

PIONEER POWER SOLUTIONS, INC.

Form 10-Q

November 09, 2018

**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, 2018**

**OR**

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

**Commission file number: 001-35212**

**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, 12th 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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

Edgar Filing: PIONEER POWER SOLUTIONS, INC. - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the registrant's common stock, \$0.001 par value, as of November 9, 2018 was 8,726,045.

**PIONEER POWER SOLUTIONS, INC.**

**Form 10-Q**

**For the Quarterly Period Ended September 30, 2018**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

	Page
<u>Item 1. Financial Statements</u>	1
<u>Unaudited Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017</u>	1
<u>Unaudited Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2018 and 2017</u>	2
<u>Consolidated Balance Sheets at September 30, 2018 (unaudited) and December 31, 2017</u>	3
<u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>	4
<u>Notes to Unaudited Consolidated Financial Statements</u>	5
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	30
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	31
<u>Item 1A. Risk Factors</u>	32
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<u>Item 3. Defaults Upon Senior Securities</u>	32
<u>Item 4. Mine Safety Disclosures</u>	32
<u>Item 5. Other Information</u>	32
<u>Item 6. Exhibits</u>	32

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	\$25,956	\$25,494	\$74,024	\$77,835
Cost of goods sold				
Cost of goods sold	20,815	19,609	59,253	60,559
Restructuring and integration	—	873	—	873
Total cost of goods sold	20,815	20,482	59,253	61,432
Gross profit	5,141	5,012	14,771	16,403
Operating expenses				
Selling, general and administrative	4,081	4,151	12,426	12,676
Restructuring and integration	—	—	—	156
Foreign exchange gain	(889 )	(194 )	(617 )	(465 )
Total operating expenses	3,192	3,957	11,809	12,367
Income from continuing operations	1,949	1,055	2,962	4,036
Interest expense	727	632	2,126	1,792
Other expense	19	112	158	165
Income before taxes	1,203	311	678	2,079
Income tax expense	415	530	550	396
Net income (loss) from continuing operations	788	(219 )	128	1,683
Loss from discontinued operations, net of income taxes	(730 )	(576 )	(1,440 )	(1,084 )
Net income (loss)	\$58	\$(795 )	\$(1,312 )	\$599
Earnings (loss) per share:				
Basic and diluted				
Income (loss) from continuing operations	\$0.09	\$(0.03 )	\$0.01	\$0.19
Loss from discontinued operations	(0.08 )	(0.06 )	(0.17 )	(0.11 )
Net income (loss)	\$0.01	\$(0.09 )	\$(0.16 )	\$0.08

Diluted				
Income (loss) from continuing operations	\$0.09	\$(0.03 )	\$0.01	\$0.19
Loss from discontinued operations	(0.08 )	(0.06 )	(0.17 )	(0.11 )
Net income (loss)	\$0.01	\$(0.09 )	\$(0.16 )	\$0.08
Weighted average common shares outstanding:				
Basic	8,726	8,725	8,726	8,713
Diluted	8,734	8,725	8,726	8,727

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

**PIONEER POWER SOLUTIONS, INC.**

**Consolidated Statements of Comprehensive Income (Loss)**

**(In thousands)**

**(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$58	\$(795)	\$(1,312)	\$599
Other comprehensive income (loss)				
Foreign currency translation adjustments	21	—	(146 )	68
Amortization of net prior service costs and net actuarial losses, net of tax	(7 )	(42 )	(23 )	(15 )
Other comprehensive income (loss)	14	(42 )	(169 )	53
Comprehensive income (loss)	\$72	\$(837)	\$(1,481)	\$652

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

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

	September 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 659	\$ 218
Accounts receivable, net	14,956	13,432
Inventories, net	26,010	23,192
Income taxes receivable	447	743
Prepaid expenses and other current assets	2,688	2,803
Current assets of discontinued operations	6,066	7,073
Total current assets	50,826	47,461
Property, plant and equipment, net	5,889	6,335
Deferred income taxes	3,047	2,729
Other assets	5,204	4,281
Intangible assets, net	3,913	4,922
Goodwill	8,527	8,527
Total assets	\$ 77,406	\$ 74,255
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Bank overdrafts	\$ 2,600	\$ 833
Revolving credit facilities	19,580	17,814
Short term borrowings	3,170	5,430
Accounts payable and accrued liabilities	20,882	16,873
Current maturities of long-term debt and capital lease obligations	1,316	782
Income taxes payable	900	1,164
Current liabilities of discontinued operations	3,791	3,856
Total current liabilities	52,239	46,752
Long-term debt, net of current maturities	3,127	4,153
Pension deficit	291	283
Other long-term liabilities	3,946	3,853
Deferred income taxes	1,575	1,665
Total liabilities	61,178	56,706
Stockholders' equity		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 30,000,000 shares authorized; 8,726,045 shares issued and outstanding on September 30, 2018 and December 31, 2017	9	9



Edgar Filing: PIONEER POWER SOLUTIONS, INC. - Form 10-Q

Additional paid-in capital	23,961	23,801
Accumulated other comprehensive loss	(5,967	) (5,798 )
Accumulated deficit	(1,775	) (463 )
Total stockholders' equity	16,228	17,549
Total liabilities and stockholders' equity	\$77,406	\$ 74,255

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

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

	Nine Months Ended September 30,	
	2018	2017
Operating activities		
Net (loss) income	\$(1,312 )	\$599
Depreciation	898	956
Amortization of intangible assets	1,102	1,390
Amortization of right-of-use assets	403	396
Amortization of debt issuance cost	67	185
Deferred income tax benefit	(414 )	(689 )
Change in receivable reserves	(374 )	53
Change in inventory reserves	288	38
Accrued pension	(6 )	(24 )
Stock-based compensation	160	319
Other	14	(5 )
Foreign currency remeasurement loss/ (gain)	85	(40 )
Changes in current operating assets and liabilities:		
Accounts receivable	(455 )	(1,434 )
Inventories	(3,558 )	(1,678 )
Prepaid expenses and other assets	(509 )	76
Income taxes	42	(289 )
Accounts payable and accrued liabilities	4,136	(17 )
Net cash provided by/ (used in) operating activities	567	(164 )
Investing activities		
Additions to property, plant and equipment	(369 )	(1,245 )
Proceeds from sale of fixed assets	—	20
Net cash used in investing activities	(369 )	(1,225 )
Financing activities		
Bank overdrafts	1,593	162
Short term borrowings	(2,260 )	1,365
Borrowing under debt agreement	31,696	31,919
Repayment of debt	(30,462)	(30,465)
Payment of debt issuance cost	(24 )	(157 )
Net proceeds from the exercise of options for common stock	—	120
Principal repayments of financing leases	(376 )	(309 )

Edgar Filing: PIONEER POWER SOLUTIONS, INC. - Form 10-Q

Net cash provided by financing activities	167	2,635
Increase in cash and cash equivalents	365	1,246
Effect of foreign exchange on cash and cash equivalents	76	(542 )
Cash and cash equivalents		
Beginning of period	218	246
End of period	\$659	\$950

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

## **PIONEER POWER SOLUTIONS, INC.**

### **Notes to Consolidated Financial Statements**

September 30, 2018 (unaudited)

## **1. BASIS OF PRESENTATION**

### **Overview**

Pioneer Power Solutions, Inc. and its wholly owned subsidiaries (referred to herein as the “Company,” “Pioneer,” “we,” “our” and “us”) manufacture, sell and service a broad range of specialty electrical transmission, distribution and on-site power generation equipment for applications in the utility, industrial, commercial and backup power markets. The Company is headquartered in Fort Lee, New Jersey and operates from twelve (12) additional locations in the U.S., Canada and Mexico for manufacturing, centralized distribution, engineering, sales and administration.

We have two reportable segments as defined in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission (the “SEC”) on April 2, 2018: Transmission and Distribution Solutions (“T&D Solutions”) and Critical Power Solutions (“Critical Power”).

### **Presentation**

The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules of the SEC and reflect the accounts of the Company as of September 30, 2018. 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 to the reader. 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.

All dollar amounts (except share and per share data) presented in the notes to our unaudited consolidated financial statements are stated in thousands of dollars, unless otherwise noted. Amounts may not foot due to rounding.

These unaudited consolidated financial statements include the accounts of Pioneer and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

During the fourth quarter of 2017, as part of the Company's review of strategic alternatives, the Board of Directors of the Company approved efforts to sell the Company's switchgear business unit operated as Pioneer Custom Electric Products, Inc. ("PCEP"). On May 2, 2018, Pioneer Custom Electric Products Corp. ("PCEP"), a wholly owned subsidiary of Pioneer Power Solutions, Inc. (the "Company"), entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with CleanSpark, Inc. ("CleanSpark"), pursuant to which PCEP will sell certain assets (the "Asset Sale") comprising the PCEP business to CleanSpark (the "Purchased Assets"). No debt or significant liabilities are being assumed by CleanSpark in the Asset Sale. The Company has agreed to extend the closing of the sale through December 31, 2018 to allow all parties additional time to satisfy all closing conditions.

Operating results for PCEP, which have been previously included in the T&D Solutions Segment, have now been reclassified as discontinued operations for all periods presented. See Note 5 – Discontinued Operations in Notes to Consolidated Financial Statements in Part I of this Form 10-Q. Unless noted otherwise, discussions in these notes pertain to our continuous operations.

These unaudited consolidated financial statements should be read in conjunction with the risk factors 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, 2017.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies are 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, 2017. There have been no significant changes in the Company's accounting policies during the third quarter of 2018 except for the adoption of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, ASU No. 2016-02, Leases and ASU No. 2017-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost as further described below.

