

PIONEER POWER SOLUTIONS, INC.  
Form 10-K  
March 29, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

**(Mark One)**

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

**For the fiscal year ended: December 31, 2018**

**or**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number: 333-155375**

**PIONEER POWER SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

**27-1347616**

*(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)*

**400 Kelby Street, 12th Floor**

**Fort Lee, New Jersey 07024**

*(Address of principal executive offices, including zip code)*

Registrant's telephone number, including area code: **(212) 867-0700**

Securities registered pursuant to Section 12(b) of the Act:

| <b>Title of each class</b>               | <b>Name of each exchange on which registered</b> |
|--|--|
| Common Stock, par value \$.001 per share | Nasdaq Stock Market LLC (Nasdaq Capital Market)  |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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 Act). Yes      No

As of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based on the price at which the common equity was last sold on the Nasdaq Capital Market on such date, was approximately \$24.6 million. For purposes of this computation only, all officers, directors and 10% or greater stockholders of the registrant are deemed to be affiliates.

As of March 29, 2019, 8,726,045 shares of the registrant's common stock were outstanding.

**PIONEER POWER SOLUTIONS, INC.**

**FORM 10-K**

**For the Fiscal Year Ended December 31, 2018**

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K 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,” “fu,” “intends,” “plans,” “believes,” “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 or 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 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 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 power, and may have, or may develop in the future, interests that may diverge from yours.

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

The liquidity and trading volume of our common stock.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipated in our forward-looking statements. Moreover, new risks regularly emerge and it is not possible for us to predict or articulate all risks we face, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should review carefully the risks and uncertainties described under the heading "Item 1A. Risk Factors" in this Annual Report on Form 10-K for a discussion of the foregoing and other risks that relate to our business and investing in shares of our common stock.

## **PART I**

### **ITEM 1. BUSINESS**

#### **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 eleven (11) additional locations in the U.S., Canada and Mexico for manufacturing, centralized distribution, engineering, sales and administration.

Our largest customers include a number of recognized national and regional utilities, industrial companies and engineering, procurement and construction firms located in North America. In addition, we sell our products through hundreds of electrical distributors served by our network of stocking locations throughout the U.S. and Canada. We intend to grow our business through internal product development, and expansion of our sales force coverage to increase the scope and relevance of highly-engineered solutions and technical service we offer our customers for their specific electrical applications.

#### **Description of Business Segments**

In 2018, we had 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. Electrical transformers are the primary product of this reporting segment. These solutions are marketed principally through our Pioneer Transformers Ltd. (“PTL”), Jefferson Electric, Inc. (“Jefferson”), Bemag Transformers, Inc. (“Bemag”) and Pioneer Custom Electric Products, Inc. (“PCEP”) 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”) brand name.

### **T&D Solutions Segment**

We design, develop, manufacture and sell a wide range of electrical transmission and distribution equipment and our emphasis is to provide custom engineered, manufactured-to-order solutions, which we estimate currently represents over two-thirds of our T&D revenue. We believe that demand for our custom solutions is driven primarily by end user maintenance programs to repair, replace or retrofit aging equipment, as well as to upgrade or expand their electrical distribution systems to accommodate growth and other changes in their operations. In addition, a significant portion of our custom solutions revenue is derived from the production of magnetic subassemblies incorporated by original equipment manufacturers (“OEMs”) into the systems they sell, systems which in the case of our customers are principally being used for data center, elevator control and electric drive applications. The remainder of our T&D Solutions revenue is derived from our catalogue of standard transformer designs, models which are sold primarily through electrical distributors and to brand label customers. These products are manufactured to stock and are used in general purpose electrical applications, with demand being driven by the overall pace of new commercial construction.

We distinguish ourselves by producing a wide range of engineered-to-order and standard equipment, sold either directly to end users, through manufacturers’ representatives and engineering and construction firms or through electrical distributors. We serve customers in a variety of industries including electric utilities, industrial customers, OEMs, commercial firms, contractors and renewable energy producers.

*Summary of T&D Segment Offerings*

**Product  
Category**

**Solutions**

|                               |   |
|-------------------------------|---|
| Liquid-filled<br>Transformers | <p>Small &amp; medium power: substation class units for utilities and large industrial applications</p> <p>Padmount: used in utility distribution networks, underground and in renewable projects</p> <p>Network: Subway/vault-type units used to ensure reliability of utility service</p> <p>Unitized Padmount: an equipment combination used in place of a conventional substation</p> <p>Others: mini-pad, platform-mount and other specialty low voltage designs</p>   |
| Dry-Type<br>Transformers      | <p>Medium voltage &amp; power-dry: custom-designed for applications where a liquid-filled transformer is not suitable for safety concerns and/or other constraints</p> <p>OEM: custom designed and manufactured magnetic components and subassemblies incorporated by customers into their product offering</p> <p>Power quality: harmonic-eliminating and mitigating transformers, passive filters, K-factor, control, drive isolation and other magnetically-driven power quality solutions</p> <p>Low voltage standard: catalogue of ventilated, encapsulated and other designs sold to electrical distributors and brand label customers for general purpose electrical loads</p> <p>Low voltage custom: quick-turn, low voltage distribution transformers manufactured to customer electro-mechanical specifications</p> |
| Switchgear                    | <p>Traditional low voltage panel boards, switchboards and switchgear, using electrical components from major manufacturers</p> <p>Unit substations and other specialty solutions</p> <p>Custom manufactured and U.L. approved Nema electrical enclosures</p> <p>Other equipment: controls, load banks, surge protection and related equipment for power conditioning and reliability</p>  |

*Overview of Electrical Transformers*

Our liquid-filled and dry-type power, distribution and specialty electrical transformers are magnetic products used in the control and conditioning of electrical current for critical processes. An electric transformer is used to increase or decrease the voltage of electricity traveling through a power line. This change in voltage is accomplished by transferring electric energy from one internal coil or winding to another coil or winding through electromagnetic induction. Electric power generating plants use transformers to “step-up,” or increase, voltage that is transferred through power lines in order to transmit the electricity more efficiently over long distances. When high voltage electricity nears its final destination, a “step-down” transformer reduces its voltage. A distribution transformer makes a final step-down in voltage to a level usable in businesses and homes.

Transformers are integral to every electrical transmission and distribution system. Electric utilities use transformers for the construction and maintenance of their power networks. Industrial firms use transformers to supply factories with electricity and to distribute power to production machinery. The renewable energy industry uses transformers to connect new sources of electricity generation to the power grid. The construction industry uses transformers for the supply of electricity to new homes and buildings and original equipment manufacturers use custom transformers as a component part of their systems.

We manufacture liquid-filled transformers at our facility in Granby, Quebec. Liquid-filled transformers are typically used for applications handling utility or industrial-level electrical loads, such as in a substation, and are most commonly found in outdoor settings given the risk of leakage and the flammable properties of the liquid coolant, typically mineral oil. We manufacture these products in electrical power ranges from 25 kVA (kilovolt amperes) to 30 MVA (megavolt amperes) and at up to 69 kV (kilovolts) in voltage. In recent years, we have focused primarily on the small power market, generally considered to include transformers between 1 MVA and 10 MVA, as well as on specialty transformers such as network and submersible designs used by utilities to withstand harsh environments and ensure reliability of service. We sell these products to electrical utilities, independent power providers, electrical co-ops, industrial companies, commercial users and electric equipment wholesalers. Our liquid-filled transformers are designed and manufactured specifically to a customer order.

