metal Products, Inc. Pioneer CEP is a Los-Angeles-based manufacturer of electrical switchboards, panelboards and custom electrical enclosures.

On September 24, 2013, we completed an underwritten public offering of 1,265,000 shares of our common stock at a gross sales price of \$7.00 per share, resulting in net proceeds to us of approximately \$7.9 million, after deducting underwriting discounts and commissions and other offering expenses. In connection with the public offering, our common stock began trading on the Nasdaq Capital Market under the symbol PPSI.

### **Foreign Currency Exchange Rates**

Although we have elected to report our results in accordance with generally accepted accounting principles in the U.S. and in U.S. dollars, several of our subsidiaries are Canadian entities whose functional currencies are the Canadian dollar. As such, the financial position, results of operations, cash flows and equity of these subsidiaries are initially consolidated in Canadian dollars. The subsidiaries' assets and liabilities are then translated from Canadian dollars to U.S. dollars by applying the foreign currency exchange rate in effect at the balance sheet date, while the results of their operations and cash flows are translated to U.S. dollars by applying the average foreign currency exchange rate in effect during the reporting period. The resulting translation adjustments are included in other comprehensive income or loss.



The financial position and operating results of our Canadian subsidiaries have been translated to U.S. dollars by applying the following exchange rates, expressed as the number of Canadian dollars to one U.S. dollar for each period reported:

Quarter Ended	2013			2012		
	Consolidated Balance Sheet	Consolidated Earnings and Comprehensive Income	Consolidated Statements of Cumulative Average	Consolidated Balance Sheet	Consolidated Earnings and Comprehensive Income	Consolidated Statements of Cumulative Average
March 31	\$1.0160	\$ 1.0089	\$ 1.0089	\$0.9975	\$ 1.0012	\$ 1.0012
June 30	\$1.0518	\$ 1.0234	\$ 1.0161	\$1.0181	\$ 1.0102	\$ 1.0057
September 30	\$1.0303	\$ 1.0385	\$ 1.0236	\$0.9832	\$ 0.9948	\$ 1.0021

### Critical Accounting Policies

*Use of Estimates.* The preparation of financial statements in accordance with generally accepted accounting principles in the U.S. requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The financial statements include estimates based on currently available information and our judgment as to the outcome of future conditions and circumstances. Significant estimates in these financial statements include pension expense, inventory provisions, useful lives and impairment of long-lived assets, warranty accruals, income tax determination, stock-based compensation, allowance for doubtful accounts and estimates related to purchase price allocation. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of the financial statements and actual results could differ from the estimates and assumptions.

There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

### Results of Operations

*Three Months and Nine Months Ended September 30, 2013 Compared to Three and Nine Months Ended September 30, 2012*

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*Revenue.* The following table represents our revenues by major product category for the periods indicated (in thousands, except percentages):

	Three Months Ended			Nine Months Ended		
	September 30, 2013	September 30, 2012	% Change	September 30, 2013	September 30, 2012	% Change
Electrical transformers						
Liquid-filled	\$11,456	\$8,148	40.6%	\$33,898	\$27,742	22.2%
Dry-type	10,141	11,078	-8.5%	31,733	33,620	-5.6%
	21,597	19,226	12.3%	65,631	61,362	7.0%
Circuit protection & control equipment	850	-	-	1,362	-	-
Total revenue	\$22,447	\$19,226	16.8%	\$66,993	\$61,362	9.2%

For the three months ended September 30, 2013, our consolidated revenue increased to \$22.4 million, up \$3.2 million, or 16.8%, from \$19.2 million during the three months ended September 30, 2012. This revenue growth includes approximately \$2.3 million from our existing operations, or 12.3% on a year-over-year basis, and \$0.9 million of incremental revenues from our recently acquired businesses, Pioneer Critical Power and Pioneer CEP. During the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, the 12.3% net increase in our transformer sales was comprised of a 40.6% increase in liquid-filled transformer sales, partially offset by an 8.5% decrease in dry-type transformer sales. Our liquid-filled transformers sales benefitted from strong demand by several perennial utility customers. The decrease in our dry-type transformer sales was driven mostly by lower sales in the Canadian distributor channel, and to a lesser extent by lower OEM sales activity.

For the nine months ended September 30, 2013, our consolidated revenue increased by \$5.6 million, or 9.2%, to \$67.0 million, up from \$61.4 million during the nine months ended September 30, 2012. Approximately \$4.2 million of the increase in our revenue was derived from transformer sales, which increased by 7.0% to \$65.6 million, as compared to \$61.4 million for the nine months ended September 30, 2012. This increase in our transformer sales was driven mostly by several large orders for liquid-filled products, sales of which grew 22.2% on a year-over-year basis, particularly from utility customers and also from users in the oil & gas sectors. Offsetting these increases was a 5.6% decrease in dry-type unit sales, due primarily to two factors — a large order in 2012 that was not repeated in 2013, and our decision to reduce sales discounts in the Canadian distribution channel which we believe also reduced demand this quarter. The remaining \$1.4 million increase in our consolidated revenue during 2013 was attributable to acquisitions.

*Gross Margin.* The following table represents our gross margin by major product category for the periods indicated (in thousands, except percentages)

	Three Months Ended			Nine Months Ended		
	September 30, 2013	September 30, 2012	% Change	September 30, 2013	September 30, 2012	% Change
Cost of sales	\$16,548	\$15,008	10.3 %	\$50,434	\$47,791	5.5 %
Gross profit	\$5,899	\$4,218	39.9 %	\$16,559	\$13,571	22.0 %
Gross margin percentage:						
Electrical transformers	25.9 %	21.9 %	4.0 %	24.5 %	22.1 %	2.4 %
Circuit protection & control equipment	36.0 %	-	-	35.8 %	-	-
Consolidated	26.3 %	21.9 %	4.4 %	24.7 %	22.1 %	2.6 %

For the three months ended September 30, 2013, our gross margin percentage was 26.3% of revenues, as compared to 21.9% during the three months ended September 30, 2012. Our gross margin percentage on sales of transformers increased by 4.0% during the three months ended September 30, 2013, driven by higher sales and a sales mix that was more heavily-weighted towards larger, custom-designed substation-class transformers. Our average gross margin percentage on standard, dry-type distribution transformers was stable during the three months ended September 30, 2013, as compared to the same period of 2012, on lower sales volume. Although still a small contributor in terms of total gross profit dollars, sales of our circuit protection and control equipment, which was mostly in connection with critical power projects, had the effect of increasing our consolidated gross margin percentage by 0.4% during the three months ended September 30, 2013, as compared to the three months ended September 30, 2012 which was before we began manufacturing these products.

For the nine months ended September 30, 2013, our gross margin percentage increased to 24.7% of revenues, compared to 22.1% during the nine months ended September 30, 2012. The 2.6% increase in our gross margin was due to several of the factors described above, but was also a result of a shift in mix towards our more profitable product categories. We generally achieve higher gross margins from sales of our engineered-to-order products (principally liquid-filled transformers and systems for critical power applications) than we do from the sale of our dry-type transformers, a large portion of which consists of catalogue designs sold on a wholesale basis through our

distribution network. For the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, liquid-filled transformers represented 50.6% of our consolidated revenue (up from 45.2%), dry-type transformers represented 47.4% (down from 54.8%) and circuit protection and control equipment represented 2.0% (up from 0.0%) and.