## Recent Accounting Pronouncements

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

*Revenue from Contracts with Customers.* In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), or ASU 2014-09, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. Since then, the FASB has also issued ASU 2016-08, *Revenue from Contracts with Customers* (Topic 606), *Principals versus Agent Considerations*, ASU 2016-10, *Revenue from Contracts with Customers* (Topic 606), *Identifying Performance Obligations and Licensing*, and ASU 2017-13, *Revenue Recognition* (Topic 605), *Revenue from Contracts with Customers* (Topic 606), *Leases* (Topic 840), and *Leases* (Topic 842), *Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Recession of Prior SEC Staff Announcements and Observer Comments*, which further elaborate on the original ASU No. 2014-09. The core principle of these updates is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgments and estimates may be required within the revenue recognition process than were required under previously existing U.S. GAAP. In July 2015, the FASB approved a one-year deferral of the effective date to January 1, 2018, with early adoption to be permitted as of the original effective date of January 1, 2017. Companies may use either of the following transition methods to adopt this standard: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients; or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures) (the "modified retrospective approach"). We completed a review of our various revenue streams within our two reportable segments: (i) T&D Solutions and (ii) Critical Power. We have gathered data to quantify the amount of sales by type of revenue stream and categorized the types of sales for our business units for the purpose of comparing how we recognized revenue to the new standard in order to quantify the impact of this ASU. We generally anticipate having substantially similar performance obligations under the new guidance when compared to previously existing U.S. GAAP. We have made policy elections within the amended standard that are consistent with our existing accounting. We adopted ASU 2014-09 in our first quarter of 2018 using the modified retrospective approach and concluded that there was no material impact to our financial statements other than enhanced disclosures and there are no changes to the opening retained earnings balance.

*Income Taxes.* In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. ASU No. 2016-16 requires the income tax consequences of intra-entity transfers of assets other than inventory to be recognized when the intra-entity transfer occurs rather than deferring recognition of income tax consequences until the transfer was made with an outside party. We adopted ASU 2016-16 in the first quarter of 2018 using a modified retrospective approach. Adoption of the new standard did not have a material impact on our Consolidated Financial Statements.

*Retirement Standard.* In March 2017, the FASB issued ASU No. 2017-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. We adopted Accounting Standards Update No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (the “New Retirement Standard”), effective January 1, 2018 using the full-retrospective method. The New Retirement Standard requires employers to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented outside of any subtotal of operating income. The Company elected to apply the practical expedient and use the amounts disclosed in Note 11 to the financial statements included in Part I, Item 1 of the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2017 as the estimation basis for applying the retrospective presentation requirements of the standard.

*Leases.* In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires, among other things, a lessee to recognize a liability representing future lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For operating leases, a lessee will be required to recognize at inception a right-of-use asset and a lease liability equal to the net present value of the lease payments, with lease expense recognized over the lease term on a straight-line basis. For leases with a term of twelve months or less, ASU 2016-02 allows a reporting entity to make an accounting policy election to not recognize a right-of-use asset and a lease liability, and to recognize lease expense on a straight-line basis. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Upon adoption, a reporting entity should apply the provisions of ASU 2016-02 at the beginning of the earliest period presented using a modified retrospective approach, which includes certain optional practical expedients that an entity may elect to apply. We adopted this standard in our first quarter of 2018 using the modified retrospective approach. As a result, the opening retained earnings for January 1, 2017 was reduced by approximately \$0.1 million. There was also an increase in assets and corresponding liabilities of approximately \$5.3 and \$5.2 million, respectively, at January 1, 2017.

*Statement of Cash Flows.* In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The purpose of Update No. 2016-15 is to reduce the diversity in practice in presentation and classification of the following items within the statement of cash flows: debt prepayments or debt extinguishment costs, settlement of zero coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investments and beneficial interests in securitization transactions. It also addresses classification of transactions that have characteristics of more than one class of cash flows. Update No. 2016-15 is effective for annual periods beginning after December 15, 2017, and a retrospective transition method is required. We adopted ASU 2016-15 in our first quarter of 2018 using the retrospective approach. The adoption of ASU 2016-15 did not have a material impact on our consolidated statements of cash flows.

*Stock Compensation.* In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The updated standard is effective for the Company beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption of the new guidance is permitted, but no earlier than an entity's adoption date of Topic 606. The Company does not expect that the adoption of this standard will have a material effect on its consolidated financial statements.

*Fair Value Measurement.* In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* that eliminates, amends, and adds certain disclosure requirements for fair value measurements. The ASU is effective for all annual and interim periods beginning January 1, 2020, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

### **3. REVENUES**

#### **Adoption of ASC Topic 606, “Revenue from Contracts with Customers”**



On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

### **Nature of our products and services**

Our principal products and services include custom-engineered electrical transformers and engine-generator sets and controls, complemented by a national field-service network to maintain and repair power generation assets.

#### *Products*

We provide electrical transformers that help customers effectively and efficiently manage their electrical power distribution systems to desired specifications.

We provide customers with sophisticated power generation equipment and an advanced data collection and monitoring platform, the combination of which is used to ensure smooth, uninterrupted power to operations during times of emergency.

#### *Services*

Power generation systems represent considerable investments that require proper maintenance and service in order to operate reliably during a time of emergency. Our power maintenance programs provide preventative maintenance, repair and support service for our customers' power generation systems.

Our principal source of revenue is derived from sales of products and fees for services. We measure revenue based upon the consideration specified in the customer arrangement, and revenue is recognized when the performance obligations in the customer arrangement are satisfied. A performance obligation is a promise in a contract to transfer a distinct product or service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as, the customer receives the benefit of the performance obligation. Customers typically receive the benefit of our products when the risk of loss or control for the product transfers to the customer and for services as they are performed. Under ASC 606, revenue is recognized when a customer obtains control of promised products or services in an amount that reflects the consideration we expect to receive in exchange for those products or services. To achieve this core principal, the Company applies the following five steps:

1) *Identify the contract with a customer*

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the products or services to be transferred and identifies the payment terms related to these products or services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for products or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

2) *Identify the performance obligations in the contract*

Performance obligations promised in a contract are identified based on the products or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the products or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised products or services, the Company must apply judgment to determine whether promised products or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised products or services are accounted for as a combined performance obligation.

3) *Determine the transaction price*

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer. The customer payments are generally due in 30 days.

4) *Allocate the transaction price to performance obligations in the contract*

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis or cost of the product or service. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

5) *Recognize revenue when or as the Company satisfies a performance obligation*

The Company satisfies performance obligations either over time or at a point in time. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised product or service to a customer.

Substantially all of our revenue is recognized at a point of time, as the promised product passes to the customer. Service revenues include maintenance contracts that are recognized over time based on the contract term and repair services which are recognized as services are delivered.

The following table presents our revenues disaggregated by revenue discipline:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Products	\$23,051	\$22,808	\$66,365	\$70,688
Services	2,905	2,686	7,659	7,147
Total Revenue	\$25,956	\$25,494	\$74,024	\$77,835

See Note 14 - Business Segment and Geographic Information in Notes to Consolidated Financial Statements in Part I of this Form 10-Q.

#### **Financial Statement Impact of Adopting ASC 606**

The Company adopted ASC 606 using the modified retrospective method. There was no adjustment to opening retained earnings due to the impact of adopting Topic 606.

#### **4. OTHER EXPENSE**

Other expense in the consolidated statements of operations reports certain losses associated with activities not directly related to our core operations. For the three and nine months ended September 30, 2018, other non-operating expense was \$19 and \$158, respectively, as compared to \$112 and \$165, respectively, during the same periods of 2017.

#### **5. DISCONTINUED OPERATIONS**

A discontinued operation is a component of the Company's business that represents a separate major line of business that had been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Consolidated Statement of Operations, Consolidated Statement of Cash Flows, and Consolidated Balance Sheets are presented as if the operation had been discontinued from the start of the comparative year.

During the fourth quarter of 2017, as part of the Company's review of strategic alternatives, the Board of Directors of the Company approved efforts to sell the Company's switchgear business. On May 2, 2018, Pioneer Custom Electric Products Corp. ("PCEP"), a wholly owned subsidiary of Pioneer Power Solutions, Inc. (the "Company"), entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with CleanSpark, Inc. ("CleanSpark"), pursuant to which PCEP will sell certain assets (the "Asset Sale") comprising the PCEP business to CleanSpark (the "Purchased Assets"). No debt or significant liabilities are being assumed by CleanSpark in the Asset Sale.

As consideration for the Purchased Assets, CleanSpark has agreed to pay total consideration comprised of the following: (a) an 18-month promissory note at 9% interest, in principal amount equal to the net carrying value of the working capital of the business at closing; (b) a three-year equipment lease to be entered into at closing of the Asset Sale, providing for rent payments in the amount of \$7,500 per month, which also includes two renewal terms of one-year each at CleanSpark's option and a CleanSpark purchase option of \$1,000,000; (c) 7,000,000 shares of CleanSpark common stock; (d) a five year warrant to purchase 1,000,000 shares of CleanSpark common stock at an exercise price of \$1.60 per share; and (e) a five year warrant to purchase 1,000,000 shares of CleanSpark common stock at an exercise price of \$2.00 per share.

On June 29, 2018, each of PCEP and CleanSpark signed a letter agreement (the "Letter Agreement") which extended the date on which, under certain specified conditions, either PCEP or CleanSpark may terminate the Asset Purchase Agreement if the Asset Sale has not been completed (the "Termination Date") from June 30, 2018 to October 15, 2018. On July 16, 2018 each of PCEP and CleanSpark signed a second letter agreement (the "Second Letter Agreement") which further extended the Termination Date to December 31, 2018. No other provisions of the Asset Purchase Agreement were otherwise amended or waived, and the Asset Purchase Agreement remains in full force and effect.

Operating results for the switchgear business, which have been previously included in the T&D Solutions Segment, have now been reclassified as discontinued operations for all periods presented.

The components of assets and liabilities that are attributable to discontinued operations are as follows:

	September 30, 2018 (Unaudited)	December 31, 2017
Assets of discontinued operations:		
Accounts receivable - trade, net	\$ 739	\$ 1,568
Inventories, net	3,131	2,921
Prepaid expenses	209	214
Property, plant and equipment, net	354	524
Right of use asset	—	129
Intangible assets, net	1,382	1,477
Other assets	251	240
Assets of discontinued operations	\$ 6,066	\$ 7,073
Liabilities of discontinued operations:		
Bank overdrafts	\$ 150	\$ 349
Accounts payable and accrued liabilities	3,641	3,507
Liabilities of discontinued operations	\$ 3,791	\$ 3,856

The following table presents the discontinued operations of the switchgear business in the Consolidated Statement of Operations:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Revenues	\$1,274	\$4,299	\$5,858	\$10,118
Costs and Expenses				
Cost of goods sold	1,504	4,052	5,619	8,957
Operating Expenses	438	692	1,503	1,763
Interest income	(1 )	(1 )	(4 )	(4 )
Other expense	257	132	563	486
Total costs and expenses	2,198	4,875	7,681	11,202
Loss before provision for income taxes	(924 )	(576 )	(1,823 )	(1,084 )
Income tax benefit	(194 )	—	(383 )	—
Loss from discontinued operations, net of income taxes	\$(730 )	\$(576 )	\$(1,440 )	\$(1,084 )

The following table presents the switchgear business in the Consolidated Statements of Cash Flows:

	Nine Months Ended September 30,	
	2018	2017
Net cash used in operating activities	\$(299)	\$(3,300)
Net cash used in investing activities	—	(56 )
Net cash provided by financing activities	299	3,356
Increase in cash and cash equivalents	\$—	\$—

**6. INVENTORIES**

The components of inventories are summarized below:

	September 30, 2018 (Unaudited)	December 31, 2017
Raw materials	\$ 13,114	\$ 9,229
Work in process	3,629	3,295
Finished goods	9,737	10,919
Provision for excess and obsolete inventory	(470 )	(251 )
Total inventories	\$ 26,010	\$ 23,192

Inventories are stated at the lower of cost or a net realizable basis determined on a FIFO method. Included in raw materials and finished goods at September 30, 2018 and December 31, 2017 are goods in transit of approximately \$7.0 million and \$3.1 million, respectively.