We manufacture dry-type transformers and custom magnetics at our facility in Reynosa, Mexico. The largest and longest-standing component of our dry-type transformer revenue consists of low voltage, standard distribution units sold from our catalogue of over 1,000 designs. These units are typically used indoors to handle general loads for powering commercial and industrial machinery and equipment requiring 50 VA (volt amperes) through 1 MVA of power transformation capacity in voltages at or below 600 V (volts). In recent years, we have focused primarily on custom-engineered solutions – including equipment for OEM applications, and transformers in the medium voltage and power-dry product classes where our range extends to 10 MVA and to 35 kV in voltage. Medium voltage and power-dry transformers are conventionally used for indoor applications and in metropolitan areas, and are increasingly being used outdoors and indoors for commercial, industrial, manufacturing and production process applications. They are engineered to meet the most onerous duty requirements and are well-suited to operate in harsh environmental conditions, a situation which occurs frequently when the transformer needs to be installed close to the area where the power will ultimately be used, such as in down-hole mining or on drilling rigs.

We also offer a broad array of magnetically-driven solutions to ensure clean power and eliminate potential issues caused by harmonics and transients, including proprietary solutions that incorporate our patented technology through the use of power electronics. Our power quality solutions are for use in industrial, commercial and institutional settings where sensitive automation equipment is being used and clean, efficient power is required.

#### *Overview of Switchgear*

There are many different classes of switchgear, a generic term that encompasses the finished assembly of a system of devices utilizing electrical disconnects, fuses and circuit breakers, whose general function is to distribute, control and monitor the flow of electrical energy, while isolating and protecting critical equipment such as transformers, motors and other electrically powered machinery.

We design and manufacture low voltage electric power distribution panel boards, low and medium voltage switchgear and switchboards manufactured at our facility in Southern California. This location specializes in quick-turn, manufactured-to-order circuit protection and control equipment, primarily serving electrical distributors in the region. In addition, it incorporates transformers manufactured at other Pioneer locations into specialty products, such as unit substations.

During the fourth quarter of 2017, as part of its review of strategic alternatives, the Company made the decision to sell its switchgear business operated by Pioneer Custom Electric Products, Inc., which is part of T&D Solutions segment.

On May 2, 2018, Pioneer Custom Electric Products, Inc, a wholly owned subsidiary of Pioneer Power Solutions, Inc., entered into an Asset Purchase Agreement with CleanSpark, Inc. (“CleanSpark”), pursuant to which PCEP was to sell certain assets comprising the PCEP business to CleanSpark. The Company had agreed to extend the closing of the sale through December 31, 2018 to allow all parties additional time to satisfy all closing conditions.

On December 27, 2018, each of PCEP and CleanSpark signed a third letter agreement (the “Letter Agreement”) which further extended the Termination Date to January 16, 2019. On January 22, 2019, the Company and CleanSpark executed a merger agreement whereby Pioneer Critical Power, Inc., a wholly owned subsidiary of the Company, was sold to CleanSpark. On January 22, 2019, PCEP and CleanSpark terminated the Asset Purchase Agreement by mutual written agreement.

The Company had previously presented the operations of PCEP as discontinued operations for all periods presented in its annual report on Form 10-K for the year ended December 31, 2017.

Due to the change of the circumstances as described above, the Company is presenting the results of PCEP within continuing operations and including results of the switchgear reporting unit in the T&D Solutions Segment for all periods presented in the financial statements as of December 31, 2018. As circumstances allow, the Company will pursue the sale of PCEP.

### **Critical Power Segment**

Our Critical Power segment is engaged in commissioning and providing aftermarket service of onsite power generation and control equipment. These systems are used to maintain reliable emergency standby power at facilities where it is either required or where the potential consequences of a power outage make it necessary – such as at data centers, hospitals, communications facilities, factories, national retailers, military sites, office complexes and other critical operations.

Depending on the needs of our customers, we offer a standalone service solution. We believe that our value proposition to customers is differentiated by our use of advanced communications and automated data collection technologies to provide a highly-sophisticated remote monitoring, automated control and reporting platform to our customers.

## Product Category Solutions

Scheduled preventative maintenance, and 24/7 repair and support services provided for all makes and models of equipment under one to five year contracts

### Service

Regional service: provided by our technicians in the Midwest and Florida

National service: provided by our technicians and network of field service providers throughout the United States for multi-site, multi-state power generation equipment owners

UPS systems from major manufacturers

Proprietary real-time remote monitoring, metering and control system for onsite power sources and associated equipment

### Remote Monitoring

Comprehensive asset management solution, including automated audit and inventory tracking and reporting services

Scalable solution, ideally-suited to large customers owning critical power systems across multiple locations

### Service

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. To support our customers in managing their critical infrastructure, we maintain inventories of repair parts, a fleet of service vehicles and a staff of certified field service technicians in the Midwest and Florida. To complete our geographic coverage, we maintain a network of field service partners located in other regions, enabling us to provide quick-response, 24/7 service capability that can effectively service any make and model of back-up power equipment in any city of the United States. Our field service organization services more than 5,500 generators owned by more than 1,000 customers located throughout the United States, including for multi-site, multi-state customers.

We recognize discrete revenue streams from service contracts, installation and maintenance services, and we offer service contracts to all owners of power generation and related equipment, whether or not the equipment was

originally sold by us. Our service agreements have terms ranging from one to five years in duration, providing us with a recurring revenue stream, and generally yield higher margins as compared to genset equipment sales. These service contracts may also include remote monitoring services that allow owners to be informed of the condition and operations of their equipment at any time and from any place.

#### *Remote Monitoring and Automated Control*

We have dedicated considerable resources to developing and engineering our proprietary remote monitoring and automated control system for onsite power generation. We believe this system enables us to provide a technologically superior service program that benefits our customer from a cost and quality standpoint. In addition, we have developed specialized asset management and auditing tools to more efficiently and cost effectively provide our customers with detailed information about their onsite power systems. We believe these tools provide us with an advantage over service companies that do not have these technologies, allowing us to compete for work more efficiently, maintain higher service levels and realize higher margins by using these tools.

Our monitoring and control system performs 24/7, capturing and monitoring data from up to 100 critical points and functions on the genset, PSG, ATS and UPS, from metering electrical output to emissions. This data is displayed in continuously updated, fully customizable, easy-to-read web-based reporting that provide a complete picture of our customers' power generation system condition. By tracking and trending real-time performance indicators in combination with the ability to remotely test, start and stop onsite power systems, our network operations center is able to avert potential failures before they occur and immediately respond to emergency situations before a customer calls. Our monitoring and control system is instrumental to ensure that our servicing programs are being administered appropriately in order to optimize system reliability on behalf of our customers. In addition, because our system is completely scalable, we are able to monitor one to thousands of generators nationwide, a solution which is ideally-suited to service our multi-location national account customers.

Our customers use our monitoring and control system for access to our monitoring dashboard, to view generator performance in real-time, to receive alerts and notifications, track work orders and submit support requests. These capabilities have been combined with automated electronic audit and inventory reporting to form a comprehensive asset management program for our customers, enabling them to quickly and efficiently record, categorize and retrieve vital information about their power generation assets across their facilities. We believe the advantage of these reporting systems is that they help us and our customers to better protect their equipment, while increasing system reliability in times of need and reducing ongoing operating costs for service and repairs through preventative maintenance.

## **Business Strategy**

We believe we have established a stable platform from which to develop and grow our business lines, revenues, net income and shareholder value. We are focused on internal growth through operating efficiencies, new product development, customer focus and our continued migration towards more highly-engineered products and specialized services. We intend to significantly increase the percentage of our sales derived from engineered-to-order products and differentiated services and believe this can be accomplished by targeting market segments, such as data centers and independent power producers, which have growth characteristics exceeding the norm in our industry.