*Selling, General and Administrative Expense.* For the three months ended September 30, 2013, our selling, general and administrative expense increased by approximately \$0.4 million, or 12.3%, to \$3.6 million, as compared to \$3.2 million during the three months ended September 30, 2012. The increase in our selling, general and administrative expense during the three months ended September 30, 2013, as compared to the same period of 2012, was primarily due to the inclusion of new businesses acquired during 2013, as well as to an increase in our corporate general and administrative expenses. As a percentage of total revenue, our selling, general and administrative expense decreased to 16.1% during the three months ended September 30, 2013, as compared to 16.7% during the three months ended September 30, 2012.

For the nine months ended September 30, 2013, our selling, general and administrative expense increased by approximately \$0.9 million, or 9.2%, to \$10.7 million, as compared to \$9.8 million during the nine months ended September 30, 2012. Approximately \$0.5 million of the increase was due to an additional seven and a half months of operations for the two businesses acquired during the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. The remainder of the increase in our selling, general and administrative expense was attributable to higher corporate expenses, consisting primarily of higher personnel and information technology costs, partially offset by lower professional fees. Selling, general and administrative expense resulting from our transformer businesses were flat on a year-over-year basis. As a percentage of total revenue, our selling, general and administrative expense was 16.0% during the nine months ended September 30, 2013 and 2012.

*Foreign Exchange (Gain) Loss.* During the three months and nine months ended September 30, 2013, approximately 57% and 61% of our consolidated operating revenues were denominated in Canadian dollars and most of our expenses were denominated and disbursed in U.S. dollars. We have not historically engaged in currency hedging activities. Fluctuations in foreign currency exchange rates between the time we initiate and then settle transactions with our customers and suppliers can have an impact on our operating results. For the three months ended September 30, 2013, we recorded a gain of approximately \$4,000 due to currency fluctuations, compared to a gain of approximately \$160,000 during the three months ended September 30, 2012. For the nine months ended September 30, 2013, we recorded a loss of approximately \$43,000, compared to a gain of approximately \$245,000 during the nine months ended September 30, 2012.

*Interest Expense.* For the three and nine months ended September 30, 2013, interest and bank charges were approximately \$226,000 and \$594,000, as compared to \$256,000 and \$699,000 during the three and nine months ended September 30, 2012. The decrease in our interest expense was due to lower average borrowings outstanding, at lower marginal interest rates, under our credit facilities so far during 2013, as compared to 2012.

*Other Expense (Income).* For the three and nine months ended September 30, 2013, other non-operating expense was approximately \$236,000 and \$403,000, as compared to \$39,000 and \$69,000 during the three and nine months ended September 30, 2012. Approximately \$327,000 of the 2013 other expense resulted from professional fees and costs incurred in connection with acquisitions, and the remainder resulted primarily from a reduction in force affecting our dry-type transformer business during the second quarter. The 2012 other expense consists primarily of professional fees incurred in connection with post-closing requirements related to our acquisition of Bemag Transformer Inc.

*Provision for Income Taxes.* For the three and nine months ended September 30, 2013, our provision for income taxes reflects an effective tax rate on earnings before income taxes of 44.9% and 34.5%, as compared to 74.0% and 40.8% during the three and nine months ended September 30, 2012. The increase in our effective income tax rate during the 2013 periods reflects several factors, but was driven primarily by taxable distributions received from our Canadian subsidiaries, and to a lesser extent the impact of increased acquisition-related expenses that are either non-deductible, or that must be amortized over extended time periods of up to fifteen years. Our effective income tax rates during the 2012 periods includes the impact of a one-time write-off of a \$0.4 million deferred tax asset resulting from an intercompany ownership transfer of certain manufacturing equipment between our U.S. and Canadian operations.

Most of our taxable income is derived in Canada where we are subject to lower corporate tax rates relative to our U.S. operations.

*Earnings from Continuing Operations.* We generated net earnings from continuing operations of \$1.0 million and \$3.2 million for the three and nine months ended September 30, 2013, as compared to \$0.2 million and \$1.9 million during the three and nine months ended September 30, 2012. Earnings from continuing operations per basic and diluted share for the three and nine months ended September 30, 2013 were \$0.17 and \$0.53, as compared to \$0.04 and \$0.33 for the three and nine months ended September 30, 2012. Our earnings from continuing operations benefitted from a higher operating income margin on increased sales, together with lower interest expense for the reasons described above. These improvements, as compared to the three and nine months ended September 30, 2012, were partially offset by foreign exchange losses and increased non-operating expenses primarily related to acquisitions.

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*Backlog.* Our order backlog at September 30, 2013 was \$21.4 million, as compared to \$23.6 million at December 31, 2012 and \$27.7 million at September 30, 2012. Our backlog is based on orders expected to be delivered in the future, most of which is expected to occur during the next six months.

## **Liquidity and Capital Resources**

*General.* At September 30, 2013, we had cash and cash equivalents of approximately \$3.3 million and total debt, including capital lease obligations, of \$12.5 million. We have historically met our cash needs through a combination of cash flows from operating activities and bank borrowings under our revolving credit facilities. Our cash requirements are generally for operating activities, debt repayment, capital improvements and acquisitions. We believe that working capital, borrowing capacity available under our credit facilities and funds generated from operations should be sufficient to finance our cash requirements for anticipated operating activities, capital improvements and principal repayments of debt through at least the next twelve months.

*Cash Provided by (Used in) Operating Activities.* Cash provided by our operating activities was approximately \$3.2 million during the nine months ended September 30, 2013, compared to cash used in our operating activities of \$1.7 million during the nine months ended September 30, 2012. The principal elements of cash provided by operating activities during the nine months ended September 30, 2013 were \$3.2 million of earnings from continuing operations and \$1.2 million of non-cash expenses consisting of depreciation, amortization and stock-based compensation. These sources of cash during the period were partially offset by \$0.9 million of cash used for working capital and \$0.3 million related to deferred taxes and pension costs.

*Cash Provided by (Used in) Investing Activities.* Cash used in investing activities during the nine months ended September 30, 2013 was approximately \$4.1 million, as compared to \$1.8 million during the nine months ended September 30, 2012. During the nine months ended September 30, 2013 our cash used in investing activities increased by approximately \$1.8 million for the expansion of our Canadian dry-type transformer manufacturing facility. In addition, during the nine months ended September 30, 2013, we used approximately \$1.6 million of cash to finance acquisitions. Our uses of cash in investing activities during the nine months ended September 30, 2012 included \$1.1 million for the purchase of our Canadian dry-type transformer manufacturing facility, and for a \$0.3 million loan we made to the developer of a renewable energy project for the purpose of securing a purchase order for our transformers. Additions to our property, plant and equipment in the ordinary course of business were \$0.7 million and \$0.5 million, respectively, during the nine month periods ended September 30, 2013 and September 30, 2012.

*Cash Provided by (Used in) Financing Activities.* Cash provided by our financing activities was approximately \$3.6 million during the nine months ended September 30, 2013, as compared to cash provided of \$2.4 million during the nine months ended September 30, 2012. During the nine months ended September 30, 2013, our cash provided by financing activities included approximately \$7.9 million of net proceeds from a public offering of 1,265,000 shares of our common stock, offset by \$4.3 million of cash used to reduce borrowings outstanding under our revolving credit

facilities and make principal payments on our long-term debt. During the nine months ended September 30, 2012, bank overdrafts and borrowings under our revolving credit facilities provided cash of \$2.0 million, new borrowings of long-term debt provided cash of \$1.1 million, and we made scheduled principal repayments on our long-term debt of \$0.7 million.