At September 30, 2018 and December 31, 2017, raw materials in the amount of \$6.8 million and \$3.0 million, respectively, not pledged to our secured creditor were used for collateral to secure short term borrowings under a product financing arrangement. This short term borrowing agreement provides the Company with the ability to acquire raw materials utilized in connection with its manufacturing process. The Company generally satisfies its obligations within 60 days of the initial borrowings, which yields an interest expense that is immaterial. The aggregate borrowings under this agreement amounted to \$3.2 million and \$5.4 million as of September 30, 2018 and December 31, 2017, respectively.

**7. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are summarized below:

September 30, 2018 (Unaudited)	December 31, 2017
---	-------------------------



Land	\$ 48	\$ 50
Buildings	2,468	2,547
Machinery and equipment	10,267	10,187
Furniture and fixtures	427	430
Computer hardware and software	1,093	1,097
Leasehold improvements	526	528
Construction in progress	164	18
	14,993	14,857
Less: Accumulated depreciation	(9,104 )	(8,522 )
Total property, plant and equipment, net	\$ 5,889	\$ 6,335

Depreciation expense was \$741 and \$792 for the nine months ended September 30, 2018 and 2017, respectively.

## 8. OTHER ASSETS

In December 2011 and January 2012, the Company made two secured loans, each in the amount of \$300 to 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. The principal balance of the loan receivable is outstanding at September 30, 2018 and December 31, 2017. The Company expects to fully recover these amounts. At September 30, 2018 the Company has classified the principal of \$600 as other assets as the Company does not anticipate the settlement of both notes in the next twelve months based upon ongoing negotiations with the debtor.

**9. GOODWILL AND OTHER INTANGIBLE ASSETS**

There were no changes in the carrying values of goodwill for the nine months ended September 30, 2018.

	T&D Solutions Segment	Critical Power Solutions Segment	Total Goodwill
Gross Goodwill:			
Balance as of January 1, 2018	\$ 6,533	\$ 2,970	\$ 9,503
No activity	—	—	—
Balance as of September 30, 2018	\$ 6,533	\$ 2,970	\$ 9,503
Accumulated impairment losses:			
Balance as of January 1, 2018	\$ (976 )	\$ —	\$ (976 )
No activity	—	—	—
Balance as of September 30, 2018	\$ (976 )	\$ —	\$ (976 )
Net Goodwill as of September 30, 2018	\$ 5,557	\$ 2,970	\$ 8,527

Changes in the carrying values of intangible assets for the nine months ended September 30, 2018, were as follows:

	T&D Solutions Segment	Critical Power Solutions Segment	Total Intangible Assets
Balance as of January 1, 2018, net	\$ 3,677	\$ 1,245	\$ 4,922
Amortization	(166 )	(841 )	(1,007 )
Foreign currency translation	(2 )	—	(2 )
Balance as of September 30, 2018, net	\$ 3,509	\$ 404	\$ 3,913

The components of intangible assets as of September 30, 2018 are summarized below:

	Weighted Average Amortization Years	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net Book Value
Customer relationships	7	\$6,689	\$ (5,742 )	\$ —	\$947
Non-compete agreements	4	155	(137 )	—	18

Edgar Filing: PIONEER POWER SOLUTIONS, INC. - Form 10-Q

Trademarks	Indefinite	1,816	—	—	1,816
Internally developed software	7	289	(155 )	—	134
Developed technology	10	493	(183 )	—	310
Technology-related industry accreditations	Indefinite	706	—	(18 )	688
Total intangible assets		\$ 10,148	\$ (6,217 )	\$ (18 )	\$ 3,913

The amortization of intangible assets expense was \$1,007 for the nine months ended September 30, 2018.

## 10. DEBT

### *Canadian Credit Facilities*

In April 2016, our wholly owned subsidiary, Pioneer Electrogrouop Canada Inc. (“PECI”), entered into an Amended and Restated Credit Agreement (“CAD ARCA”) with Bank of Montreal (“BMO”) with respect to our existing Canadian credit facilities (as amended and restated, the “Canadian Facilities”) that replaced and superseded all of our businesses’ prior financing arrangements with the bank. This CAD ARCA extended the maturity date of our Canadian Facilities to July 31, 2017. Additionally, defaults relating to the breach of certain financial covenants under the prior financing arrangements with BMO existing as of December 31, 2015 were waived by BMO. The CAD ARCA was further amended (the “2017 CAD ARCA Amendment”) on March 15, 2017, and again on March 28, 2018 (the “2018 CAD ARCA Amendment”). The 2018 CAD ARCA Amendment extended the term of our Canadian Facilities to April 1, 2020.

Our Canadian Facilities provided for up to \$8.2 million Canadian dollars (“CAD”) (approximately \$6.3 million expressed in U.S. dollars) consisting of a revolving \$7.0 million CAD revolving credit facility (“Facility A”) to finance ongoing operations, a \$471 CAD term credit facility (“Facility B”) that financed a plant expansion, and a \$712 USD Facility that financed a business acquisition and the purchase and expansion of its manufacturing facilities. The 2017 CAD ARCA Amendment increased the Facility A to \$8.0 million CAD, increasing the total amount of loans available under the Canadian Facilities to \$9.2 million CAD.

Facility A, as amended by the 2017 CAD ARCA Amendment and the 2018 CAD ARCA Amendment, is subject to margin criteria. Facility A, as amended by the 2017 CAD ARCA Amendment, bore interest at BMO’s prime rate plus 0.75% per annum on amounts borrowed in Canadian dollars, or BMO’s U.S. base rate plus 0.75% per annum or LIBOR plus 2.25% per annum on amounts borrowed in U.S. dollars. The 2018 CAD ARCA Amendment modified the interest rate on Facility A borrowings to BMO’s prime rate plus 0.50% per annum on amounts borrowed in Canadian dollars, or BMO’s U.S. base rate plus 0.50% per annum or LIBOR plus 2.0% per annum on amounts borrowed in U.S. dollars. Pursuant to the 2017 CAD ARCA Amendment, Facility A was to mature on July 31, 2018. The 2018 CAD ARCA Amendment extended the maturity of borrowings under Facility A to April 1, 2020. Consistent with the terms of the historical Facility A, including both a subjective acceleration clause and lockbox arrangement, will continue to be presented as a current liability. We believe based upon historical experience, that Facility A will remain in place to fund operations through maturity of this facility in April 2020.

Borrowings under Facility B, as amended by the 2017 CAD ARCA Amendment, bore interest at BMO’s prime rate plus 1.25% per annum with principal repayments becoming due on a five year amortization schedule. Pursuant to the CAD ARCA, quarterly principal repayments were reduced to \$47 CAD, with a balloon payment of \$141 CAD due on July 31, 2017. The 2017 CAD ARCA Amendment amended the payment schedules so that the quarterly principal

payments of \$47 CAD was to continue after July 31, 2017 until our borrowings under the facility is fully paid on April 30, 2018. The 2018 CAD ARCA Amendment did not modify the interest rate on Facility B borrowings, which remained at BMO's prime rate plus 1.25% per annum. Pursuant to the 2018 CAD ARCA Amendment, we made the final principal payment of \$47 under Facility B on April 30, 2018.

Borrowings under Facility C, as amended by the 2017 CAD ARCA, bore interest at BMO's prime rate plus 1.50% per annum on amounts borrowed in Canadian dollars, or BMO's U.S. base rate plus 1.50% per annum or LIBOR plus 2.75% per annum on amounts borrowed in U.S. dollars. Pursuant to the CAD ARCA, a principal repayment of \$72 USD due on June 30, 2016, and the reduced quarterly principal repayments of \$36 USD were to be made beginning on October 31, 2016, with a balloon payment of \$496 USD due on July 31, 2017. The 2017 CAD ARCA Amendment amended the payment schedules so that the quarterly payments of \$36 USD were to continue until July 31, 2018, with a balloon payment of \$352 due on July 31, 2018. Pursuant to the 2018 CAD ARCA Amendment, quarterly principal repayments of \$36 will continue until January 31, 2020, with a balloon payment of \$136 due on April 1, 2020. The 2018 CAD ARCA Amendment modified the interest rate on Facility C borrowings to BMO's prime rate plus 1.25% per annum on amounts borrowed in Canadian dollars, or BMO's U.S. base rate plus 1.25% per annum or LIBOR plus 2.50% per annum on amounts borrowed in U.S. dollars.

Pursuant to the CAD ARCA, as amended by the 2017 CAD ARCA Amendment and the 2018 CAD ARCA Amendment, financial covenant testing is performed on our consolidated financial statements. We are required to meet certain minimum working capital ratios, minimum EBITDA levels and effective tangible net worth levels for each fiscal quarter, as set forth in the 2017 CAD ARCA Amendment and the 2018 CAD ARCA Amendment. Pursuant to the 2018 CAD ARCA Amendment, BMO waived defaults on all financial covenants existing as of December 31, 2017, for which we were not in compliance.

As of September 30, 2018, we had approximately \$6.0 million in U.S. dollar equivalents outstanding under our Canadian Facilities. Our borrowings consisted of approximately \$5.6 million outstanding under Facility A and \$352 outstanding under Facility C. As of September 30, 2018, the Company was not in compliance with the financial covenant requirements of the Canadian Facilities and has received a waiver from BMO as of November 7, 2018 for the period ending September 30, 2018.