Over the last five years, through internal development and acquisitions, we believe we have broadened the array and sophistication of our product and service offerings. We believe this approach makes us more relevant to our customers, allows us to compete more effectively and increases the number of sales opportunities for our products and solutions.

We intend to build our revenue and net income at rates exceeding industry norms through internal growth initiatives and complementary acquisitions. Accomplishing these financial goals will be dependent on a number of factors including our ability to execute the following strategies and actions:

Evolving from a product-oriented to a customer and market-centric, solutions-oriented organization;

Establishing a scalable organizational infrastructure to support our expected growth;

Investing in our capabilities to provide progressively more advanced equipment and service solutions;

Continuously applying our manufacturing and service resources to their highest and best uses;

Capitalizing on inter-segment manufacturing efficiencies and shared utilization of our facilities;

Expanding our margins through outsourcing production for our products;

Combining and streamlining our business unit supply chains and administrative functions;



Improving business processes to deliver consistency, quality and value to our customers.

### *T&D Solutions Segment*

We intend to accomplish our growth objectives within our T&D Solutions business by emphasizing our capabilities in the following areas:

**OEM Equipment Solutions** Continue to invest in engineering resources and product development to increase our pipeline of recurring order customers that integrate our magnetic subassemblies and/or components into the products they sell. Our key focus areas for this solution category include providers of motor control/drive systems, factory automation equipment, power distribution units and UPS systems for data centers, HVAC systems, and power quality and conditioning equipment.

**Medium Voltage Dry-type Transformers** We acquired this competence in 2011. Growth in this product class will be predicated on expanding our market penetration, particularly in the U.S. where in 2013 we began adding dedicated medium voltage and liquid-filled transformer sales personnel and new independent sales representatives.

**Liquid-filled Transformers** Sales of more network, subsurface, small and medium power transformers to new and existing utility and industrial customers, particularly in the U.S. In 2012 we completed a facility expansion in order to increase our production capacity for these higher voltage and more complex solutions.

### *Critical Power Segment*

Within our Critical Power business, we intend to increase the number of national account customers we have by leveraging our scalable, nationwide network of partners which allows us to service standby power systems anywhere in the United States. We are actively marketing our preventive maintenance and technology-enabled monitoring and control services to new national accounts including: major national retailers, telecommunications companies, data centers, banks, hospitals and health care facilities, educational institutions and property management companies.

## **Our Industry**

The market for our largest business segment, electrical T&D equipment, is substantial and has grown over the last several decades. According to a February 2015 study by The Freedonia Group, a market research firm, total U.S. demand for electric T&D equipment was \$25.5 billion in 2014 and was distributed by product category as follows: switchgear (54%), transformers (33%), meters (7%) and pole/transmission line hardware (6%). The Freedonia Group forecasts demand for switchgear and for transformers to climb 6.1% and 4.5% annually to \$28.9 billion collectively in

2019, as compared to 5.5% and 2.0% annual growth for these categories between 2009 and 2014, driven by rising utilization of renewable energy sources and increasing demand from the industrial and non-utility generator markets.

Most of our business today consists of manufacturing power, distribution and non-utility transformers. Utilities, industrial and commercial firms purchase transformers to replace old equipment, maintain system reliability, achieve efficiency improvements and for substation or grid expansion. Demand is also sensitive to overall economic conditions, particularly with respect to the level of industrial production and investment in commercial and residential construction. Other market demand factors include voltage conversion, voltage unit upgrades, electrical equipment failures, higher energy costs, stricter environmental regulations and investment in sources of renewable and distributed energy generation.

The market for T&D equipment and Critical Power solutions is very fragmented due to the range of equipment types, electrical and mechanical properties, technological standards and service parameters required by different categories of end users for their specific applications. Many orders are custom-engineered and tend to be time-sensitive since other critical work is frequently being coordinated around the customer's electrical equipment installation. The vast majority of North American demand for the types of solutions we provide is satisfied by thousands of producers and service companies in the U.S. and Canada.

We believe several of the key industry trends supporting future growth in our industry are as follows:

***Aging and Overburdened North American Power Grid*** — The aging and overburdened North American power grid is expected to require significant capital expenditures to upgrade the existing infrastructure over the next several years to maintain adequate levels of reliability and efficiency. Significant capital investment will be required to relieve congestion, meet growing demand, achieve targets for efficiency, emissions and use of renewable sources, and to replace components of the U.S. power grid operating at, near or past their planned service lives.

***Increasing Long-Term Demand for Electricity and Reliable Power*** — The Department of Energy's Energy Information Administration, or EIA, forecasts that total electricity use in the U.S. will increase by approximately 28% from 2011 to 2040. This increase is driven by anticipated population growth, economic expansion, increasing dependence on computing power throughout the economy and the increased use of electrical devices in the home. In order to meet growing demand for electricity in North America, substantial investment in increased electrical grid capacity and efficiency will be required, as well as the addition of specialized equipment to help ensure the reliability and quality of electricity for critical applications. In response to these challenges, there is an increasing trend among commercial and industrial companies to invest in on-site power sources, both for standby purposes in the event of a catastrophic power outage, or to reduce the amount of electricity they draw from the utility grid during peak periods.

***Growth in Critical Power Applications and the Data Center Market*** — The number of mission-critical facilities, sites where a power disturbance or outage could cause failure of business operations, safety concerns or regulatory non-compliance, continues to grow exponentially worldwide. In the U.S., the single largest driver for demand in critical power applications is the data center market, followed by the health care industry. The amount of information managed by data centers is expected to grow, fueled by increasing needs for data storage (for corporate data, content delivery, social networking, handheld devices, online retail and gaming) and the information technology evolution

(cloud computing and outsourced hosting). Coinciding with demand for mission-critical facilities is the need for efficient, reliable primary power to support their essential applications, and for backup generator plants in case the utility feed becomes unavailable. Electricity is the highest operating cost of a data center, a factor supporting investment in on-site alternative energy systems to reduce peak-demand expenses.

## Customers

For the year ended December 31, 2018 approximately 30% of our sales were to Canadian customers, including many of Canada's electrical utilities, municipal power systems, large industrial companies, engineering and construction firms and a number of electrical distributors. Sixty-nine percent of our sales in 2018 were to U.S. customers, represented in large part by companies involved in commercial construction. Less than 1% of our sales were to export customers primarily serving the Central and Latin American markets. During the year ended December 31, 2018, we sold our electrical equipment and services to over 1,900 individual customers and our twenty largest customers represented approximately 59% of our consolidated revenue.

For the year ended December 31, 2017 approximately 31% of our sales were to Canadian customers, including many of Canada's electrical utilities, municipal power systems, large industrial companies, engineering and construction firms and a number of electrical distributors. Another 68% of our sales in 2017 were to U.S. customers, represented in large part by companies involved in commercial construction. Less than 1% of our sales were to export customers primarily serving the Central and Latin American markets. During the year ended December 31, 2017, we sold our electrical equipment and services to over 2,200 individual customers and our twenty largest customers represented approximately 60% of our consolidated revenue.

Approximately 17% and 18% of our sales in the years ended December 31, 2018 and 2017, respectively, were made to Siemens and its affiliated companies. Our pricing agreement with Siemens does not obligate Siemens to purchase transformers from us in quantities consistent with the past or at all.