*Working Capital.* As of September 30, 2013, we had net working capital of \$13.0 million, including \$3.3 million of cash and equivalents, compared to net working capital of \$6.9 million, including \$0.5 million of cash and equivalents at December 31, 2012. Our current assets were approximately 1.7 times our current liabilities at September 30, 2013, as compared to 1.3 times at December 31, 2012. At September 30, 2013 and December 31, 2012, we had \$9.1 million and \$4.7 million, respectively, of available and unused borrowing capacity from our revolving credit facilities, without taking into account cash and equivalents on hand. However, the availability of this capacity under our revolving credit facilities is subject to restrictions on the use of proceeds and is dependent upon our ability to satisfy certain financial and operating covenants, including financial ratios.



## Credit Facilities and Long-Term Debt

*Canadian Credit Facilities.* Our Canadian subsidiaries have maintained credit facilities with Bank of Montreal since October 2009. In June 2011, Pioneer Electrogroupp Canada Inc., our wholly owned subsidiary and the parent company of all our active subsidiaries in Canada entered into a letter loan agreement with Bank of Montreal (the “Canadian Facilities”) that replaced and superseded all of our prior financing arrangements with the bank.

Our Canadian Facilities provide for up to \$23.0 million Canadian dollars (“CAD”) (approximately \$22.3 million expressed in U.S. dollars) consisting of a \$10.0 million CAD demand revolving credit facility (“Facility A”) to finance ongoing operations, a \$2.0 million CAD term credit facility (“Facility B”) that financed a plant expansion, a \$10.0 million CAD term credit facility (“Facility C”) to finance acquisitions, capital expenditures or to provide funding to our U.S. corporations, a \$50,000 CAD Corporate MasterCard credit facility and a \$1.0 million CAD foreign exchange settlement risk facility.

The Canadian Facilities require us to comply on a consolidated Canadian basis with various financial covenants, including maintaining a minimum fixed charge coverage ratio, a maximum funded debt to EBITDA ratio and a limitation on funded debt as a percent of capitalization.

Facility A is subject to margin criteria and borrowings bear interest at Bank of Montreal’s prime rate plus 0.50% per annum on amounts borrowed in Canadian dollars, or its U.S. base rate plus 0.50% per annum or LIBOR plus 2.00% per annum on amounts borrowed in U.S. dollars.

Borrowings under Facility B bear interest at Bank of Montreal’s prime rate plus 1.00% per annum with principal repayments becoming due on a five year amortization schedule.

Borrowings under Facility C are repayable according to a five year principal amortization schedule and bear interest at the following rates: if the funded debt to EBITDA ratio is equal to or greater than 2.00, Bank of Montreal’s prime rate plus 1.25% per annum on amounts borrowed in Canadian dollars, or its U.S. base rate plus 1.25% per annum or LIBOR plus 2.50% per annum on amounts borrowed in U.S. dollars; or, if the funded debt to EBITDA ratio is less than 2.00, Bank of Montreal’s prime rate plus 1.00% per annum on amounts borrowed in Canadian dollars, or its U.S. base rate plus 1.00% per annum or LIBOR plus 2.25% per annum on amounts borrowed in U.S. dollars. In addition, Facility C is subject to a standby fee which is calculated monthly using the unused portion of the facility at either 0.625% per annum if the funded debt to EBITDA ratio is equal to or greater than 2.00, or 0.5625% per annum if the funded debt to EBITDA ratio is less than 2.00.

On June 28, 2013, Pioneer Electrogroupp Canada Inc. and certain subsidiary guarantors amended and restated the letter loan agreement with Bank of Montreal in order to, among other things, provide an additional six months to borrow any amounts not already drawn from Facility C. We also entered into a guaranty agreement to guarantee the obligations under the amended and restated letter loan agreement.

As of September 30, 2013, we had approximately \$10.9 million in U.S. dollar equivalents outstanding under our Canadian Facilities and were in compliance with our financial covenant requirements. Our borrowings consisted of approximately \$2.1 million outstanding under Facility A, \$1.2 million outstanding under Facility B and \$7.6 million outstanding under Facility C.

*United States Credit Facilities.* Our Jefferson Electric, Inc. subsidiary had a loan agreement with Johnson Bank that included a revolving credit facility with a borrowing base limit of \$6.0 million. Effective as of October 31, 2012, the credit facility was extended for an additional year, with interest ranging from 2.25% to 3.50% above one month LIBOR, depending on Jefferson Electric, Inc.'s debt service coverage ratio.

On June 28, 2013, in connection with entering into a credit agreement with Bank of Montreal, Chicago Branch (the "U.S. Facilities"), we repaid all amounts outstanding under the Johnson Bank facility. The U.S. Facilities consist of a \$10.0 million demand revolving credit facility that was used to repay Johnson Bank and will be used to finance ongoing operations; and a \$6.0 million term loan facility, with principal repayments becoming due on a five year amortization schedule, that is to be used to finance certain permitted acquisitions by us and our subsidiaries.

The U.S. Facilities require our U.S. operations to comply with various financial covenants, including maintaining minimum fixed charge coverage ratios, a maximum funded debt to capitalization ratio and maximum funded debt to adjusted EBITDA ratios. The U.S. Facilities also restrict our ability to incur indebtedness, create or incur liens, make investments, make distributions or dividends and enter into merger agreements or agreements for the sale of any or all our assets.

Borrowings under the demand revolving credit facility bear interest, at our option, at the bank's prime rate plus 1.00% per annum on U.S. prime rate loans, or an adjusted LIBOR rate plus 2.25% per annum on Eurodollar loans.

Borrowings under the term loan facility bear interest, at our option, at the bank's prime rate plus 1.25% per annum on U.S. prime rate loans, or an adjusted LIBOR rate plus 2.50% per annum on Eurodollar loans. In addition, the term loan facility is subject to a standby fee from June 28, 2013 to December 28, 2013, which is calculated monthly, using the unused portion of the facility, at a rate of 0.625% per annum.

Our obligations under the U.S. Facilities are guaranteed by all our wholly-owned U.S. subsidiaries. In addition, we and our wholly-owned U.S. subsidiaries granted a security interest in substantially all of our assets, including 65% of the shares of Pioneer Electrogrouop Canada Inc. held by us, to secure our obligations for borrowed money under the U.S. Facilities.

As of September 30, 2013, we had no borrowings outstanding under the U.S. Facilities and were in compliance with its financial covenant requirements.

*Nexus Promissory Note.* On July 25, 2012, Nexus Magneticos de Mexico, S. de R.L. de C.V., a subsidiary of Jefferson Electric, Inc., entered into a \$1.7 million term loan agreement with GE CF Mexico, S.A. de C.V. The term loan from GE CF Mexico, S.A. de C.V. is payable in 60 consecutive monthly installments and bears interest, payable monthly, at a rate of 6.93% per annum. We provided a guaranty to GE CF Mexico, S.A. de C.V. of all of Nexus Magneticos de Mexico, S. de R.L. de C.V.'s obligations under the term loan agreement. As of September 30, 2013, there was approximately \$1.2 million outstanding.

*Pico Promissory Note.* On August 19, 2013, in connection with the acquisition of certain assets from Pico Electrical Equipment, Inc. and Pico Metal Products, Inc., our Pioneer CEP subsidiary issued a \$455,000 non-interest bearing promissory note to the sellers of the assets. The promissory note is payable in six installments of principal ending on June 19, 2014. In addition, we also entered into a guaranty agreement to guarantee the obligations of Pioneer CEP under the promissory note.

*Capital Lease Obligations.* As of September 30, 2013, the principal amount of equipment loans and capital lease obligations we had outstanding was immaterial. These equipment loans and capital lease obligations are scheduled to

be repaid in full by December 2013.