### *United States Credit Facilities*

In April 2016, we entered into an Amended and Restated Credit Agreement (“US ARCA”) with BMO with respect to our U.S. Facilities that replaced and superseded all of our businesses’ prior financing arrangements with the bank (as amended and restated, the “U.S. Facilities”). Additionally, defaults relating to the breach of certain financial covenants under the prior financing arrangements with BMO existing as of December 31, 2015 were waived by BMO. The US ARCA was further amended (the “2017 US ARCA Amendment”) on March 15, 2017, and again on March 28, 2018 (the “2018 US ARCA Amendment”). The 2018 US ARCA Amendment extended the term of our US Facilities to April 1, 2020.

Our U.S. Facilities, as amended and restated, provided for up to \$19.1 million USD consisting of a \$14.0 million USD demand revolving credit facility (“USD Facility A”) to finance ongoing operations, a \$5.0 million USD term loan facility (“USD Facility B”) that financed the acquisition of Titan, and a new \$100 revolving credit facility provided pursuant to a MasterCard is to be used to pay for and temporarily finance our day-to-day business expenses and for no other purpose. The 2017 US ARCA Amendment increased the USD Facility A to \$15.0 million, increasing the total amount of loans available under the U.S. Facilities to \$20.1 million USD.

USD Facility A, as amended and restated per 2017 US ARCA, bore interest, at our option, at BMO’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. Pursuant to the 2018 US ARCA Amendment, borrowings under Facility A bears interest, at our option, at the BMO’s prime rate plus 0.75% per annum on U.S. prime rate loans, or an adjusted LIBOR rate plus 2.00% per annum on Eurodollar loans. USD Facility A had a maturity date of July 31, 2017, which was extended to July 31, 2018 pursuant to the 2017 US ARCA Amendment. The 2018 US ARCA Amendment extended the maturity of borrowings under USD Facility A to April 1, 2020. Consistent with the terms of the historical USD Facility A, including both a subjective acceleration clause and lockbox arrangement, will continue to be presented as a current liability. We believe based upon historical experience, that the USD Facility A will remain in place to fund operations through maturity in April 2020.

Borrowings under USD Facility B bear interest, at our option, at U.S. base rate plus 1.25% per annum on U.S. prime loans, or an adjusted LIBOR rate plus 2.50% per annum on Eurodollar loans. Pursuant to the US ARCA, our quarterly principal payments were reduced to \$31 USD for calendar year 2016, with the original amortization schedule continuing to apply to all quarterly principal payments made after December 31, 2016, and the final maturity date of December 2, 2019. The 2017 US ARCA Amendment reduced the scheduled quarterly principal payments to \$31 USD, commencing March 31, 2017, to continue until July 31, 2018, with a balloon payment of \$4,438 on July 31, 2018. Pursuant to the 2018 US ARCA Amendment, monthly principal repayments beginning on July 31, 2018 are increased to \$100 and will continue until March 31, 2020, with a balloon payment of \$2,338 due on April 1, 2020. The 2018 US ARCA Amendment did not change the USD Facility B interest rate.

Pursuant to the US ARCA, as amended by the 2017 US ARCA Amendment and the 2018 US ARCA Amendment, financial covenant testing is performed on our consolidated financial statements. We are required to meet certain minimum working capital ratios, minimum EBITDA levels and effective tangible net worth levels for each fiscal quarter, as set forth in the 2017 US ARCA Amendment and the 2018 US ARCA Amendment. On March 6, 2017, we received a waiver from BMO on certain financial covenants existing as of December 31, 2016. On March 28, 2018, pursuant to the 2018 US ARCA Amendment, BMO waived defaults on all financial covenants existing as of December 31, 2017 for which we were not in compliance.

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. 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.

As of September 30, 2018, we had approximately \$18.1 million outstanding under our U.S. Facilities. Our borrowings consisted of approximately \$14.0 million outstanding under USD Facility A, and \$4.1 million outstanding under USD Facility B. As of September 30, 2018, the Company was not in compliance with the financial covenant requirements of the U.S. Facilities and has received a waiver from BMO as of November 7, 2018 for the period ending September 30, 2018.

The Company's debt consists of the following:

	September 30, 2018 (Unaudited)	December 31, 2017
Term credit facilities, net (a)	\$ 4,442	\$ 4,933
Capital lease obligations	1	2
Total debt	4,443	4,935
Less current portion	(1,316 )	(782 )
Total long-term debt	\$ 3,127	\$ 4,153

(a) The balances as of September 30, 2018 and December 31, 2017 are net of debt issuance costs of \$47 and \$102, respectively.

## 11. PENSION PLAN

The Company's Canadian subsidiary sponsors a defined benefit pension plan at one of its locations 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:

	Three Months Ended September 30,		Nine Months Ended September 30,		<b>Affected Line Item in the Statements of</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>Consolidated Operations</b>
Current service cost, net of employee contributions	\$14	\$10	\$45	\$35	Selling, general and administrative
Interest cost on accrued benefit obligation	24	27	74	79	Other expense
Expected return on plan assets	(42)	(44)	(127)	(128)	Other expense
Amortization of transitional obligation	3	3	6	9	Other expense
Amortization of past service costs	2	2	4	6	Other expense
Amortization of net actuarial gain	14	12	42	36	Other expense



Total cost of benefit	\$15	\$10	\$44	\$37
-----------------------	------	------	------	------

The Company's policy is to fund the pension plan at or above the minimum level required by law. The Company made \$58 and \$56 of contributions to its defined benefit pension plan during the nine months ended September 30, 2018 and 2017, 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.

## 12. STOCKHOLDERS' EQUITY

### Common Stock

The Company had 8,726,045 shares of common stock, \$0.001 par value per share, outstanding as of September 30, 2018 and December 31, 2017.

### Warrants

As of December 31, 2017, the Company had warrants outstanding to purchase 50,600 shares of common stock with a weighted average exercise price of \$7.00 per share. All of the warrants expired on September 18, 2018. No warrants were exercised through the expiration date of September 18, 2018. The Company has no warrants outstanding as of September 30, 2018.

### Stock-Based Compensation

A summary of stock option activity under the 2011 Long-Term Incentive Plan as of September 30, 2018, and changes during the nine months ended September 30, 2018, are presented below:

	Stock Options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding as of January 1, 2018	435,800	\$ 8.35	7.5	\$ 216
Granted	7,000	5.60		
Exercised	—	—		
Forfeited	(16,500 )	7.98		
Outstanding as of September 30, 2018	426,300	\$ 8.32	6.70	\$ 16
Exercisable as of September 30, 2018	412,633	\$ 8.38	6.60	\$ 16

As of September 30, 2018, there were 247,367 shares available for future grants under the Company's 2011 Long-Term Incentive Plan.

Stock-based compensation expense recorded for the three and nine months ended September 30, 2018 was approximately \$14 and \$160, respectively, as compared to \$148 and \$319, during the three and nine months ended September 30, 2017, respectively. At September 30, 2018, the Company had total stock-based compensation expense remaining to be recognized in the consolidated statements of operations of approximately \$19.

### **Foreign Currency Translation**

Foreign assets and liabilities are translated using the exchange rate in effect at the balance sheet date, and results of operations are translated using an average rate for the period. Translation adjustments are accumulated and reported as a component of accumulated other comprehensive income (loss). The Company had foreign currency translation adjustments resulting in unrealized income of \$21 for the three months ended September 30, 2018 and nominal unrealized loss for the three months ended September 30, 2017. For the nine months ended September 30, 2018 and 2017, the Company had foreign currency translation adjustments resulting in unrealized loss of \$146 and unrealized income of \$68, respectively.

**13. BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE**

Basic and diluted income (loss) 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 income (loss) per share (in thousands, except per share data):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Numerator:				
Income (loss) from continuing operations	\$788	\$(219 )	\$128	\$1,683
Loss from discontinued operations, net of income taxes	(730 )	(576 )	(1,440)	(1,084)
Net income (loss)	\$58	\$(795 )	\$(1,312)	\$599
Denominator:				
Weighted average basic shares outstanding	\$8,726	\$8,725	\$8,726	\$8,713
Effect of dilutive securities - equity based compensation plans	8	—	—	14
Denominator for diluted net income per common share	\$8,734	\$8,725	\$8,726	\$8,727
Earnings (loss) per share:				
Basic				
Income (loss) from continuing operations	\$0.09	\$(0.03 )	\$0.01	\$0.19
Loss from discontinued operations	(0.08 )	(0.06 )	(0.17 )	(0.11 )
Net income (loss)	\$0.01	\$(0.09 )	\$(0.16 )	\$0.08
Diluted				
Income (loss) from continuing operations	\$0.09	\$(0.03 )	\$0.01	\$0.19
Loss from discontinued operations	(0.08 )	(0.06 )	(0.17 )	(0.11 )
Net income (loss)	\$0.01	\$(0.09 )	\$(0.16 )	\$0.08

**14. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION**

The Company follows ASC 280 Segment Reporting in determining its reportable segments. The Company considered the way its management team, most notably its chief operating decision maker, makes operating decisions and assesses performance and considered which components of the Company's enterprise have discrete financial information available. As the Company makes decisions using a manufactured products vs. distributed products and services group focus, its analysis resulted in two reportable segments: T&D Solutions and Critical Power. The Critical

Power reportable segment is the Company's Titan Energy Systems Inc. business unit. The T&D Solutions reportable segment is an aggregation of our transformer business units.

The T&D Solutions segment is involved in the design, manufacture and distribution of electrical transformers used primarily by utilities, large industrial and commercial operations to manage their electrical power distribution needs. The Critical Power segment provides power generation equipment, and aftermarket field-services primarily to help customers ensure smooth, uninterrupted power to operations during times of emergency.

The following tables present information about segment income and loss:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues				
T&D Solutions				
Transformers	\$22,663	\$21,547	\$65,194	\$66,198
	22,663	21,547	65,194	66,198
Critical Power Solutions				
Equipment	388	1,261	1,171	4,490
Service	2,905	2,686	7,659	7,147
	3,293	3,947	8,830	11,637
Consolidated	\$25,956	\$25,494	\$74,024	\$77,835

	Three		Nine Months	
	Months		Ended	
	Ended		September 30,	
	September 30,		September 30,	
	2018	2017	2018	2017
Depreciation and Amortization				
T&D Solutions	\$314	\$348	\$981	\$1,028
Critical Power Solutions	369	577	1,122	1,399
Unallocated Corporate Overhead Expenses	16	18	49	55
Consolidated	\$699	\$943	\$2,152	\$2,482

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Operating Income				
T&D Solutions	\$2,449	\$1,777	\$5,594	\$6,715
Critical Power Solutions	141	83	(533 )	(252 )
Unallocated Corporate Overhead Expenses	(641 )	(805 )	(2,099)	(2,427)
Consolidated	\$1,949	\$1,055	\$2,962	\$4,036

Revenues are attributable to countries based on the location of the Company's customers:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Revenues				
United States	\$17,163	\$16,504	\$49,291	\$49,672
Canada	8,793	8,990	24,733	28,163
Total	\$25,956	\$25,494	\$74,024	\$77,835

**15. LEASES**

The company leases certain offices, facilities and equipment under operating and financing leases. Our leases have remaining terms of 1 year to 8 years some of which contain options to extend up to 10 years. As of September 30, 2018 and 2017, assets recorded under finance leases were \$3,565 and \$3,359 respectively, and accumulated amortization associated with finance leases was \$917 and \$397, respectively.