Approximately 10% and 11% of our sales in the years ended December 31, 2018 and 2017, respectively, were made to Hydro-Quebec, a provincial government-owned utility in the Province of Quebec, Canada. The majority of our sales to Hydro-Quebec are made pursuant to a long-term contract for the supply of pad-mount and submersible transformers that was renewed in February 2015. The contract has two-year initial term and a one-year renewal option at Hydro-Quebec's election that provide for a maximum term of three years. First modification to the agreement extended the term until January 31, 2019. Second modification to the agreement extended the term until January 31, 2020. The contracts set forth the terms, conditions and rights of the parties with respect to the supply of the subject products including ordering and delivery procedures, required technical specifications, minimum performance standards, product pricing and price adjustment mechanisms, terms of payment and rights of termination. The contracts do not require Hydro-Quebec to order any minimum quantity of products from us and do not grant us any form of supply exclusivity. Hydro-Quebec has been a customer of ours and our predecessors in excess of 50 years, over which time we have been party to consecutive long-term contracts. We believe the status of our business relationship with Hydro-Quebec to be good.

While the loss of a significant number of customers would have a material adverse effect on our business, we do not believe that the loss of any specific customer, aside from Siemens and Hydro-Quebec, would have a material adverse effect on our business.

### **Marketing, Sales and Distribution**

A substantial portion of the products we offer are sold directly to customers by our 10 full-time and 2 part-time marketing and sales personnel and 3 members of our executive management team operating from our office locations in the U.S. and Canada. Our products are also sold through our network of more than 39 independent sales agencies throughout North America that sell primarily to full-line electrical distributors and to maintenance, repair and overhaul organizations. Our direct sales force markets to end users and to third parties, such as original equipment manufacturers and engineering firms that prescribe the specifications and parameters that control the applications of our products.

### **Sales Backlog**

Backlog reflects the amount of revenue we expect to realize upon the shipment of customer orders for our products that are not yet complete or for which work has not yet begun. Our sales backlog as of December 31, 2018 was approximately \$47.5 million, as compared to \$35.2 million as of December 31, 2017. We anticipate that most of our current backlog will be delivered during 2019. Orders included in our sales backlog are represented by customer purchase orders and contracts that we believe to be firm.

### **Competition**

We experience intense competition from a large number of electrical equipment manufacturers and from distributors and servicers of such equipment. The number and size of our competitors varies considerably by product line and service category, with many of our competitors tending to be small, highly specialized or focused on a certain geographic market area or customer. However, several of our competitors have substantially greater financial and technical resources than us, including some of the world's largest electrical products and industrial equipment manufacturing companies. A representative list of our competitors in our T&D Solutions segment includes ABB Ltd., Carte International, Inc., Eaton Corporation plc, General Electric Company, Schneider Electric SA, Hammond Power Solutions Inc., Howard Industries, Inc. and Partner Technologies, Inc. In the sale of onsite power systems and service, our Critical Power segment competes with larger, more established regional companies that represent Caterpillar, Cummins, Kohler and other generator manufacturers.

We believe that we compete primarily on the basis of technical support and application expertise, engineering, manufacturing and service capabilities, equipment rating, quality, scheduling and price. In all our businesses, our objective is to focus our efforts on more specialized, challenging and complex applications. Accordingly, a critical element to the success of our business is responsiveness and flexibility in providing custom-engineered solutions to satisfy customer needs. We believe that our strongest product niches are in the manufacture and design of small power and distribution electrical transformers for on-site power applications serving data centers, hospitals and other businesses with critical power needs. As a result of our long-time presence in the industry, we possess a number of special designs and libraries of programming code for our equipment that were engineered and developed specifically for our customers. We believe these factors give us a competitive advantage and that they are a major contributor to our frequency of repeat customer orders and the longevity of our customer relationships.

### **Raw Materials and Suppliers**

The principal raw materials purchased by us are core steel, copper wire, aluminum strip, insulating materials including transformer oil and sheet metal. We also purchase certain electrical components from a variety of suppliers including bushings, switches, fuses, protectors and circuit breakers. These raw materials and components are available from and supplied by numerous sources at competitive prices, although there are more limited sources of supply for electrical core steel and transformer oil. Unanticipated increases in raw material prices or disruptions in supply could increase production costs and adversely affect our profitability. We attempt to minimize the effect on our profit margins of unanticipated changes in the prices of raw materials by including index clauses in our customer contracts that allow us to increase or reduce our prices if the costs of raw materials unexpectedly rise or decrease. Approximately 39% of our annual sales are made pursuant to contracts that contain such index clauses, which, subject to various formulae and limitations, permit us to adjust the final prices we charge. We do not anticipate any significant difficulty in satisfying our raw material requirements on reasonable terms and have not experienced any such difficulty in the past several years. Our largest suppliers during the year ended December 31, 2018 included, JFE Shofi Steel America, Inc., Essex Group, Metelec Ltée, Rea Magnet Wire Co. Inc., Sumitomo Corporation and our distribution transformer supplier from a low cost production location in Asia.

### **Employees**

As of December 31, 2018, we had 365 employees consisting of 112 salaried staff and 253 hourly workers. Our hourly employees located at our plant in Granby, Quebec, Canada are covered by a collective bargaining agreement with the United Steel Workers of America Local 9414 that expires in May 2020. The hourly employees located at our manufacturing facility in Reynosa, Mexico are also covered by a collective bargaining agreement with a local labor union that has an indefinite term, subject to annual review and negotiation of key provisions. In addition, certain of our hourly employees located at our manufacturing facility in Santa Fe Springs, California are covered by a collective bargaining agreement with Local Union 1710 of the International Brotherhood of Electrical Workers, AFL-CIO that expires in June 2019.

## **Environmental**

We are subject to numerous environmental laws and regulations concerning, among other areas, air emissions, discharges into waterways and the generation, handling, storing, transportation, treatment and disposal of waste materials. These laws and regulations are constantly changing and it is impossible to predict with accuracy the effect they may have on us in the future. Like many other industrial enterprises, our manufacturing operations entail the risk of noncompliance, which may result in fines, penalties and remediation costs, and there can be no assurance that such costs will be insignificant. To our knowledge, we are in substantial compliance with all federal, state, provincial and local environmental protection provisions, and believe that the future compliance cost should not have a material adverse effect on our capital expenditures, net income or competitive position. However, legal and regulatory requirements in these areas have been increasing and there can be no assurance that significant costs and liabilities will not be incurred in the future due to regulatory noncompliance.

## **Corporate History**

We were originally formed in the State of Nevada in 2008. On November 30, 2009, we merged with and into Pioneer Power Solutions, Inc., a Delaware corporation, for the sole purpose of changing our state of incorporation from Nevada to Delaware and changing our name to “Pioneer Power Solutions, Inc.” On September 24, 2013, we completed an underwritten public offering and our common stock began trading on the Nasdaq Capital Market under the symbol PPSI.

## **Available Information**

Our corporate website is located at [www.pioneerpowersolutions.com](http://www.pioneerpowersolutions.com). On the investor relations section of our website, we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers, such as us, that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).



We webcast our earnings calls and certain events we participate in with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events and press and earnings releases as part of the investor relations section of our website. Further corporate governance materials, including our Corporate Governance Guidelines, charters of our Board Committees and our Code of Business Ethics and Conduct, are also available under the heading “Corporate Governance” on the investor relations portion of our website. The contents of and the information on or accessible through our corporate website, including the investor relations portion of our website, is not a part of, and is not intended to be incorporated into, this report or any other report or document we file with or furnish to the SEC, and any references to our website are intended to be an inactive textual references only.