### **Capital Expenditures**

In June 2012, we completed the acquisition of the land and building comprising our dry-type transformer facility in Canada at a cost of approximately \$1.1 million. We recently completed construction to expand the location's manufacturing floor space by approximately 16,000 square feet. Including the cost of new machinery and equipment to be purchased, the capital budget for the entire expansion project is approximately \$1.9 million, all of which is expected to be disbursed before the end of 2013. Otherwise, we have no major future capital projects planned, or significant replacement spending anticipated during 2013.

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#### **Item 4. Controls and Procedures**

##### **Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures**

We conducted an evaluation, under the supervision and participation of management including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2013.

##### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **PART II – OTHER INFORMATION**

##### **Item 1A. Risk Factors**

Investing in our common stock involves a high degree of risk. Before investing in our common stock you should carefully consider the following risks, together with the financial and other information contained in this Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2012 and our other periodic filings with the Securities and Exchange Commission. Additional risks and uncertainties that we are unaware of may become important factors that affect us. If any of the following events occur, our business, financial conditions and operating results may be materially and adversely affected. In that event, the trading price of our common stock may decline, and you could lose all or part of your investment.

##### **Risks Relating to Our Business and Industry**

***We are vulnerable to economic downturns in the commercial construction market, which may reduce the demand for some of our products and adversely affect our sales, earnings, cash flow or financial condition.***

Portions of our business, in particular those of Jefferson Electric, Inc. and Bemag Transformer Inc., involve sales of our products in connection with commercial and industrial construction. Our sales to this sector are affected by the levels of discretionary business spending. During economic downturns in this sector, the levels of business discretionary spending may decrease. This decrease in spending will likely reduce the demand for some of our products and may adversely affect our sales, earnings, cash flow or financial condition.

The commercial and industrial building and maintenance sectors began to experience a significant decline in 2008. The downturn in these segments contributed to a decline in the demand for our standard distribution transformer products and adversely affected Jefferson Electric, Inc.'s sales and earnings in 2008 through 2010. We cannot predict the timing, duration or severity of another such downturn in these segments which may adversely impact sales, earnings and cash flow.

***Our operating results may vary significantly from quarter to quarter, which makes our operating results difficult to predict and can cause our operating results in any particular period to be less than comparable quarters and expectations from time to time.***

Our quarterly results may fluctuate significantly from quarter to quarter due to a variety of factors, many of which are outside our control and have the potential to materially and adversely affect our results. Factors that affect our operating results include the following:

the size, timing and terms of sales and orders, especially large customer orders;  
variations caused by customers delaying, deferring or canceling purchase orders or making smaller purchases than expected;

- the timing and volume of work under new agreements;
- the spending patterns of customers;
- customer orders received;
- a change in the mix of our products having different margins;
- a change in the mix of our customers, contracts and business;
- increases in design and manufacturing costs;
- the length of our sales cycles;
- the rates at which customers renew their contracts with us;
- changes in pricing by us or our competitors, or the need to provide discounts to win business;
- a change in the demand or production of our products caused by severe weather conditions;
- our ability to control costs, including operating expenses;
- losses experienced in our operations not otherwise covered by insurance;
- the ability and willingness of customers to pay amounts owed to us;

the timing of significant investments in the growth of our business, as the revenue and profit we hope to generate from those expenses may lag behind the timing of expenditures;

- costs related to the acquisition and integration of companies or assets;

general economic trends, including changes in equipment spending or national or geopolitical events such as economic crises, wars or incidents of terrorism; and

- future accounting pronouncements and changes in accounting policies.

Accordingly, our operating results in any particular quarter may not be indicative of the results that you can expect for any other quarter or for an entire year.

***Our industry is highly competitive.***

The electrical transmission and distribution equipment industry is highly competitive. Principal competitors in our markets include ABB Ltd., Carte International, Inc., Eaton Corporation plc, Emerson Electric Company, General Electric Company, Hammond Power Solutions Inc., Howard Industries, Inc., Partner Technologies, Inc., Russelectric, Inc. and Schneider Electric SA. Many of these competitors, as well as other companies in the broader electrical equipment manufacturing and service industry where we expect to compete, are significantly larger and have substantially greater resources than we do and are able to achieve greater economies of scale and lower cost structures than us and may, therefore, be able to provide their products and services to customers at lower prices than we are able to. Moreover, our competitors could develop the expertise, experience and resources to offer products that are superior in both price and quality to our products. While we seek to compete by providing more customized, highly-engineered products, there are few technical or other barriers to prevent much larger companies in our industry from putting more emphasis on this same strategy. Similarly, we cannot be certain that we will be able to market our business effectively in the face of competition or to maintain or enhance our competitive position within our industry, maintain our customer base at current levels or increase our customer base. Our inability to manage our business in light of the competitive forces we face could have a material adverse effect on our results of operations.

***Because we currently derive a significant portion of our revenues from two customers, any decrease in orders from these customers could have an adverse effect on our business, financial condition and operating results.***

We depend on Hydro-Quebec Utility Company and Siemens Industry, Inc. for a large portion of our business, and any change in the level of orders from Hydro-Quebec Utility Company or Siemens Industry, Inc., has, in the past, had a significant impact on our results of operations. In particular, Hydro-Quebec Utility Company represented approximately 19% and 21% of our net sales in the years ended December 31, 2012 and 2011, respectively. In addition, Siemens Industry, Inc. accounted for 12% and 11% of our net sales in the years ended December 31, 2012 and 2011, respectively. Our long term supply agreements with Hydro-Quebec Utility Company had an initial term expiring in April 2012, and two one-year extension options, the second of which was exercised by Hydro-Quebec Utility Company and which extended our contracts through April 2014. We therefore cannot assure you that Hydro-Quebec Utility Company will continue to purchase transformers from us in quantities consistent with the past or at all. In addition, our pricing agreement with Siemens Industry, Inc. does not obligate Siemens Industry, Inc. to purchase transformers from us in quantities consistent with the past or at all. If either of these customers was to significantly cancel, delay or reduce the amount of business it does with us for any reason, there would be a material adverse effect on our business, financial condition and operating results.



***The departure or loss of key personnel could disrupt our business.***

We depend heavily on the continued efforts of Nathan J. Mazurek, our principal executive officer, and on other senior officers who are responsible for the day-to-day management of our five operating subsidiaries. In addition, we rely on our current electrical and mechanical design engineers, along with trained coil winders, many of whom are important to our operations and would be difficult to replace. We cannot be certain that any of these individuals will continue in their respective capacities for any particular period of time. The departure or loss of key personnel, or the inability to hire and retain qualified employees, could negatively impact our ability to manage our business.

***We may not be able to expand our business through strategic acquisitions, which could decrease our profitability.***

A key element of our strategy is to pursue strategic acquisitions that either expand or complement our business in order to increase revenue and earnings. We may not be able to identify additional attractive acquisition candidates on terms favorable to us or in a timely manner. We may require additional debt or equity financing for future acquisitions, which may not be available on terms favorable to us, if at all. Moreover, we may not be able to integrate any acquired businesses into our business or to operate any acquired businesses profitably. Recently acquired businesses (such as Power Systems Solutions, Inc.) may operate at lower profit margins, which could negatively impact our results of operations. Each of these factors may contribute to our inability to grow our business through strategic acquisitions, which could ultimately result in increased costs without a corresponding increase in revenues, which would result in decreased profitability.