The components of the lease expense were as follows:

	Three Months Ended September 30, 2018		September 30, 2017		Nine Months Ended September 30, 2018		September 30, 2017	
Operating lease cost	\$185	\$ 170	\$548	\$ 509				
Finance lease cost								
Amortization of right-of-use asset	\$137	\$ 140	\$403	\$ 396				
Interest on lease liabilities	38	42	117	126				
Total finance lease cost	\$175	\$ 182	\$520	\$ 522				

Other information related to leases was as follows:

**Supplemental Cash Flows Information**

	September 30, 2018	September 30, 2017
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 557	\$ 517
Operating cash flows from finance leases	117	126
Financing cash flows from finance leases	376	309
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	484	435
Finance leases	409	396



Weighted Average Remaining Lease Term

	September 30, 2018	September 30, 2017
Operating leases	3 years	4 years
Finance leases	7 years	7 years

Weighted Average Discount Rate

	September 30, 2018	September 30, 2017
Operating leases	5.5%	5.5%
Finance leases	5.5%	5.5%

Future minimum lease payments under non-cancellable leases as of September 30, 2018 were as follows:

	Operating Leases	Finance Leases
2018 (excluding the nine months ended September 30, 2018)	\$ 212	\$ 168
2019	793	635
2020	763	533
2021	410	489
2022	91	356
Thereafter	—	1,157
Total future minimum lease payments	2,269	3,338
Less imputed interest	(176 )	(548 )
Total future minimum lease payments	\$ 2,093	\$ 2,790

Reported as of September 30, 2018:

	Operating Leases	Finance Leases
Accounts payable and accrued liabilities	\$ 709	\$ 490
Other long-term liabilities	1,371	2,187
Total	\$ 2,080	\$ 2,677

## 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, 2017, which was filed with the Securities and Exchange Commission on April 2, 2018.*

*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, income (loss) 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 Siemens Industry, Inc. ("Siemens") and Hydro-Quebec for a large portion of our business, and any change in the level of orders from Siemens and Hydro-Quebec 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 significant portion of our revenue and 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 net income (loss).

The impact of geopolitical activity on the economy, changes in government regulations such as income taxes, duties and tariffs on the importation of products we sell into the United States, 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 voting stock, and may have, or may develop in the future, interests that may diverge from yours.

Material weaknesses in internal controls.

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 review carefully the risks and uncertainties described under the heading “Part II - Item 1A. Risk Factors” in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of the foregoing and other risks that relate to our business and investing in shares of our common stock.

## **Business Overview**

We manufacture, sell and service a broad range of specialty electrical transmission, distribution and on-site power generation equipment for applications in the utility, industrial, commercial and backup power markets. Our principal products and services include custom-engineered electrical transformers and engine-generator sets and controls, complemented by a national field-service network to maintain and repair power generation assets. We are headquartered in Fort Lee, New Jersey and operate from 12 additional locations in the U.S., Canada and Mexico for manufacturing, service, centralized distribution, engineering, sales and administration.

## **Description of Business Segments**

We have two reportable segments: Transmission & Distribution Solutions (“T&D Solutions”) and Critical Power Solutions (“Critical Power”).

Our T&D Solutions business provides equipment solutions that help customers effectively and efficiently manage their electrical power distribution systems to desired specifications. The reporting segment is comprised of electrical transformers. These solutions are marketed principally through our Pioneer Transformers Ltd. (“PTL”), Jefferson Electric, Inc. (“Jefferson”), and Bemag Transformers, Inc. (“Bemag”) brand names.

Our Critical Power business provides customers with sophisticated power generation equipment and an advanced data collection and monitoring platform, the combination of which is used to ensure smooth, uninterrupted power to operations during times of emergency. These solutions are marketed by our operations headquartered in Minnesota, currently doing business under the Titan Energy Systems Inc. (“Titan”), as well as the Pioneer Critical Power brand names.

## **Discontinued Operations**

During the fourth quarter of 2017, as part of our review of strategic alternatives, we made approved efforts to sell our switchgear business. Operating results for PCEP, through which we did our switchgear business and have been previously included in the T&D Solutions Segment, have now been reclassified as discontinued operations for all periods presented. On May 2, 2018, Pioneer Custom Electric Products Corp. (“PCEP”), a wholly owned subsidiary of Pioneer Power Solutions, Inc. (the “Company”), entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with CleanSpark, Inc. (“CleanSpark”), pursuant to which PCEP will sell certain assets (the “Asset Sale”) comprising the PCEP business to CleanSpark (the “Purchased Assets”). No debt or significant liabilities are being assumed by CleanSpark in the Asset Sale. Our switchgear business has incurred losses in the years 2016 and 2017, and we believe that disposition of our switchgear business will improve our liquidity and will not significantly affect our capital resources. See Note 5 – Discontinued Operations in Notes to Consolidated Financial Statements in Part I of this Form 10-Q.

## **Foreign Currency Exchange Rates**

Although we report our results in accordance with U.S. GAAP and in U.S. dollars, PTL and Bemag are Canadian operations whose functional currency is the Canadian dollar. As such, the financial position, results of operations, cash flows and equity of these operations are initially consolidated in Canadian dollars. Their 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 weighted average foreign currency exchange rates in effect during the reporting period. The resulting translation adjustments are included in other comprehensive income or loss.

The following table provides actual end of period exchange rates used to translate the financial position of our Canadian operations at the end of each period reported. The average exchange rates presented below, as provided by the Bank of Canada, are indicative of the weighted average rates we used to translate the revenues and expenses of our Canadian operations into U.S. dollars (rates expressed as the number of U.S. dollars to one Canadian dollar for each period reported):

Quarter Ended	2018	Statements of Operations and		2017	Statements of Operations and	
	Balance Sheet	Comprehensive Income		Balance Sheet	Comprehensive Income	
	End of Period	Period Average	Cumulative Average	End of Period	Period Average	Cumulative Average
March 31	\$ 0.7756	\$ 0.7906	\$ 0.7906	\$ 0.7519	\$ 0.7559	\$ 0.7559
June 30	\$ 0.7594	\$ 0.7745	\$ 0.7825	\$ 0.7706	\$ 0.7436	\$ 0.7497
September 30	\$ 0.7725	\$ 0.7652	\$ 0.7766	\$ 0.8013	\$ 0.7983	\$ 0.7652

### Critical Accounting Policies

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, 2017 except for the adoption of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, ASU No. 2016-02, Leases, ASU No. 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other than Inventory and ASU No. 2017-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

### RESULTS OF OPERATIONS

#### *Overview of the Three and Nine Month Results*

Selected financial and operating data for our reportable business segments for the most recent reporting period is summarized below. This information, as well as the selected financial data provided in Note 14 – Business Segment and Geographic Information and in our unaudited Consolidated Financial Statements and related notes included in this Quarterly Report on Form 10-Q, should be referred to when reading our discussion and analysis of results of operations below.

Our summary of operating results during the three and nine months ended September 30, 2018 and 2017 are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues				
T&D Solutions	\$ 22,663	\$ 21,547	\$ 65,194	\$ 66,198
Critical Power Solutions	3,293	3,947	8,830	11,637
Consolidated	25,956	25,494	74,024	77,835
Cost of goods sold				
T&D Solutions	18,348	17,569	52,068	52,363
Critical Power Solutions	2,467	2,913	7,185	9,069
Consolidated	20,815	20,482	59,253	61,432
Gross profit	5,141	5,012	14,771	16,403
Selling, general and administrative expenses	3,703	3,533	11,236	11,134
Depreciation and amortization expense	378	618	1,190	1,542
Restructuring and integration	—	—	—	156
Foreign exchange gain	(889 )	(194 )	(617 )	(465 )
Total operating expenses	3,192	3,957	11,809	12,367
Operating income from continuing operations	1,949	1,055	2,962	4,036
Interest expense	727	632	2,126	1,792
Other expense	19	112	158	165
Income before taxes	1,203	311	678	2,079
Income tax expense	415	530	550	396
Net income (loss) from continuing operations	788	(219 )	128	1,683
Loss from discontinued operations, net of income taxes	(730 )	(576 )	(1,440 )	(1,084 )
Net income (loss)	\$ 58	\$ (795 )	\$ (1,312 )	\$ 599



During the fourth quarter of 2017, as part of our review of strategic alternatives, our Board of Directors approved efforts to sell our switchgear business unit operated as PCEP. Operating results for PCEP, which have been previously included in the T&D Solutions Segment, have now been reclassified as discontinued operations for all periods presented. See Note 5 – Discontinued Operations in Notes to Consolidated Financial Statements in Part I of this Form 10-Q. The excluded revenue for the switchgear business previously reported in T&D Solutions was \$1.3 million and \$4.3 million for the three months ended September 30, 2018 and 2017, respectively, and \$5.9 million and \$10.1 million for the nine months ended September 30, 2018 and 2017, respectively. The excluded loss from the switchgear business was \$730 and \$576 for the three months ended September 30, 2018 and 2017, respectively, and \$1,440 and \$1,084 for the nine months ended September 30, 2018 and 2017, respectively.

### ***Backlog***

Our backlog is based on firm orders from our customers expected to be delivered in the future, most of which is expected to occur during the next twelve months. Backlog may vary significantly from reporting period to reporting period due to the timing of customer commitments. The time between receipt of an order and actual delivery, or completion, of our products and services varies from one or more days, in the case of inventoried standard products, to three to nine months, in the case of certain custom engineered equipment solutions, and up to one year or more under our service contracts.