## **ITEM 1A. RISK FACTORS**

*Investing in our common stock involves a high degree of risk. Before investing in our common stock you should carefully consider the following risks, together with the financial and other information contained in this Annual Report on Form 10–K for the year ended December 31, 2018 and our other periodic filings with the Securities and Exchange Commission. Additional risks and uncertainties that we are unaware of may become important factors that affect us. If any of the following events occur, our business, financial conditions and operating results may be materially and adversely affected. In that event, the trading price of our common stock may decline, and you could lose all or part of your investment.*

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

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

A large portion of our business involves sales of our products in connection with commercial and industrial construction. Our sales to this sector are affected by the level of discretionary business spending. During economic downturns in this sector, the level of business discretionary spending may decrease. This decrease in spending will likely reduce the demand for some of our products and may adversely affect our sales, net income, cash flow or financial condition.

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

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

the size, timing and terms of sales and orders, especially large customer orders;

variations caused by customers delaying, deferring or canceling purchase orders or making smaller purchases than expected;

the timing and volume of work under new agreements;

the spending patterns of customers;

customer orders received;

a change in the mix of our products having different margins;

a change in the mix of our customers, contracts and business;

increases in design and manufacturing costs;

the length of our sales cycles;

the rates at which customers renew their contracts with us;

changes in pricing by us or our competitors, or the need to provide discounts to win business;

a change in the demand or production of our products caused by severe weather conditions;

our ability to control costs, including operating expenses;

losses experienced in our operations not otherwise covered by insurance;

the ability and willingness of customers to pay amounts owed to us;

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

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

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

future accounting pronouncements and changes in accounting policies.

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

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

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

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

We depend on Siemens and Hydro-Quebec for a large portion of our business, and any change in the level of orders from Siemens or Hydro-Quebec, has, in the past, had a significant impact on our results of operations. In particular,

Siemens accounted for 17% and 18% of our net sales in the years ended December 31, 2018 and 2017, respectively. Hydro-Quebec accounted for 10% and 11% of our net sales in the years ended December 31, 2018 and 2017, respectively. In addition, our pricing agreement with Siemens does not obligate Siemens to purchase transformers from us in quantities consistent with the past or at all. Our long term supply agreement with Hydro-Quebec expires on January 31, 2020 and has a one year extension option at Hydro-Quebec's election. We, therefore, cannot assure you that Hydro-Quebec will continue to purchase transformers from us in quantities consistent with the past or at all. If either of these customers were to significantly cancel, delay or reduce the amount of business it does with us for any reason, there would be a material adverse effect on our business, financial condition and operating results.

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

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

***Any acquisitions that we have completed, or may complete in the future, may not perform as planned and could disrupt our business and harm our financial condition and operations.***

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

issue additional securities that would dilute our current stockholders' percentage ownership or provide the purchasers of the additional securities with certain preferences over those of common stockholders, such as dividend or liquidation preferences;

incur debt and assume liabilities; and

incur large and immediate write-offs of intangible assets, accounts receivable or other assets.

These events could result in significant expenses and decreased revenue, which could adversely affect the market price of our common stock. In addition, integrating acquired businesses and completing any future acquisitions involve numerous operational and financial risks. These risks include difficulty in assimilating acquired operations, diversion of management's attention, and the potential loss of key employees or customers of acquired operations. Furthermore, companies acquired by us may not generate financial results consistent with our management's plans at the time of acquisition.

***We may not be able to expand our business through strategic acquisitions, and internal growth initiatives facilitated by acquisitions, which could decrease our profitability.***

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

***The success of our business depends on achieving our strategic objectives, including dispositions.***

We continue to evaluate the potential disposition of assets and businesses that may no longer help us meet our objectives. When we decide to sell assets or a business, we may encounter difficulty in finding buyers or executing alternative exit strategies on acceptable terms in a timely manner, which could delay the accomplishment of our strategic objectives. Alternatively, we may dispose of a business at a price or on terms that are less than we had anticipated, or with the exclusion of assets that must be divested separately. After reaching an agreement with a buyer for the disposition of a business, the transaction remains subject to the satisfaction of pre-closing conditions, which may prevent us from completing the transaction. Dispositions may also involve continued financial involvement in the divested business, such as through continuing equity ownership, transition service agreements, guarantees, indemnities or other current or contingent financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside our control could affect our future financial results.

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

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

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

Approximately one-third of our 2018 revenue and a significant portion of our expenditures are expected to be 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. For example, if the Canadian dollar appreciates relative to the U.S. dollar, the fluctuation will result in a positive impact on the revenues that we report. However, if the Canadian dollar depreciates relative to the U.S. dollar, there will be a negative impact on the revenues we report due to such fluctuation. It is possible that the impact of currency fluctuations will result in a decrease in reported consolidated sales even though we may have experienced an increase in sales transacted in the Canadian dollar. Conversely, the impact of currency fluctuations may result in an increase in reported consolidated sales despite declining sales transacted in the Canadian dollar. The exchange rate from the U.S. dollar to the Canadian dollar has fluctuated substantially in the past and may continue to do so in the future. Though we may choose to hedge our exposure to foreign currency exchange rate changes in the future, there is no guarantee such hedging, if undertaken, will be successful.

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

Our ability to generate internal growth will be affected by, among other factors, our ability to attract new customers, increases or decreases in the number or size of orders received from existing customers, hiring and retaining skilled employees and increasing volume utilizing our existing facilities. Many of the factors affecting our ability to generate internal growth may be beyond our control, and we cannot be certain that our strategies will be implemented with positive results or that we will be able to generate cash flow sufficient to fund our operations and to support internal growth. If we do not achieve internal growth, our results of operations will suffer and we will likely not be able to expand our operations or grow our business.

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

Our raw material costs represented approximately 66% and 69% of our revenues for the years ended December 31, 2018 and 2017, respectively. The principal raw materials purchased by us are electrical core steel, copper wire, aluminum strip and insulating materials including transformer oil. We also purchase certain electrical components from a variety of suppliers including bushings, switches, fuses and protectors. These raw materials and components are available from, and supplied by, numerous sources at competitive prices, although there are more limited sources of supply for electrical core steel and transformer oil. Unanticipated increases in raw material prices or disruptions in supply could increase production costs and adversely affect our profitability. We cannot provide any assurances that we will not experience difficulties sourcing our raw materials in the future.

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

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

undergo a change in control;

incur new indebtedness or other obligations, subject to certain exceptions;

pay cash dividends;



create or incur new liens, subject to certain exceptions;

make new acquisitions or investments in other entities, subject to certain exceptions;

wind up, liquidate or dissolve our affairs;

change the nature of our core business;

alter our capital structure in a manner that would be materially adverse to our lenders; and

make investments or advancements to affiliated or related companies.

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

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

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

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

***We depend upon the availability of capital under our revolving credit facilities and term loans with BMO to finance our operations. Any additional financing that we have requested from BMO may not be available on favorable terms or at all.***

In addition to cash flow provided by operations, we finance our working capital and general corporate needs through our Canadian Facilities and U.S. Facilities with BMO. On April 29, 2016, we and BMO restated and amended these credit agreements to revise covenants and funding amounts to finance our cash requirements for anticipated operating activities, restructuring and integration plans, capital improvements and scheduled principal repayments of long-term debt. On March 15, 2017, the expiration date of this credit facility was extended until July 31, 2018. On March 28, 2018, we executed amendments to the credit agreements which provided for an extension of our Canadian and United States credit facilities from the Bank of Montreal to April 1, 2020. With the execution of the amendments to the credit agreements, portions of the credit facilities have been classified as long term indebtedness. These extensions contain revised covenants and funding amounts that finance our cash requirements for anticipated operating activities, capital improvements and scheduled principal repayments of long-term debt.