***Any acquisitions that we complete may not perform as planned and could disrupt our business and harm our financial condition and operations.***

In an effort to effectively compete in the specialty electrical equipment manufacturing and service businesses, where increasing competition and industry consolidation prevail, we will seek to acquire complementary businesses in the future. In the event of any future acquisitions, we could:

- issue additional securities that would dilute our current stockholders' percentage ownership or provide the purchasers of the additional securities with certain preferences over those of common stockholders, such as dividend or liquidation preferences;
- incur debt and assume liabilities; and
- incur large and immediate write-offs of intangible assets, accounts receivable or other assets.

These events could result in significant expenses and decreased revenue, which could adversely affect the market price of our common stock.

In addition, integrating product acquisitions and completing any future acquisitions involve numerous operational and financial risks. These risks include difficulty in assimilating acquired operations, diversion of management's attention, and the potential loss of key employees or customers of acquired operations. Furthermore, companies acquired by us may not generate financial results consistent with our management's plans at the time of acquisition. To this end, through transactions completed in June and August 2010, we acquired substantially all the assets and the capital stock of AAER Inc. to form Pioneer Wind Energy Systems Inc., a business that sought to provide project integration solutions, including equipment sales, procurement, after-sales services and financing to community wind and industrial customers. In September 2011, following weak domestic wind energy market conditions, combined with our inability to establish an arrangement, on commercially acceptable terms, with a qualified third party to provide outsourced parts procurement and assembly services, we decided to discontinue this business. On a cumulative basis, from formation through to the discontinuation of Pioneer Wind Energy Systems Inc., our results from operations were impacted by a cumulative net loss of \$3.0 million.

***If we do not conduct an adequate due diligence investigation of a target business that we acquire, we may be required subsequently to take write downs or write-offs, restructuring, and impairment or other charges that could have a significant negative effect on our financial condition, results of operations and our stock price, which could cause you to lose some or all of your investment.***

As part of our acquisition strategy, we will need to conduct a due diligence investigation of one or more target businesses. Intensive due diligence is time consuming and expensive due to the operations, accounting, finance and legal professionals who must be involved in the due diligence process. We may have limited time to conduct such due diligence. Even if we conduct extensive due diligence on a target business that we acquire, we cannot assure you that this diligence will uncover all material issues relating to a particular target business, or that factors outside of the target business and outside of our control will not later arise. If our diligence fails to identify issues specific to a target business or the environment in which the target business operates, we may be forced to write-down or write-off assets, restructure our operations, or incur impairment or other charges that could result in us reporting losses. Even though these charges may be non-cash items and not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our common stock. In addition, charges of this nature may cause us to violate net worth or other covenants that we may be subject to as a result of assuming pre-existing debt held by a target business or by virtue of our obtaining post-combination debt financing.

***Our revenue may be adversely affected by fluctuations in currency exchange rates.***

A majority of our revenue and a significant portion of our expenditures are derived or spent in Canadian dollars. However, we report our financial condition and results of operations in U.S. dollars. As a result, fluctuations between the U.S. dollar and the Canadian dollar will impact the amount of our revenues and earnings. For example, if the Canadian dollar appreciates relative to the U.S. dollar, the fluctuation will result in a positive impact on the revenues that we report. However, if the Canadian dollar depreciates relative to the U.S. dollar, there will be a negative impact on the revenues we report due to such fluctuation. It is possible that the impact of currency fluctuations will result in a decrease in reported sales even though we have experienced an increase in sales when reported in the Canadian dollar. Conversely, the impact of currency fluctuations may result in an increase in reported sales despite declining sales when reported in the Canadian dollar. The exchange rate from the U.S. dollar to the Canadian dollar has fluctuated substantially in the past and may continue to do so in the future. Though we may choose to hedge our exposure to foreign currency exchange rate changes in the future, there is no guarantee such hedging, if undertaken, will be successful.

***We may be unable to generate internal growth.***

Our ability to generate internal growth will be affected by, among other factors, our ability to attract new customers, increases or decreases in the number or size of orders received from existing customers, hiring and retaining skilled employees and increasing volume utilizing our existing facilities. Many of the factors affecting our ability to generate

internal growth may be beyond our control, and we cannot be certain that our strategies will be implemented with positive results or that we will be able to generate cash flow sufficient to fund our operations and to support internal growth. If we do not achieve internal growth, our results of operations will suffer and we will likely not be able to expand our operations or grow our business.

*Fluctuations in the price and supply of raw materials used to manufacture our products may reduce our profits.*

Our raw material costs represented approximately 64% and 60% of our revenues for the years ended December 31, 2012 and 2011, respectively. The principal raw materials purchased by us are electrical core steel, copper wire, aluminum strip and insulating materials including transformer oil. We also purchase certain electrical components from a variety of suppliers including bushings, switches, fuses and protectors. These raw materials and components are available from, and supplied by, numerous sources at competitive prices, although there are more limited sources of supply for electrical core steel and transformer oil. Unanticipated increases in raw material prices or disruptions in supply could increase production costs and adversely affect our profitability. We cannot provide any assurances that we will not experience difficulties sourcing our raw materials in the future.

***Our Bemag Transformer Inc. subsidiary currently derives a significant portion of its revenues from three electrical distributor groups; any decrease in orders from these distributors could have an adverse effect on Bemag Transformer Inc.'s financial condition and operating results.***

Bemag Transformer Inc. depends on three electrical distributor groups for a large portion of its business, and any change in the level of orders from these distributors, has, in the past, had a significant impact on Bemag Transformer Inc.'s results of operations. Collectively, purchases from these distributor groups represented approximately 50% of Bemag Transformer Inc.'s sales in 2012 and approximately 9% of our sales on a consolidated basis. We expect aggregate sales to these distributor groups to continue to represent less than 10% of our consolidated sales in 2013. Our Bemag Transformer Inc. subsidiary has pricing and rebate agreements with these distributor groups that are negotiated annually and, if the pricing and rebate agreements are modified or not renewed in future periods or are less favorable than those offered by competitors, we cannot assure you that these distributor groups will continue to purchase transformers from us in quantities consistent with the past or at all. If any of these distributor groups were to influence our customers to cancel, significantly delay or reduce the amount of business they do with Bemag Transformer Inc., there could be a material adverse effect on our business, financial condition and operating results. Moreover, although Bemag Transformer Inc. has agreements for the sale of its products through these three distributor groups, these agreements do not obligate the groups to distribute transformers from Bemag Transformer Inc. in quantities consistent with the past or at all. If any of these distributor groups were to become insolvent, our business, financial condition and operating results could also be materially adversely affected.

***We have, and expect to continue to have, credit facilities with restrictive loan covenants that may impact our ability to operate our business and to pursue our business strategies, and our failure to comply with these covenants could result in an acceleration of our indebtedness.***

We will continue to rely on our credit facilities with Bank of Montreal for a significant portion of the working capital to operate our business and execute our strategy. These credit facilities contain certain covenants that restrict our ability to, among other things:

- undergo a change in control;
- incur new indebtedness or other obligations, subject to certain exceptions;
  - pay cash dividends;
  - create or incur new liens, subject to certain exceptions;
- make new acquisitions or investments in other entities, subject to certain exceptions;
  - wind up, liquidate or dissolve our affairs;
  - change the nature of our core business;
- alter our capital structure in a manner that would be materially adverse to our lenders; and
- make investments or advancements to affiliated or related companies.

The majority of the liquidity derived from our credit facilities is based on availability determined by a borrowing base. Specifically, the availability of credit is dependent upon eligible receivables, inventory and certain liens. We may not be able to maintain adequate levels of eligible assets to support our required liquidity.