The following table represents the progression of our backlog, by reporting segment, as of the end of the last five quarters:

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
T&D Solutions	\$ 29,449	25,419	\$ 21,503	\$ 20,170	\$ 20,016
Critical Power Solutions	11,522	10,850	8,623	8,710	10,626
Order backlog	40,971	36,269	30,126	28,880	30,642
Discontinued Operation	9,626	8,344	5,621	6,316	8,043
Total order backlog	\$ 50,597	44,613	\$ 35,747	\$ 35,196	\$ 38,685

### ***Revenue***

The following table represents our revenues by reporting segment and major product category for the periods indicated:

Edgar Filing: PIONEER POWER SOLUTIONS, INC. - Form 10-Q

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance	%	2018	2017	Variance	%
<b>T&amp;D Solutions</b>								
Transformers	\$ 22,663	\$ 21,547	\$ 1,116	5.2	\$ 65,194	\$ 66,198	\$ (1,004 )	(1.5 )
	22,663	21,547	1,116	5.2	65,194	66,198	(1,004 )	(1.5 )
<b>Critical Power Solutions</b>								
Equipment	388	1,261	(873 )	(69.2 )	1,171	4,490	(3,319 )	(73.9 )
Service	2,905	2,686	219	8.2	7,659	7,147	512	7.2
	3,293	3,947	(654 )	(16.6 )	8,830	11,637	(2,807 )	(24.1 )
Total revenue	\$ 25,956	\$ 25,494	\$ 462	1.8	\$ 74,024	\$ 77,835	\$ (3,811 )	(4.9 )

For the three months ended September 30, 2018, our consolidated revenue increased by \$0.5 million, or 1.8%, to \$26.0 million, up from \$25.5 million during the three months ended September 30, 2017. For the nine months ended September 30, 2018, our consolidated revenue decreased by \$3.8 million, or 4.9%, to \$74.0 million, down from \$77.8 million during the nine months ended September 30, 2017.

*T&D Solutions.* During the three months ended September 30, 2018, revenue from our transformer product lines increased by \$1.1 million or 5.2% as compared to the three months ended September 30, 2017 due to higher sales of liquid filled transformers. During the nine months ended September 30, 2018, revenue from our transformer product lines decreased by \$1.0 million or 1.5% as compared to the nine months ended September 30, 2017. The decrease was mostly driven by lower sales of our “dry type” transformer products.

*Critical Power.* Titan is the only business unit in the Critical Power segment. For the three months ended September 30, 2018, equipment sales decreased by \$0.9 million, or 69.2%, as compared to the same period in the prior year, resulting from a reduced focus on equipment sales included in the Titan revenue stream. For the nine months ended September 30, 2018, equipment sales were down by \$3.3 million, or 73.9% compared to the same period in 2017.

For the three months ended September 30, 2018, service revenue increased by \$219 or 8.2%, as compared to the same period in the prior year. For the nine months ended September 30, 2018, service revenue increased by \$511 or 7.2% compared to the same period in 2017. The Company increased the focus on the service revenue in its Critical Power segment.

**Gross Profit and Gross Margin**

The following table represents our gross profit by reporting segment for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance	%	2018	2017	Variance	%
<b>T&amp;D Solutions</b>								
Gross profit	\$ 4,315	\$ 3,978	\$ 337	8.5	\$ 13,126	\$ 13,835	\$ (709 )	(5.1 )
Gross margin %	19.0	18.5	0.5		20.1	20.9	(0.8 )	
<b>Critical Power Solutions</b>								
Gross profit	826	1,034	(208 )	(20.1 )	1,645	2,568	(923 )	(35.9 )
Gross margin %	25.1	26.2	(1.1 )		18.6	22.1	(3.5 )	
<b>Consolidated</b>								
gross profit	\$ 5,141	\$ 5,012	\$ 129	2.6	\$ 14,771	\$ 16,403	\$ (1,632 )	(9.9 )
gross margin %	19.8	19.7	0.1		20.0	21.1	(1.1 )	

For the three months ended September 30, 2018, our consolidated gross margin was 19.8% of revenues, compared to 19.7% during the three months ended September 30, 2017. For the nine months ended September 30, 2018, our gross margin was 20.0% of revenues, compared to 21.1% during the nine months ended September 30, 2017. The decrease in our consolidated gross margin percentage is further explained below.

*T&D Solutions.* During the three months ended September 30, 2018 the gross margin increased by 0.5% as compared to the same period in 2017. Included in the three months ended September 30, 2017 is the write off of raw material inventory not relocated from Canada. During the nine months ended September 30, 2018 the gross margin decreased by 0.8% as compared to the same period in 2017 primarily from an unfavorable product mix in our “dry type” transformers.

*Critical Power.* During the three and nine months ended September 30, 2018, the gross margin decreased by 1.1% and 3.5%, respectively, when compared to the same periods in 2017, primarily due to lower sales while the fixed costs remained comparable.



*Operating Expenses*

The following table represents our operating expenses by reportable segment for the periods indicated:

	Three Months Ended				Nine Months Ended			
	September 30, 2018	2017	Variance	%	September 30, 2018	2017	Variance	%
T&D Solutions								
Selling, general and administrative expense	\$ 2,695	\$ 2,302	\$ 393	17.1	\$ 7,928	\$ 7,152	\$ 776	10.9
Depreciation and amortization expense	60	93	(33 )	(35.5 )	221	277	(56 )	(20.2 )
Restructuring and integration	—	—	—	—	—	156	(156 )	(100.0 )
Foreign exchange gain	(889 )	(194 )	(695 )	358.2	(617 )	(465 )	(152 )	32.7
Segment operating expense	\$ 1,866	\$ 2,201	\$ (335 )	(15.2 )	\$ 7,532	\$ 7,120	\$ 412	5.8
Critical Power Solutions								
Selling, general and administrative expense	\$ 383	\$ 444	\$ (61 )	(13.7 )	\$ 1,257	\$ 1,610	\$ (353 )	(21.9 )
Depreciation and amortization expense	302	507	(205 )	(40.4 )	921	1,210	(289 )	(23.9 )
Segment operating expense	\$ 685	\$ 951	\$ (266 )	(28.0 )	\$ 2,178	\$ 2,820	\$ (642 )	(22.8 )
Unallocated Corporate Overhead Expenses	\$ 625	\$ 787	\$ (162 )	(20.6 )	\$ 2,051	\$ 2,372	\$ (321 )	(13.5 )

Selling, general and administrative expense								
Depreciation expense	16	18	(2 )	(11.1 )	48	55	(7 )	(12.7 )
Segment operating expense	\$ 641	\$ 805	\$ (164 )	(20.4 )	\$ 2,099	\$ 2,427	\$ (328 )	(13.5 )
Consolidated Selling, general and administrative expense	\$ 3,703	\$ 3,533	\$ 170	4.8	\$ 11,236	\$ 11,134	\$ 102	0.9
Depreciation and amortization expense	378	618	(240 )	(38.8 )	1,190	1,542	(352 )	(22.8 )
Restructuring and integration	—	—	—	—	—	156	(156 )	(100.0 )
Foreign exchange gain	(889 )	(194 )	(695 )	358.2	(617 )	(465 )	(152 )	32.7
Consolidated operating expense	\$ 3,192	\$ 3,957	\$ (765 )	(19.3 )	\$ 11,809	\$ 12,367	\$ (558 )	(4.5 )

*Selling, General and Administrative Expense.* For the three months ended September 30, 2018, consolidated selling, general and administrative expense, before depreciation and amortization, increased by \$170, or 4.8%, to \$3,703, as compared to \$3,533 during the three months ended September 30, 2017. As a percentage of our consolidated revenue, selling, general and administrative expense before depreciation and amortization increased to 14.3% in the 2018 period, as compared to 13.9% in 2017.

During the nine months ended September 30, 2018, consolidated selling, general and administrative expense, before depreciation and amortization, increased by \$102 or 0.9%, to \$11.2 million, as compared to \$11.1 million during the nine months ended September 30, 2017. As a percentage of our consolidated revenue, selling, general and administrative expense before depreciation and amortization increased to 15.2% in the 2018 period, as compared to 14.3% in 2017.

*Depreciation and Amortization Expenses.* Depreciation and amortization expense consists primarily of depreciation of fixed assets and amortization of definite-lived intangible assets and right-of-use assets related to our finance leases and excludes amounts included in cost of sales. For the three months ended September 30, 2018, depreciation and amortization expense decreased by \$240 or 38.8% when compared to the same period in 2017. For the nine months ended September 30, 2018, depreciation and amortization expense decreased by \$352 or 22.8% when compared to the same period in 2017.

*Restructuring and Integration Expenses.* There was no restructuring and integration expense for the three months ended September 30, 2017 and 2018 and nine months ended September 30, 2018. For the nine months ended September 30, 2017, restructuring and integration expense was \$156 related to relocation of the medium voltage transformer production facility from Canada to a lower cost facility.

*Foreign Exchange Loss/Gain.* During the three and nine months ended September 30, 2018, approximately 46% and 45%, respectively, of our consolidated operating revenues were denominated in Canadian dollars, as compared to 42% and 44%, respectively, for the same periods in 2017. Most of our expenses were denominated and disbursed in U.S. dollars during the three and nine months ended September 30, 2018 and 2017. 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, 2018 and 2017, we recorded a gain of \$889 and \$194, respectively, due to currency fluctuations. For the nine months ended September 30, 2018 and 2017, we recorded a gain of \$617 and \$465, respectively, due to currency fluctuations.

**Operating Income (Loss)**

The following table represents our operating income, excluding discontinued operations, by reportable segment for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance	%	2018	2017	Variance	%
T&D Solutions	\$ 2,449	\$ 1,777	\$ 672	37.8	\$ 5,594	\$ 6,715	\$ (1,121 )	(16.7 )
Critical Power Solutions	141	83	58	(69.9 )	(533 )	(252 )	(281 )	(111.5 )
Unallocated Corporate Overhead Expenses	(641 )	(805 )	164	20.4	(2,099 )	(2,427 )	328	13.5
Total operating income	\$ 1,949	\$ 1,055	\$ 894	84.7	\$ 2,962	\$ 4,036	\$ (1,074 )	(26.6 )

*T&D Solutions.* During the three months ended September 30, 2018, T&D segment operating income was \$2,449 as compared to \$1,777 for the same period in 2017. Included in the three months ended September 30, 2017 is the write off of raw material inventory not relocated from Canada. During the nine months ended September 30, 2018, T&D segment operating income was \$5,594 as compared to \$6,715 during the same period of 2017. The decrease in the operating income is primarily due to an unfavorable product mix in our “dry type” transformers.