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

We routinely have a backlog of work to be completed on contracts representing a significant portion of our annual sales. As of December 31, 2018, our order backlog was \$47.5 million. Orders included in our backlog are represented by customer purchase orders and service contracts that we believe to be firm. Backlog consists of customer orders that either (1) have not yet been started or (2) are in progress and are not yet completed. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been billed. From time to time, customer orders are canceled that appeared to have a high certainty of going forward at the time they were recorded as new business taken. In the event of a customer order cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenue reflected in our backlog. In addition to us being unable to recover certain direct costs, canceled customer orders may also result in additional unrecoverable costs due to the resulting underutilization of our assets.

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

We face significant pricing pressures in all of our business segments from our larger customers, including Siemens and Hydro-Quebec. Because of their purchasing size, our larger customers can influence market participants to compete on price terms. Such customers also use their buying power to negotiate lower prices. If we are not able to offset pricing reductions resulting from these pressures by improved operating efficiencies and reduced expenditures, those price reductions may have an adverse impact on our financial results.

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

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

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

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

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

*Our business may face cybersecurity risk generally associated with our information technology systems which could materially affect our business, and our results of operations could be materially affected if our information technology systems (or third-party systems we rely on) are interrupted, damaged by unforeseen events, or fail for any extended period of time.*

We rely on information systems (IS) in our business to obtain, rapidly process, analyze, manage and store data to among other things:

maintain and manage our systems to facilitate the purchase and distribution of inventory items from various distribution centers;

provide remote monitoring and automated control to our customers;

receive, process and ship orders on a timely basis;

manage the accurate billing and collections from our customers.

IS risks have generally increased in recent years, and a cyberattack that bypasses our IS security systems causing an IS security breach may lead to a material disruption of our business operations and/or the loss of business information resulting in a material effect on our business.

In addition, we develop products and provide services to our customers that are technology-based, and a cyberattack that bypasses the IS security systems of our products or services causing a security breach and/or perceived security vulnerabilities in our products or services could also cause significant reputational harm, and actual or perceived vulnerabilities may lead to claims against us by our customers. Perceived or actual security vulnerabilities in our products or services, or the perceived or actual failure by us or our customers who use our products to comply with applicable legal requirements, may not only cause us significant reputational harm, but may also lead to claims against us by our customers and involve fines and penalties, costs for remediation, and settlement expenses.

Our IS utilize certain third party service organizations that manage a portion of our information systems, and our business may be materially affected if these third party service organizations are subject to an IS security breach. Risks associated with these and other IS security breaches may include, among other things:

future results could be materially affected due to theft, destruction, loss, misappropriation or release of confidential data or intellectual property;

operational or business delays resulting from the disruption of information systems and subsequent clean-up and mitigation activities;

we may incur claims, fines and penalties, and costs for remediation, or substantial defense and settlement expenses; and

negative publicity resulting in reputation or brand damage with our customers, partners or industry peers.

We have various insurance policies, covering risks in amounts that we consider adequate. There can be no assurance that the insurance coverage we maintain is sufficient or will be available in adequate amounts or at a reasonable cost. Successful claims for misappropriation or release of confidential or personal data brought against us in excess of available insurance or fines or other penalties assessed or any claim that results in significant adverse publicity against us could have a material adverse effect on our business and our reputation.

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

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

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

Our ability to maintain our productivity and profitability will be limited by our ability to employ, train and retain skilled personnel necessary to meet our requirements. We may experience shortages of qualified personnel. We cannot be certain that we will be able to maintain an adequate skilled labor force necessary to operate efficiently and to support our growth strategy or that our labor expenses will not increase as a result of a shortage in the supply of skilled personnel. Labor shortages, increased labor costs or loss of our most skilled workers could impair our ability to deliver on time to our customers (thereby creating a risk that we lose our customers to competition) and would inhibit our ability to maintain our business or grow our revenues, and may adversely impact our profitability.

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

If we are unable to renew our collective bargaining agreements, or if additional segments of our workforce become unionized, we may be subject to work interruptions or stoppages. Strikes or labor disputes with our employees may adversely affect our ability to conduct our business.

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

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

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

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

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

We are subject to international, federal, provincial, state and local laws and regulations governing environmental matters, including emissions to air, discharge to waters and the generation and handling of waste. We are also subject

to laws relating to occupational health and safety. The operation of manufacturing plants involves a high level of susceptibility in these areas, and there is no assurance that we will not incur material environmental or occupational health and safety liabilities in the future. Moreover, expectations of remediation expenses could be affected by, and potentially significant expenditures could be required to comply with, environmental regulations and health and safety laws that may be adopted or imposed in the future. Future remediation technology advances could adversely impact expectations of remediation expenses. We can give no assurance that any lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results. Types of potential litigation cases include product liability, contract, employment-related, labor relations, personal injury or property damage, intellectual property, stockholder claims and claims arising from any injury or damage to persons, property or the environment from hazardous substances used, generated or disposed of in the conduct of our business. Adverse outcomes in some or all of these claims may result in significant monetary damages that could adversely affect our ability to conduct our business.

***We face risks associated with litigation and claims, which could impact our financial results and condition.***

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

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

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

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

increased travel, infrastructure and legal and compliance costs associated with multiple international locations;

additional withholding taxes or other taxes on our foreign income, and tariffs or other restrictions on foreign trade or investment;

imposition of, or unexpected adverse changes in, foreign laws or regulatory requirements, many of which differ from those in the U.S.;





changes in foreign currency exchange rates, principally fluctuations in the Canadian dollar and Mexican peso;

longer payment cycles for sales in some foreign countries and potential difficulties in enforcing contracts and collecting accounts receivable;

general economic conditions in the countries in which we operate; and

political unrest, civil disturbances, corruption, crime, war, incidents of terrorism, or responses to such events.

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

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

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

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

Capital market disruptions could result in increased costs related to variable rate debt. As a result, continuation of market disruptions could increase our interest expense and adversely impact our results of operations. Disruption in the capital markets and its actual or perceived effects on particular businesses and the greater economy also adversely affects the value of the investments held within our pension plan. Significant declines in the value of the investments

held within our pension plan may require us to increase contributions to this plan in order to meet future funding requirements if the actual asset returns do not recover these declines in value in the foreseeable future. These trends may also adversely impact our results of operations, net cash flows and financial positions, including our stockholders' equity.

## **Risks Relating to Our Organization**

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

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

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

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

vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

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

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

Provident Pioneer Partners, L.P., which is controlled by Nathan J. Mazurek, our chief executive officer, president and chairman of the board of directors, beneficially owns approximately 52.4% of our outstanding common stock as of March 29, 2019. As a result of this stock ownership, Provident Pioneer Partners, L.P. and Mr. Mazurek can control all matters submitted to our stockholders for approval, including the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire. In addition, as the interests of Provident Pioneer Partners, L.P. and our minority stockholders may not always be the same, this large concentration of voting power may lead to stockholder votes that are inconsistent with the best interests of our minority stockholders.

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

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

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

In addition, our internal controls will also include those of any company or business that we may acquire in the future. Acquired companies or businesses are likely to have different standards, controls, contracts, procedures and policies, making it more difficult to implement and harmonize company-wide financial, accounting, information and other

systems. As a result, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, either in our existing business or in businesses that we may acquire, could harm our operating results or cause us to fail to meet our reporting obligations.