In addition, our credit facilities require us to meet certain financial ratios, including maximum funded debt to EBITDA ratios, funded debt to total capitalization ratios and fixed charge coverage ratios. Our ability to meet these financial provisions may be affected by events beyond our control. If, as or when required, we are unable to repay, refinance or restructure our indebtedness under, or amend the covenants contained in, our credit facilities, our lenders could institute foreclosure proceedings against the assets securing borrowings under those facilities, which would harm our business, financial condition and results of operations.

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***The indebtedness under our credit facilities with Bank of Montreal is secured by substantially all of our consolidated assets. As a result of these security interests, such assets would only be available to satisfy claims of our general creditors or to holders of our equity securities if we were to become insolvent to the extent the value of such assets exceeded the amount of our indebtedness and other obligations. In addition, the existence of these security interests may adversely affect our financial flexibility.***

Indebtedness under our credit facilities with Bank of Montreal is secured by a lien on substantially all of our assets. Accordingly, if an event of default were to occur under our credit facilities, Bank of Montreal would have a prior right to our assets, to the exclusion of our general creditors in the event of our bankruptcy, insolvency, liquidation, or reorganization. In that event, our assets would first be used to repay in full all indebtedness and other obligations secured by them (including all amounts outstanding under our senior secured credit agreement), resulting in all or a portion of our assets being unavailable to satisfy the claims of our unsecured indebtedness. Only after satisfying the claims of our unsecured creditors and our subsidiaries' unsecured creditors would any amount be available for our equity holders. The pledge of these assets and other restrictions may limit our flexibility in raising capital for other purposes. Because substantially all of our assets are pledged under these financing arrangements, our ability to incur additional secured indebtedness or to sell or dispose of assets to raise capital may be impaired, which could have an adverse effect on our financial flexibility.

***We may not be able to fully realize the revenue value reported in our backlog.***

We routinely have a backlog of work to be completed on contracts representing a significant portion of our annual sales. As of September 30, 2013, our order backlog was \$21.4 million. Orders included in our backlog are represented by customer purchase orders and contracts that we believe to be firm. Backlog develops as a result of new business taken, which represents the revenue value of new customer orders received by us during a given period. Backlog consists of customer orders that either (1) have not yet been started or (2) are in progress and are not yet completed. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed. From time to time, customer orders are canceled that appeared to have a high certainty of going forward at the time they were recorded as new business taken. In the event of a customer order cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenue reflected in our backlog. In addition to us being unable to recover certain direct costs, canceled customer orders may also result in additional unrecoverable costs due to the resulting underutilization of our assets.

***We are subject to pricing pressure from our larger customers.***

We face significant pricing pressures in all of our business segments from our larger customers, including Hydro-Quebec Utility Company and Siemens Industry, Inc. Because of their purchasing size, our larger customers can influence market participants to compete on price terms. Such customers also use their buying power to negotiate lower prices. If we are not able to offset pricing reductions resulting from these pressures by improved operating

efficiencies and reduced expenditures, those price reductions may have an adverse impact on our financial results.

***Deterioration in the credit quality of several major customers could have a material adverse effect on our operating results and financial condition.***

A significant asset included in our working capital is accounts receivable from customers. If customers responsible for a significant amount of accounts receivable become insolvent or are otherwise unable to pay for products and services, or become unwilling or unable to make payments in a timely manner, our operating results and financial condition could be adversely affected. A significant deterioration in the economy could have an adverse effect on the servicing of these accounts receivable, which could result in longer payment cycles, increased collection costs and defaults in excess of management's expectations. Deterioration in the credit quality of Hydro-Quebec Utility Company, Siemens Industry, Inc. or of any other major customers could have a material adverse effect on our operating results and financial condition.

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***We rely on third parties for key elements of our business whose operations are outside our control.***

We rely on arrangements with third party shippers and carriers such as independent shipping companies for timely delivery of our products to our customers. As a result, we may be subject to carrier disruptions and increased costs due to factors that are beyond our control, including labor strikes, inclement weather, natural disasters and rapidly increasing fuel costs. If the services of any of these third parties become unsatisfactory, we may experience delays in meeting our customers' product demands and we may not be able to find a suitable replacement on a timely basis or on commercially reasonable terms. Any failure to deliver products to our customers in a timely and accurate manner may damage our reputation and could cause us to lose customers.

We also utilize third party distributors and manufacturer's representatives to sell, install and service certain of our products. While we are selective in whom we choose to represent us, it is difficult for us to ensure that our distributors and manufacturer's representatives consistently act in accordance with the standards we set for them. To the extent any of our end-customers have negative experiences with any of our distributors or manufacturer's representatives, it could reflect poorly on us and damage our reputation, thereby negatively impacting our financial results.

***We may face impairment charges if economic environments in which our business operates and key economic and business assumptions substantially change.***

Assessment of the potential impairment of property, plant and equipment, goodwill and other identifiable intangible assets is an integral part of our normal ongoing review of operations. Testing for potential impairment of long-lived assets is dependent on numerous assumptions and reflects our best estimates at a particular point in time, which may vary from testing date to testing date. The economic environments in which our businesses operate and key economic and business assumptions with respect to projected product selling prices and materials costs, market growth and inflation rates, can significantly affect the outcome of impairment tests. Estimates based on these assumptions may differ significantly from actual results. Changes in factors and assumptions used in assessing potential impairments can have a significant impact on both the existence and magnitude of impairments, as well as the time at which such impairments are recognized. Future changes in the economic environment and the economic outlook for the assets being evaluated could also result in additional impairment charges. Any significant asset impairments would adversely impact our financial results.

***Our business requires skilled labor, and we may be unable to attract and retain qualified employees.***

Our ability to maintain our productivity and profitability will be limited by our ability to employ, train and retain skilled personnel necessary to meet our requirements. We may experience shortages of qualified personnel. We cannot be certain that we will be able to maintain an adequate skilled labor force necessary to operate efficiently and to

support our growth strategy or that our labor expenses will not increase as a result of a shortage in the supply of skilled personnel. Labor shortages, increased labor costs or loss of our most skilled workers could impair our ability to deliver on time to our customers (thereby creating a risk that we lose our customers to competition) and would inhibit our ability to maintain our business or grow our revenues, and may adversely impact our profitability.

***Our business operations are dependent upon our ability to engage in successful collective bargaining with our unionized workforce.***

Approximately 70% of our workforce is unionized. Our current collective bargaining agreements with our unionized workforces in Canada expire in May 2015, in the case of Pioneer Transformers Ltd., and in the case of Bemag Transformer Inc., expired in March 2013. We are in the process of negotiating a new collective bargaining agreement with our unionized workforce at Bemag Transformer Inc. which may take several months to complete. There can be no assurance we will be successful in this effort. We have similar labor agreements with our unionized workforce in Reynosa, Mexico that has an indefinite term, subject to annual review and negotiation of key provisions. If we are unable to renew our collective bargaining agreements, or if additional segments of our workforce become unionized, we may be subject to work interruptions or stoppages. Strikes or labor disputes with our employees may adversely affect our ability to conduct our business.

***Deploying a new enterprise resource planning system could interfere with our business or operations and could adversely impact our financial position, results of operations and cash flows.***

We are in the process of deploying a new enterprise resource planning, or ERP, system. This project requires significant investment of capital and human resources, the re-engineering of many processes of our business and the attention of many employees who would otherwise be focused on other aspects of our business. Any disruptions, delays or deficiencies in the design and integration of the new ERP system could result in potentially much higher costs than we had anticipated and could adversely affect our ability to develop and commercialize products, provide services, fulfill contractual obligations, file reports with the Securities Exchange Commission in a timely manner and/or otherwise operate our business, or otherwise impact our controls environment. Any of these consequences could have an adverse effect on our results of operations and financial condition.