*Critical Power.* During the three months ended September 30, 2018, our Critical Power segment generated an operating income of \$141 as compared to \$83 during the same period of 2017. During the nine months ended September 30, 2018, our Critical Power segment generated an operating loss of \$533 as compared to \$252 loss during the same periods of 2017.

*Unallocated Corporate Overhead Expenses.* Our corporate expenses consist primarily of executive management, corporate accounting and human resources personnel, office expenses, financing and corporate development activities, payroll and benefits administration, treasury, tax compliance, legal, stock-based compensation and public reporting costs, and costs not specifically allocated to reportable business segments. During the three and nine months period ended September 30, 2018, our Unallocated Corporate Overhead Expenses decreased by \$164 or 20.4% and \$328 or 13.5%, respectively, as compared to the same periods in 2017 primarily due to adjustment of prior year insurance premiums.



**Non-Operating Expense**

*Interest Expense.* For the three and nine months ended September 30, 2018, interest expense was approximately \$727 and \$2,126, respectively, as compared to \$632 and \$1,792, respectively, during the three and nine months ended September 30, 2017. The increase in our interest expense was due to higher average borrowings outstanding under our credit facilities and the increased utilization of short term borrowings with increased rates during the 2018 period as compared to 2017.

*Other Expense.* For the three and nine months ended September 30, 2018, other non-operating expense was \$19 and \$158, respectively, as compared to \$112 and \$165, during the same periods of 2017.

*Income Tax Expense.* Our effective income tax expense rate was 34.5% for the three months ended September 30, 2018, compared to 170.4% during the same period in 2017. For the nine months ended September 30, 2018, our effective income tax expense rate was 81.1%, as compared to 19.0% during the same period in 2017, as set forth below (dollars in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Variance	2018	2017	Variance
Income from continuing operations before income taxes	\$ 1,203	\$ 311	\$ 892	\$ 678	\$ 2,079	\$ (1,401 )
Income tax expense	415	530	(115 )	550	396	154
Effective income tax rate %	34.5	170.4	(135.9 )	81.1	19.0	62.1

Our effective income tax rate decreased by 135.9% and increased by 62.1% during the three and nine months ended September 30, 2018, respectively, as compared to the same period of the prior year, primarily due to changes made to taxation of foreign earned income pursuant to the U.S. tax code changes enabled in December 2017.

**Net Income/ (Loss)**

We generated a net income of \$58 and net loss of \$1,312 during the three and nine months ended September 30, 2018, respectively, as compared to net loss of \$795 and net income of \$599 for the three and nine months ended September 30, 2017. Our net income per basic and diluted share for the three months ended September 30, 2018 was \$0.01. Our net loss per basic and diluted share for the nine months ended September 30, 2018 was \$0.16. Our net loss per basic and diluted share for the three months ended September 30, 2017 was \$0.09. Our net income per basic and diluted share for the nine months ended September 30, 2017 was \$0.08.



Our income per share from continuing operations basic and diluted for the three and nine months ended September 30, 2018 was \$0.09 and \$0.01, respectively, as compared to loss of \$0.03 and income of \$0.19 for the three and nine months ended September 30, 2017, respectively.

Our loss per share from discontinued operations basic and diluted for the three and nine months ended September 30, 2018 was \$0.08 and \$0.17, respectively. Our loss per share from discontinued operations basic and diluted for the three and nine months ended September 30, 2017 was \$0.06 and \$0.11, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

*General.* At September 30, 2018, we had \$659 of cash and cash equivalents on hand and total debt outstanding of \$33.6 million, when including bank overdrafts and liabilities of discontinued operations. We have historically met our cash needs through a combination of cash flows from operating activities, bank borrowings under our revolving credit facilities and distributions between our U.S. and foreign subsidiaries. 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, funds generated from operations and cash available on hand will 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 from the date of filing.

*Cash Provided by/ Used in Operating Activities.* Cash provided by our operating activities was \$567 during the nine months ended September 30, 2018 as compared to \$164 of cash used in operating activities during the nine months ended September 30, 2017. The principal elements of cash provided by operating activities during the nine months ended September 30, 2018 were \$3,003 of non-cash expenses consisting of depreciation, amortization of intangibles and deferred issuance costs, changes in inventory reserves, stock-based compensation and foreign currency premeasurement loss. These sources of cash were partially offset by the net loss of \$1,312, deferred income tax benefit of \$414, changes in receivable reserves of \$374 and \$344 of cash used for working capital purposes.

*Cash Used in Investing Activities.* Cash used in investing activities during the nine months ended September 30, 2018 was \$369, as compared to \$1,225 during the nine months ended September 30, 2017. During the nine months ended September 30, 2018, additions to our property, plant and equipment were \$369.

*Cash Provided by Financing Activities.* Cash provided by our financing activities was \$167 during nine months ended September 30, 2018, as compared to \$2,635 during the nine months ended September 30, 2017.

*Working Capital.* As of September 30, 2018, we had negative working capital of \$1.4 million, including \$659 of cash and equivalents, compared to working capital of \$709, including \$218 of cash and equivalents at December 31, 2017. Our current assets were approximately 1.00 times our current liabilities at September 30, 2018 and at December 31, 2017. At September 30, 2018 and December 31, 2017, we had \$0.9 million and \$3.3 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. Management believes that the existing credit facility is available as of the filing date to support operations as needed. As previously noted our total order backlog has increased approximately \$6 million during the three months ended September 30, 2018 which has required us to increase our inventory levels and related commitments to meet this future demand. We expect that as we work off this backlog and when we complete the sale of PCEP that our working capital position will improve including a reduction in our overall debt levels.

## **Credit Facilities and Long-Term Debt**

### *Canadian Credit Facilities*

In April 2016, our wholly owned subsidiary, Pioneer Electrogroupp Canada Inc. (“PECI”), entered into an Amended and Restated Credit Agreement (“CAD ARCA”) with Bank of Montreal (“BMO”) with respect to our existing Canadian credit facilities (as amended and restated, the “Canadian Facilities”) that replaced and superseded all of our businesses’ prior financing arrangements with the bank. This CAD ARCA extended the maturity date of our Canadian Facilities to July 31, 2017. Additionally, defaults relating to the breach of certain financial covenants under the prior financing arrangements with BMO existing as of December 31, 2015 were waived by BMO. The CAD ARCA was further amended (the “2017 CAD ARCA Amendment”) on March 15, 2017, and again on March 28, 2018 (the “2018 CAD ARCA Amendment”). The 2018 CAD ARCA Amendment extended the term of our Canadian Facilities to April 1, 2020.

Our Canadian Facilities provided for up to \$8.2 million Canadian dollars (“CAD”) (approximately \$6.3 million expressed in U.S. dollars) consisting of a revolving \$7.0 million CAD revolving credit facility (“Facility A”) to finance ongoing operations, a \$471 CAD term credit facility (“Facility B”) that financed a plant expansion, and a \$712 USD Facility that financed a business acquisition and the purchase and expansion of its manufacturing facilities. The 2017 CAD ARCA Amendment increased the Facility A to \$8.0 million CAD, increasing the total amount of loans available under the Canadian Facilities to \$9.2 million CAD.

Facility A, as amended by the 2017 CAD ARCA Amendment and the 2018 CAD ARCA Amendment, is subject to margin criteria. Facility A, as amended by the 2017 CAD ARCA Amendment, bore interest at BMO's prime rate plus 0.75% per annum on amounts borrowed in Canadian dollars, or BMO's U.S. base rate plus 0.75% per annum or LIBOR plus 2.25% per annum on amounts borrowed in U.S. dollars. The 2018 CAD ARCA Amendment modified the interest rate on Facility A borrowings to BMO's prime rate plus 0.50% per annum on amounts borrowed in Canadian dollars, or BMO's U.S. base rate plus 0.50% per annum or LIBOR plus 2.0% per annum on amounts borrowed in U.S. dollars. Pursuant to the 2017 CAD ARCA Amendment, Facility A was to mature on July 31, 2018. The 2018 CAD ARCA Amendment extended the maturity of borrowings under Facility A to April 1, 2020. Consistent with the terms of the historical Facility A, including both a subjective acceleration clause and lockbox arrangement, will continue to be presented as a current liability. We believe based upon historical experience, that Facility A will remain in place to fund operations through maturity of this facility in April 2020.

Borrowings under Facility B, as amended by the 2017 CAD ARCA Amendment, bore interest at BMO's prime rate plus 1.25% per annum with principal repayments becoming due on a five year amortization schedule. Pursuant to the CAD ARCA, quarterly principal repayments were reduced to \$47 CAD, with a balloon payment of \$141 CAD due on July 31, 2017. The 2017 CAD ARCA Amendment amended the payment schedules so that the quarterly principal payments of \$47 CAD was to continue after July 31, 2017 until our borrowings under the facility is fully paid on April 30, 2018. The 2018 CAD ARCA Amendment did not modify the interest rate on Facility B borrowings, which remained at BMO's prime rate plus 1.25% per annum. Pursuant to the 2018 CAD ARCA Amendment, we made the final principal payment of \$47 under Facility B on April 30, 2018.

Borrowings under Facility C, as amended by the 2017 CAD ARCA, bore interest at BMO's prime rate plus 1.50% per annum on amounts borrowed in Canadian dollars, or BMO's U.S. base rate plus 1.50% per annum or LIBOR plus 2.75% per annum on amounts borrowed in U.S. dollars. Pursuant to the CAD ARCA, a principal repayment of \$72 USD due on June 30, 2016, and the reduced quarterly principal repayments of \$36 USD were to be made beginning on October 31, 2016, with a balloon payment of \$496 USD due on July 31, 2017. The 2017 CAD ARCA Amendment amended the payment schedules so that the quarterly payments of \$36 USD were to continue until July 31, 2018, with a balloon payment of \$352 due on July 31, 2018. Pursuant to the 2018 CAD ARCA Amendment, quarterly principal repayments of \$36 will continue until January 31, 2020, with a balloon payment of \$136 due on April 1, 2020. The 2018 CAD ARCA Amendment modified the interest rate on Facility C borrowings to BMO's prime rate plus 1.25% per annum on amounts borrowed in Canadian dollars, or BMO's U.S. base rate plus 1.25% per annum or LIBOR plus 2.50% per annum on amounts borrowed in U.S. dollars.