***There are inherent limitations in all control systems, and misstatements due to error or fraud may occur and not be detected.***

The ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002 require us to identify material weaknesses in internal control over financial reporting, which is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Our management, including our chief executive officer and chief financial officer, does not expect that our internal controls and disclosure controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions, such as growth of the company or increased transaction volume, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

In addition, discovery and disclosure of a material weakness, by definition, could have a material adverse impact on our financial statements. Such an occurrence could discourage certain customers or suppliers from doing business with us and adversely affect how our stock trades. This could in turn negatively affect our ability to access equity markets for capital.

## Risks Relating to our Common Stock

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

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

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

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

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

technological innovations or new products and services by us or our competitors;

additions or departures of key personnel, including Nathan J. Mazurek, our chairman, president and chief executive officer;

sales of our common stock, including management shares;

limited availability of freely-tradable “unrestricted” shares of our common stock to satisfy purchase orders and demand;

our ability to execute our business plan;

operating results that fall below expectations;

loss of any strategic relationship;

industry developments;

economic and other external factors;

our ability to manage the costs of maintaining adequate internal financial controls and procedures in connection with the acquisition of additional businesses;

period-to-period fluctuations in our financial results; and

announcements of acquisitions.

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

***Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.***

Sales of a significant number of shares of our common stock in the public market could harm the market price of our common stock and make it more difficult for us to raise funds through future offerings of common stock. Our stockholders and the holders of our options and warrants may sell substantial amounts of our common stock in the public market. The availability of these shares of our common stock for resale in the public market has the potential to cause the supply of our common stock to exceed investor demand, thereby decreasing the price of our common stock.

In addition, the fact that our stockholders, option holders and warrant holders can sell substantial amounts of our common stock in the public market, whether or not sales have occurred or are occurring, could make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

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

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

***If securities and/or industry analysts fail to continue publishing research about our business, if they change their recommendations adversely or if our results of operations do not meet their expectations, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. In addition, it is likely that in some future period our operating results will be below the expectations of securities analysts or investors. If one or more of the analysts who cover us downgrade our stock, or if our results of operations do not meet their expectations, our stock price could decline.

***The recently passed comprehensive tax reform bill could adversely affect our business and financial condition.***

On December 22, 2017, President Trump signed into law the final version of the tax reform bill commonly known as the “Tax Cuts and Jobs Act,” or the TCJA, that significantly reforms the Internal Revenue Code of 1986, as amended, or the Code, with many of its provisions effective for tax years beginning on January 1, 2018. The TCJA, among other things, contains significant changes to corporate taxation, including a permanent reduction of the corporate income tax rate, a partial limitation on the deductibility of business interest expense, a limitation of the deduction for net operating loss carryforwards to 80% of current year taxable income, an indefinite net operating loss carryforward, immediate deductions for certain new investments instead of deductions for depreciation expense over time, and the modification or repeal of many business deductions and credits. We continue to examine the impact this tax reform legislation may have on our business. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the TCJA is uncertain and our business and financial condition could be adversely affected. The impact of this tax reform on holders of our stock is also uncertain and could be adverse.

***The Tax Cuts and Jobs Act could negatively affect us or holders of our stock.***



The TCJA makes significant changes to the U.S. federal income tax rules applicable to both individuals and entities, including corporations. There remains uncertainty as to the impact of the TCJA on us or on an investment in our stock. You should consult with your tax advisor regarding the effect of the TCJA and other potential changes to the U.S. federal tax laws prior to purchasing our stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

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**ITEM 2. PROPERTIES**

| Location                     | Description  | Approximate Square Footage | Owned or Lease Expiration Date |
|------------------------------|--|----------------------------|--------------------------------|
| Granby, Quebec               | Manufacturing and administration                     | 50,000                     | Owned                          |
| Reynosa, Mexico              | Manufacturing  | 52,000                     | December 2026                  |
| Reynosa, Mexico              | Manufacturing  | 35,000                     | December 2026                  |
| Santa Fe Springs, California | Manufacturing, sales, engineering and administration | 40,000                     | September 2021                 |
| Brooklyn Park, Minnesota     | Manufacturing, sales, engineering and administration | 16,000                     | December 2020                  |
| Pharr, Texas                 | Distribution warehouse                               | 24,000                     | August 2020                    |
| Omaha, Nebraska              | Sales and service                                    | 6,800                      | December 2020                  |
| Duluth, Minnesota            | Sale, service and warehouse                          | 4,600                      | July 2020                      |
| Miami, Florida               | Sales and service                                    | 3,600                      | December 2021                  |
| Franklin, Wisconsin          | Sales, marketing, engineering and administration     | 5,000                      | December 2020                  |
| Mississauga, Ontario         | Sales and engineering                                | 1,400                      | July 2021                      |
| Fort Lee, New Jersey         | Corporate management and sales office                | 2,700                      | November 2022                  |

We believe our manufacturing and distribution facilities are well maintained, in proper condition to operate at higher than current levels and are adequately insured. We do not anticipate significant difficulty in renewing or extending existing leases as they expire, or in replacing them with equivalent facilities or office locations. Of the owned properties, both are subject to encumbrances with a bank, in amounts that we do not believe are material to our operations.

**ITEM 3. 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. As of the filing of this report, this action is scheduled for trial in the second quarter of 2019. 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 this 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 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **PART II**

### **ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock has been listed on the Nasdaq Capital Market under the symbol “PPSI” since September 19, 2013. Prior to that time, it was quoted on the OTCQB. The last reported sales price of our common stock on the Nasdaq Capital Market on March 28, 2019, was \$4.93 per share. As of March 28, 2019, there were 22 holders of record of our common stock.

We have not declared or paid cash dividends on our common stock during the two most recent fiscal years, and we do not intend to pay any cash dividends on our common stock during the foreseeable future. Rather, we intend to retain future net income (if any) to fund the operation and expansion of our business and for general corporate purposes. Subject to legal and contractual limits, our board of directors will make any decision as to whether to pay dividends in the future. In addition, our credit agreement with BMO, dated April 29, 2016, restricts our ability to pay cash dividends.

We did not repurchase any of our equity securities during the fourth quarter of the fiscal year ended December 31, 2018.

### **ITEM 6. SELECTED FINANCIAL DATA.**

Not applicable.

### **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing elsewhere in this prospectus. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors*

*that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in the sections entitled “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements.”*

## **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. We are headquartered in Fort Lee, New Jersey and operate from 11 additional locations in the U.S., Canada and Mexico for manufacturing, centralized distribution, engineering, sales and administration.

Our operations are divided into two reportable segments: Transmission & Distribution Solutions and 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. These solutions are marketed principally through our PTL, Jefferson, Bemag and PCEP 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 brand name.

### **Reversal of Discontinued Operations**

During the fourth quarter of 2017, as part of its review of strategic alternatives, the Company made the decision to sell its switchgear business operated by Pioneer Custom Electric Products, Inc., which is part of T&D Solutions segment.

On May 2, 2018, Pioneer Custom Electric Products, Inc, a wholly owned subsidiary of Pioneer Power Solutions, Inc., entered into an Asset Purchase Agreement with CleanSpark, Inc. (“CleanSpark”), pursuant to which PCEP was to sell certain assets comprising the PCEP business to CleanSpark. The Company had agreed to extend the closing of the sale through December 31, 2018 to allow all parties additional time to satisfy all closing conditions.

On December 27, 2018, each of PCEP and CleanSpark signed a third letter agreement (the “Letter Agreement”) which further extended the Termination Date to January 16, 2019. On January 22, 2019, the Company and CleanSpark executed a merger agreement whereby Pioneer Critical Power, Inc., a wholly owned subsidiary of the Company, was sold to CleanSpark. On January 22, 2019, PCEP and CleanSpark terminated the Asset Purchase Agreement by mutual written agreement.