***We are subject to the risks of owning real property.***

We own real property, including the land and buildings at two of our manufacturing locations. The ownership of real property subjects us to risks, including: the possibility of environmental contamination and the costs associated with fixing any environmental problems and the risk of damages resulting from such contamination; adverse changes in the value of the property due to interest rate changes, changes in the neighborhood in which the property is located or other factors; ongoing maintenance expenses and costs of improvements; the possible need for structural improvements in order to comply with zoning, seismic, disability act or other requirements; and possible disputes with neighboring owners or others.

***Our risk management activities may leave us exposed to unidentified or unanticipated risks.***

Although we maintain insurance policies for our business, these policies contain deductibles and limits of coverage. We estimate our liabilities for known claims and unpaid claims and expenses based on information available as well as projections for claims incurred but not reported. However, insurance liabilities are difficult to estimate due to various factors and we may be unable to effectively anticipate or measure potential risks to our company. If we suffer unexpected or uncovered losses, any of our insurance policies or programs are terminated for any reason or are not effective in mitigating our risks, we may incur losses that are not covered by our insurance policies or that exceed our accruals or that exceed our coverage limits and could adversely impact our consolidated results of operations, cash flows and financial position.

***Regulatory, environmental, monetary and other governmental policies could have a material adverse effect on our profitability.***

We are subject to international, federal, provincial, state and local laws and regulations governing environmental matters, including emissions to air, discharge to waters and the generation and handling of waste. We are also subject to laws relating to occupational health and safety. The operation of manufacturing plants involves a high level of susceptibility in these areas, and there is no assurance that we will not incur material environmental or occupational health and safety liabilities in the future. Moreover, expectations of remediation expenses could be affected by, and potentially significant expenditures could be required to comply with, environmental regulations and health and safety laws that may be adopted or imposed in the future. Future remediation technology advances could adversely impact expectations of remediation expenses.

***Future litigation could impact our financial results and condition.***

Our business, results of operations and financial condition could be affected by significant future litigation or claims adverse to us. Types of potential litigation cases include product liability, contract, employment-related, labor relations, personal injury or property damage, intellectual property, stockholder claims and claims arising from any injury or damage to persons, property or the environment from hazardous substances used, generated or disposed of in the conduct of our business.

***Our international operations subject us to additional risks, which risks and costs may differ in each country in which we do business and may cause our profitability to decline.***

Most of our products are manufactured at our facilities in Canada and Mexico, and we depend on a number of suppliers for raw materials and component parts that are located outside of the U.S., including Asia and Western Europe. We generate a significant portion of our revenue from our operations in Canada and currently derive most of our revenue in the U.S. from products we manufacture in Mexico. Our international operations are subject to a variety of risks that we do not face in the U.S., and that we may face only to a limited degree in Canada, including:

building and managing highly experienced foreign workforces and overseeing and ensuring the performance of foreign subcontractors;

- increased travel, infrastructure and legal and compliance costs associated with multiple international locations; additional withholding taxes or other taxes on our foreign income, and tariffs or other restrictions on foreign trade or investment;
- imposition of, or unexpected adverse changes in, foreign laws or regulatory requirements, many of which differ from those in the U.S.;
- changes in foreign currency exchange rates, principally fluctuations in the Canadian dollar and Mexican peso; longer payment cycles for sales in some foreign countries and potential difficulties in enforcing contracts and collecting accounts receivable;
- difficulties in repatriating overseas earnings;
- general economic conditions in the countries in which we operate; and
- political unrest, civil disturbances, corruption, crime, war, incidents of terrorism, or responses to such events.

We may be unable to maintain policies and strategies that will be effective in managing these risks in each country where we do business. Our failure to manage these risks could cause us to fail to reap our investments in these markets and could harm our international operations, reduce our international sales and increase our costs, thus adversely affecting our international and overall business, financial condition and operating results.

***Market disruptions caused by domestic or international financial crises could affect our ability to meet our liquidity needs at a reasonable cost and our ability to meet long-term commitments, which could adversely affect our financial condition and results of operations.***

We rely on credit facilities with our lenders, amongst other avenues, to satisfy our liquidity needs. Disruptions in the domestic or international credit markets or deterioration of the banking industry's financial condition (such as occurred beginning in 2008), may discourage or prevent our lenders and other lenders from meeting their existing lending commitments, extending the terms of such commitments or agreeing to new commitments, such as for acquisitions or to refinance existing credit facilities. Market disruptions may also limit our ability to issue debt securities in the capital markets. We can provide no assurances that our lenders or any other lenders we may have will meet their existing commitments or that we will be able to access the credit markets in the future on terms acceptable to us or at all.

Longer term disruptions in the domestic or international capital and credit markets as a result of uncertainty, reduced financing alternatives or failures of significant financial institutions could adversely affect our access to the liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the market stabilizes or until alternative financing can be arranged. Such measures could include deferring capital expenditures and reducing other discretionary expenditures. Market disruptions could cause a broad economic downturn that may lead to increased incidence of customers' failure to pay for services delivered, which could adversely affect our financial condition, results of operations and cash flow.

Capital market disruptions could result in increased costs related to variable rate debt. As a result, continuation of market disruptions could increase our interest expense and adversely impact our results of operations. Disruption in the capital markets and its actual or perceived effects on particular businesses and the greater economy also adversely affects the value of the investments held within our pension plans. Significant declines in the value of the investments held within our pension plans may require us to increase contributions to those plans in order to meet future funding requirements if the actual asset returns do not recover these declines in value in the foreseeable future. These trends may also adversely impact our results of operations, net cash flows and financial positions, including our stockholders' equity.

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## Risks Relating to Our Organization

*Our common stock is listed on the Nasdaq Capital Market, and we take advantage of the “controlled company” exemption to the corporate governance rules for NASDAQ-listed companies. As a controlled Company, our common stock may be less attractive to some investors or otherwise harm our stock price.*

Because we qualify as a “controlled company” under the corporate governance rules for NASDAQ-listed companies, we are not required to have a majority of our board of directors be independent, nor are we required to have a compensation committee or an independent nominating function. In light of our status as a controlled company, our board of directors has determined not to have a majority of independent directors or an independent nominating or compensation committee and to have the full board of directors be directly responsible for compensation matters and for nominating members of our board. Accordingly, should the interests of our controlling stockholder differ from those of other stockholders, the other stockholders may not have the same protections afforded to stockholders of companies that are subject to all the corporate governance rules for NASDAQ-listed companies. Our status as a controlled company could make our common stock less attractive to some investors or otherwise harm our stock price.

*Delaware law and our corporate charter and bylaws contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.*

Our board of directors is authorized to issue shares of preferred stock in one or more series and to fix the voting powers, preferences and other rights and limitations of the preferred stock. Accordingly, we may issue shares of preferred stock with a preference over our common stock with respect to dividends or distributions on liquidation or dissolution, or that may otherwise adversely affect the voting or other rights of the holders of common stock. Issuances of preferred stock, depending upon the rights, preferences and designations of the preferred stock, may have the effect of delaying, deterring or preventing a change of control, even if that change of control might benefit our stockholders. In addition, we are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a public Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless (i) prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; (ii) the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 could delay or prohibit mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

***Your ability to influence corporate decisions may be limited because Provident Pioneer Partners, L.P. owns a controlling percentage of our common stock.***

Provident Pioneer Partners, L.P., which is controlled by Nathan J. Mazurek, our chief executive officer, president and chairman of the board of directors, beneficially owns approximately 77.9% of our outstanding common stock. As a result of this stock ownership, Provident Pioneer Partners, L.P. and Mr. Mazurek can control all matters submitted to our stockholders for approval, including the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire. In addition, as the interests of Provident Pioneer Partners, L.P. and our minority stockholders may not always be the same, this large concentration of voting power may lead to stockholder votes that are inconsistent with the best interests of our minority stockholders or the best interest of us as a whole.