Pursuant to the CAD ARCA, as amended by the 2017 CAD ARCA Amendment and the 2018 CAD ARCA Amendment, financial covenant testing is performed on our consolidated financial statements. We are required to meet certain minimum working capital ratios, minimum EBITDA levels and effective tangible net worth levels for each fiscal quarter, as set forth in the 2017 CAD ARCA Amendment and the 2018 CAD ARCA Amendment. Pursuant to the 2018 CAD ARCA Amendment, BMO waived defaults on all financial covenants existing as of December 31, 2017, for which we were not in compliance.

As of September 30, 2018, we had approximately \$6.0 million in U.S. dollar equivalents outstanding under our Canadian Facilities. Our borrowings consisted of approximately \$5.6 million outstanding under Facility A and \$352 outstanding under Facility C. As of September 30, 2018, the Company was not in compliance with the financial covenant requirements of the Canadian Facilities and has received a waiver from BMO as of November 7, 2018 for the period ending September 30, 2018.

### *United States Credit Facilities*

In April 2016, we entered into an Amended and Restated Credit Agreement (“US ARCA”) with BMO with respect to our U.S. Facilities that replaced and superseded all of our businesses’ prior financing arrangements with the bank (as amended and restated, the “U.S. Facilities”). Additionally, defaults relating to the breach of certain financial covenants under the prior financing arrangements with BMO existing as of December 31, 2015 were waived by BMO. The US ARCA was further amended (the “2017 US ARCA Amendment”) on March 15, 2017, and again on March 28, 2018 (the “2018 US ARCA Amendment”). The 2018 US ARCA Amendment extended the term of our US Facilities to April 1, 2020.

Our U.S. Facilities, as amended and restated, provided for up to \$19.1 million USD consisting of a \$14.0 million USD demand revolving credit facility (“USD Facility A”) to finance ongoing operations, a \$5.0 million USD term loan facility (“USD Facility B”) that financed the acquisition of Titan, and a new \$100 revolving credit facility provided pursuant to a MasterCard is to be used to pay for and temporarily finance our day-to-day business expenses and for no other purpose. The 2017 US ARCA Amendment increased the USD Facility A to \$15.0 million, increasing the total amount of loans available under the U.S. Facilities to \$20.1 million USD.

USD Facility A, as amended and restated per 2017 US ARCA, bore interest, at our option, at BMO’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. Pursuant to the 2018 US ARCA Amendment, borrowings under Facility A bears interest, at our option, at the BMO’s prime rate plus 0.75% per annum on U.S. prime rate loans, or an adjusted LIBOR rate plus 2.00% per annum on Eurodollar loans. USD Facility A had a maturity date of July 31, 2017, which was extended to July 31, 2018 pursuant to the 2017 US ARCA Amendment. The 2018 US ARCA Amendment extended the maturity of borrowings under USD Facility A to April 1, 2020. Consistent with the terms of the historical USD Facility A, including both a subjective acceleration clause and lockbox arrangement, will continue to be presented as a current liability. We believe based upon historical experience, that the USD Facility A will remain in place to fund operations through maturity in April 2020.

Borrowings under USD Facility B bear interest, at our option, at U.S. base rate plus 1.25% per annum on U.S. prime loans, or an adjusted LIBOR rate plus 2.50% per annum on Eurodollar loans. Pursuant to the US ARCA, our quarterly principal payments were reduced to \$31 USD for calendar year 2016, with the original amortization schedule continuing to apply to all quarterly principal payments made after December 31, 2016, and the final maturity date of December 2, 2019. The 2017 US ARCA Amendment reduced the scheduled quarterly principal payments to \$31 USD, commencing March 31, 2017, to continue until July 31, 2018, with a balloon payment of \$4,438 on July 31, 2018. Pursuant to the 2018 US ARCA Amendment, monthly principal repayments beginning on July 31, 2018 are increased to \$100 and will continue until March 31, 2020, with a balloon payment of \$2,338 due on April 1, 2020. The 2018 US ARCA Amendment did not change the USD Facility B interest rate.

Pursuant to the US ARCA, as amended by the 2017 US ARCA Amendment and the 2018 US ARCA Amendment, financial covenant testing is performed on our consolidated financial statements. We are required to meet certain minimum working capital ratios, minimum EBITDA levels and effective tangible net worth levels for each fiscal quarter, as set forth in the 2017 US ARCA Amendment and the 2018 US ARCA Amendment. On March 6, 2017, we received a waiver from BMO on certain financial covenants existing as of December 31, 2016. On March 28, 2018, pursuant to the 2018 US ARCA Amendment, BMO waived defaults on all financial covenants existing as of December 31, 2017 for which we were not in compliance.

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 Electrogroupp Canada Inc. held by us, to secure our obligations for borrowed money under the U.S. Facilities. 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.

As of September 30, 2018, we had approximately \$18.1 million outstanding under our U.S. Facilities. Our borrowings consisted of approximately \$14.0 million outstanding under USD Facility A, and \$4.1 million outstanding under USD Facility B. As of September 30, 2018, the Company was not in compliance with the financial covenant requirements of the U.S. Facilities and has received a waiver from BMO as of November 7, 2018 for the period ending September 30, 2018.

### ***Capital Lease Obligations***

As of September 30, 2018 and December 31, 2017, we had an immaterial amount of capital lease obligations outstanding that were assumed in connection with the acquisition of Titan.

## **Capital Expenditures**

Our additions to property, plant and equipment were \$369 during the nine months ended September 30, 2018, as compared to \$1,245 during the nine months ended September 30, 2017. We have no major future capital projects planned, or significant replacement spending anticipated during 2018.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not Applicable

## **ITEM 4. CONTROLS AND PROCEDURES**

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

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The matters that management identified in our Annual Report on Form 10-K for the year ended December 31, 2017, filed on April 2, 2018, continued to exist and were still considered material weaknesses in our internal control over financial reporting at September 30, 2018.

We conducted an evaluation of the effectiveness of our "disclosure controls and procedures" ("Disclosure Controls"), as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2018, the end of the period covered by this Quarterly Report on Form 10-Q. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. As of September 30, 2018, based on the evaluation of these disclosure controls and procedures, and in light of the material weaknesses found in our internal controls over financial reporting, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were not effective.



Management believes that the condensed consolidated financial statements in this quarterly report on Form 10-Q fairly present, in all material respects, the Company's financial condition as of the Evaluation Date, and results of its operations and cash flows for the Evaluation Date, in conformity with United States Generally Accepted Accounting Principles ("GAAP").

### **Remediation Plan**

As of September 30, 2018, there were control deficiencies which constituted a material weakness in our internal control over financial reporting. Management has taken, and is taking steps to strengthen our internal control over financial reporting.

We have executed a plan that provided for the recruitment of new senior personnel at our reporting unit locations, as well as additional training for existing accounting staff as it relates to our financial reporting requirements. Members of management and the accounting staff have received additional training related to policies, procedures and internal controls, including Pioneer's policies regarding monthly reconciliations and supervisory review procedures for all significant accounts. Our corporate accounting group, assisted by an independent consulting firm that has been engaged, has reviewed and assessed progress on the remediation plan noted above.

While we have taken certain actions to address the material weaknesses identified, additional measures may be necessary as we work to improve the overall effectiveness of our internal controls over financial reporting.

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

Other than the changes discussed above in the Remediation Plan, there has been no change in our internal control over financial reporting during the quarter ended September 30, 2018 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may become involved in lawsuits, investigations and claims that arise in the ordinary course of business.

On January 11, 2016, Myers Power Products, Inc., a specialty electrical products manufacturer, filed suit with the Superior Court of the State of California, County of Los Angeles, against us, PCEP and two PCEP's employees who are former employees of Myers Power Products, Inc., Geo Murickan, the president of PCEP ("Murickan"), and Brett DeChellis ("DeChellis"), alleging, among other things, that Murickan wrongly used and retained confidential business information of Myers Power Products, Inc. for the benefit of us and PCEP, in breach of their confidentiality agreement and/or employment agreement entered into with Myers Power Products, Inc., and that we and PCEP knowingly received and used such confidential business information. Myers Power Products, Inc. is seeking injunctive relief enjoining us, PCEP and our employees from using its confidential business information and compensatory damages of an unspecified unlimited (exceeding \$25,000) amount. On March 18, 2016, we filed an answer to the complaint, denying generally each and every allegation and relief sought by Myers Power Products, Inc. and seeking dismissal based on, among other things, failure to state facts sufficient to constitute a cause of action. We intend to contest the matter vigorously. Due to the uncertainties of litigation, however, we can give no assurance that we, PCEP and our employees will prevail on any claims made against us, PCEP and our employees in any such lawsuit. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results.

As of the date hereof, we are not aware of or a party to any legal proceedings to which we or any of our subsidiaries is a party or to which any of our property is subject, nor are we aware of any such threatened or pending litigation or any such proceedings known to be contemplated by governmental authorities other than the forgoing suit filed by Myers Power Products, Inc. that we believe could have a material adverse effect on our business, financial condition or operating results. See Note 11 – Commitments and Contingencies included in the notes to our consolidated financial statements included in the Annual Report on Form 10-K.

We are not aware of any material proceedings in which any of our directors, officers or affiliates or any registered or beneficial shareholder of more than 5% of our common stock is an adverse party or has a material interest adverse to our interest.

**ITEM 1A. RISK FACTORS**

During the fiscal quarter ended September 30, 2018 there were no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.



**EXHIBIT INDEX**

**Exhibit**

<b>No.</b>	<b>Description</b>
<u>3.1</u>	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).
<u>3.2</u>	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).
<u>10.1</u>	Letter Agreement, dated June 29, 2018, by and between Cleanspark, Inc and Pioneer Custom Electric Products Corp. (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 July 3, 2018)
<u>10.2</u>	Letter Agreement, dated July 16, 2018, by and between Cleanspark, Inc and Pioneer Custom Electric Products Corp. (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 July 19, 2018)
<u>10.3*</u>	Waiver Letter, dated November 7, 2018, from Bank of Montreal, Chicago Branch, as lender.
<u>31.1*</u>	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2*</u>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1*</u>	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<u>32.2*</u>	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, 2018, formatted in XBRL (eXtensible Business Reporting Language), (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Cash Flows and (v) Notes to the Consolidated Financial Statements.

\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 9, 2018 By: /s/ Nathan J. Mazurek  
Name: Nathan J. Mazurek  
Title: Chief Executive Officer

Date: November 9, 2018 /s/ Thomas Klink  
Name: Thomas Klink  
Title: Chief Financial Officer

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