Furthermore, pursuant to the terms of our credit agreement with Bank of Montreal, Chicago Branch, we are restricted from, among other things, entering into merger agreements or agreements for the sale of any or all of our assets outside the course of ordinary business. As such, even if certain corporate transactions may be approved by our stockholders, Bank of Montreal, Chicago Branch, as the lender under our credit agreement, has final authority to approve or reject certain of our transactions. This could lead to us not being able to effect certain transactions that may be in the best interests of our stockholders or our business.

***We are subject to financial reporting and other requirements for which our accounting, internal audit and other management systems and resources may not be adequately prepared.***

We are subject to reporting and other obligations under the Securities Exchange Act of 1934, as amended, including the requirements of Section 404 of the Sarbanes-Oxley Act. Section 404 requires us to conduct an annual management assessment of the effectiveness of our internal controls over financial reporting. These reporting and other obligations place significant demands on our management, administrative, operational, internal audit and accounting resources. Any failure to maintain effective internal controls could have a material adverse effect on our business, operating results and stock price.

In addition, our internal controls will also include those of any company or business that we may acquire in the future. Acquired companies or businesses are likely to have different standards, controls, contracts, procedures and policies, making it more difficult to implement and harmonize company-wide financial, accounting, information and other systems. As a result, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, either in our existing business or in businesses that we may acquire, could harm our operating results or cause us to fail to meet our reporting obligations.

### **Risks Relating to our Common Stock**

***There has been a limited market for our common stock and we cannot ensure investors that an active market for our common stock will be sustained.***

There has been limited trading in our common stock and there can be no assurance that an active trading market in our common stock will be maintained. Due to the illiquidity of our common stock, the market price may not accurately reflect our relative value. There can be no assurance that an active market for our shares of common stock will develop in the future. Because our common stock is so thinly traded, even limited trading in our shares has in the past, and might in the future, lead to dramatic fluctuations in share price and investors may not be able to liquidate their investment in us at all or at a price that reflects the value of the business.

While our common stock became listed on the Nasdaq Capital Market as of September 2013, we cannot assure you that we will maintain compliance with all of the requirements for our common stock to remain listed. Additionally, there can be no assurance that trading of our common stock on such market will be sustained or desirable.

***Our stock price may be volatile, which could result in substantial losses for investors.***

The market price of our common stock is highly volatile and could fluctuate widely in response to various factors, many of which are beyond our control, including the following:

- technological innovations or new products and services by us or our competitors;
- additions or departures of key personnel, including Nathan J. Mazurek, our chairman, president and chief executive officer;
- sales of our common stock, including management shares;
- limited availability of freely-tradable “unrestricted” shares of our common stock to satisfy purchase orders and demand;
- our ability to execute our business plan;
- operating results that fall below expectations;

loss of any strategic relationship;  
industry developments;  
economic and other external factors;  
our ability to manage the costs of maintaining adequate internal financial controls and procedures in connection with the acquisition of additional businesses;  
period-to-period fluctuations in our financial results; and  
announcement of acquisitions.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also significantly affect the market price of our common stock.

***A significant number of our shares will be eligible for sale and their sale or potential sale may depress the market price of our common stock.***

Sales of a significant number of shares of our common stock in the public market could harm the market price of our common stock. We have a total of 7,172,255 shares of common stock outstanding, of which 2,505,000 shares are currently freely tradeable, unless they are purchased by our “affiliates,” as defined in Rule 144 under the Securities Act of 1933, as amended. The remaining shares outstanding may be resold only through registration under the Securities Act of 1933, as amended, or under an available exemption from registration, such as Rule 144.

In addition, 937,000 shares are issuable upon exercise of options and warrants. Pursuant to an effective registration statement, 400,000 shares issuable upon exercise of outstanding warrants are freely tradeable unless they are purchased by our “affiliates,” as defined in Rule 144 under the Securities Act of 1933, as amended. If any options or other warrants are exercised, the shares issued upon exercise will also be restricted, but may be sold under Rule 144 after the shares have been held for six months. Sales under Rule 144 may be subject to volume limitations and other conditions.

In addition to the possibility that actual sales of significant amounts of our common stock in the public market could harm our common stock price, the fact that our stockholders have the ability to make such sales could create a circumstance commonly referred to as an “overhang,” in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, could also make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

***We do not expect to pay cash dividends in the future. As a result, any return on investment may be limited to the value of our common stock.***

We do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on our earnings, financial condition and other business and economic factors as our board of directors may consider relevant. In addition, our credit agreement with Bank of Montreal, Chicago Branch restricts our ability to pay cash dividends. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.***

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have research coverage by securities and industry analysts and you should not invest in our common stock in anticipation that we will obtain such coverage. If we obtain securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

**Item 6. Exhibits**

See Index to Exhibits.

**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.

PIONEER POWER SOLUTIONS, INC.

Date: November 12, 2013 /s/ Nathan J. Mazurek  
Nathan J. Mazurek  
President, Chief Executive Officer and  
Chairman of the Board of Directors

(Principal Executive Officer duly authorized to sign on  
behalf of Registrant)

Date: November 12, 2013 /s/ Andrew Minkow  
Andrew Minkow  
Chief Financial Officer, Secretary and Treasurer

(Principal Financial Officer and Principal Accounting  
Officer duly authorized to sign on behalf of Registrant)

<b>Exhibit No.</b>	<b>Description</b>
3.1	Composite Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registration Statement on Form S-1 of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on June 21, 2011).
3.2	Bylaws (Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on December 2, 2009).
4.1	Form of Securities Purchase Agreement (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on December 7, 2009).
4.2	Form of \$10.00 Warrant (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on December 7, 2009).
4.3	Form of \$16.25 Warrant (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on December 7, 2009).
4.4	Warrant to Purchase Common Stock, dated April 30, 2010, issued to Thomas Klink (Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on May 4, 2010).
4.5	Warrant to Purchase Common Stock, dated April 26, 2010 (Incorporated by reference to Exhibit 4.6 to Post-Effective Amendment No. 1 to Registration Statement on Form S-1 of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on June 1, 2010).
4.6	Form of Warrant to Purchase Common Stock, dated May 11, 2010, issued to investor relations firm and its designees (Incorporated by reference to Exhibit 4.7 to the Registration Statement on Form S-1 of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on April 20, 2011).
4.7	Form of Warrant to Purchase Common Stock, dated September 24, 2013, issued to Roth Capital Partners, LLC and to Monarch Capital Group, LLC (Incorporated by reference to Exhibit 4.8 to Amendment No. 1 to Registration Statement on Form S-1 of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on September 10, 2013).
10.1*	Second Amendment to Credit Agreement, by and among Pioneer Power Solutions, Inc. and Bank of Montreal, Chicago Branch.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language), (i) Consolidated Statements of Earnings, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows and (v) Notes to the Consolidated Financial Statements.

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\* Filed herewith.

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