The Company had previously presented the operations of PCEP as discontinued operations for all periods presented in its annual report on Form 10-K for the year ended December 31, 2017.

Due to the change of the circumstances as described above, the Company is presenting the results of PCEP within continuing operations and including results of the switchgear reporting unit in the T&D Solutions Segment for all periods presented in the financial statements as of December 31, 2018. As circumstances allow, the Company will execute the sale of PCEP.

### **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                           |  |                       | 2017                           |  |                       |
|---------------|--------------------------------|--|-----------------------|--------------------------------|--|-----------------------|
|               | Balance Sheet<br>End of Period | Statements of<br>Operations and<br>Comprehensive<br>Income |                       | Balance Sheet<br>End of Period | Statements of<br>Operations and<br>Comprehensive<br>Income |                       |
|               |                                | Period<br>Average  | Cumulative<br>Average |                                | Period<br>Average  | Cumulative<br>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              |
| December 31   | \$0.7330                       | \$0.7568   | \$0.7715              | \$0.7971                       | \$0.7865   | \$0.7704              |

### Critical Accounting Policies

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

*Revenue Recognition.* Revenue is recognized when (1) a contract with a customer exists, (2) performance obligations promised in a contract are identified based on the products or services that will be transferred to the customer, (3) the transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products or services to the customer, (4) the transaction price is allocated to the performance obligations in the contract and (5) the Company satisfies performance obligations. 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.

*Inventories.* We value inventories at the lower of cost or net realizable value. If a write down to the current market value is necessary, the market value cannot be greater than the net realizable value, which is defined as selling price less costs to complete and dispose, and cannot be lower than the net realizable value less a normal profit margin. We also continually evaluate the composition of our inventory and identify obsolete, slow-moving and excess inventories. Inventory items identified as obsolete, slow-moving or excess are evaluated to determine if reserves are required. If we were not able to achieve our expectations of the net realizable value of the inventory at current market value, we would have to adjust our reserves accordingly. We attempt to accurately estimate future product demand to properly adjust inventory levels for our standard products. However, significant unanticipated changes in demand could have a significant impact on the value of inventory and of operating results.

*Impairment of Long-Lived Assets.* We review long-lived assets for impairment including intangible assets with determinable useful lives whenever events or changes in circumstances indicate that the carrying value of the corresponding asset group may not be realizable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset group are compared to the asset group's carrying amount to determine if an impairment of such asset is necessary. This requires us to make long-term forecasts of the future revenues and costs related to the assets groups subject to review. Forecasts require assumptions about demand for our products and future market conditions. Estimating future cash flows requires significant judgment, and our projections may vary from cash flows eventually realized. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period. The effect of any impairment would be reflected in operating income in the Consolidated Statements of Operations. In addition, we estimate the useful lives of our long-lived assets and other intangibles and periodically review these estimates to determine whether these lives are appropriate.

*Goodwill and Indefinite lived intangible Assets.* Goodwill and other intangible assets with indefinite useful lives are not amortized, but are evaluated for impairment annually, or immediately if conditions indicate that impairment could exist. The evaluation requires an impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss. The test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the Company measures the amount of the impairment loss. The goodwill impairment testing involves significant estimates.

*Income Taxes.* We account for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted and income is earned. This approach requires the recognition



of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities using expected rates in effect for the tax year in which the differences are expected to reverse. Developing the provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. A valuation allowance is recorded to reduce our deferred tax assets to the amount that is more likely than not to be realized. We believe that the deferred tax asset recorded as of December 31, 2018, is realizable through future reversals of existing taxable temporary differences and future taxable income. If we were to subsequently determine that we would be able to realize deferred tax assets in the future in excess of its net recorded amount, an adjustment to deferred tax assets would increase net income for the period in which such determination was made. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Our judgments and tax strategies are subject to audit by various taxing authorities.

As of December 31, 2018, we have recorded \$129 for uncertain tax positions. We do not believe the total of unrecognized tax positions will significantly increase or decrease during the next 12 months.

### **Changes in Accounting Principles**

On January 1, 2018, the Company adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) and Accounting Standards Update 2016-02, Leases (Topic 842). The effects of the adoptions are described in Note 2 to the consolidated financial statements.

### **Rounding**

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

**RESULTS OF OPERATIONS***Overview of 2018 Operating Results*

Selected financial and operating data for our reportable business segments for the most recent two years is summarized below. This information, as well as the selected financial data provided in Note 16 and our Consolidated Financial Statements and related notes included in this Annual Report on Form 10-K, should be referred to when reading our discussion and analysis of results of operations below. Our summary of operating results during the years ended 2018 and 2017 are as follows:

|  | For the Year Ended<br>December 31, |            |
|--|------------------------------------|------------|
|  | 2018                               | 2017       |
| Revenues                                     |                                    |            |
| T&D Solutions                                | \$95,010                           | \$99,326   |
| Critical Power Solutions                     | 11,380                             | 15,065     |
| Consolidated                                 | 106,390                            | 114,391    |
| Cost of goods sold                           |                                    |            |
| T&D Solutions                                | 77,284                             | 84,501     |
| Critical Power Solutions                     | 9,855                              | 12,151     |
| Consolidated                                 | 87,139                             | 96,652     |
| Gross profit                                 | 19,251                             | 17,739     |
| Selling, general and administrative expenses | 19,652                             | 18,903     |
| Depreciation and amortization expense        | 1,813                              | 2,255      |
| Restructuring and integration                | —                                  | 219        |
| Foreign exchange gain                        | (341 )                             | (325 )     |
| Total operating expenses                     | 21,124                             | 21,052     |
| Operating loss                               | (1,873 )                           | (3,313 )   |
| Interest expense                             | 2,662                              | 2,462      |
| Other expense                                | 826                                | 411        |
| Loss before taxes                            | (5,361 )                           | (6,186 )   |
| Income tax expense                           | 303                                | 3,039      |
| Net loss                                     | \$(5,664 )                         | \$(9,225 ) |

*Backlog.* Our order backlog at December 31, 2018 was \$47.5 million, as compared to \$35.2 million at December 31, 2017. Our backlog is based on orders expected to be delivered in the future, most of which is expected to occur during 2019. The following table represents the progression of our backlog, by reporting segment, for the periods ended as indicated:

|                          | December 31, |          |
|--------------------------|--------------|----------|
|                          | 2018         | 2017     |
| T&D Solutions            | \$41,320     | \$26,486 |
| Critical Power Solutions | 6,171        | 8,710    |
| Total order backlog      | \$47,491     | \$35,196 |

**Revenue**

The following table represents our revenues by reporting segment and major product category for the periods indicated (in thousands, except percentages):

|                          | For the Year Ended   |           | Variance   | %      |
|--------------------------|----------------------|-----------|------------|--------|
|                          | December 31,<br>2018 | 2017      |            |        |
| T&D Solutions            |                      |           |            |        |
| Transformers             | \$86,263             | \$86,325  | \$(62 )    | (0.1 ) |
| Switchgear               | 8,747                | 13,001    | (4,254 )   | (32.7) |
|                          | 95,010               | 99,326    | (4,316 )   | (4.3 ) |
| Critical Power Solutions |                      |           |            |        |
| Equipment                | 1,580                | 5,898     | (4,318 )   | (73.2) |
| Service                  | 9,800                | 9,167     | 633        | 6.9    |
|                          | 11,380               | 15,065    | (3,685 )   | (24.5) |
| Total revenue            | \$106,390            | \$114,391 | \$(8,001 ) | (7.0 ) |

For the year ended December 31, 2018, our consolidated revenue decreased by \$8.0 million, or 7.0%, to \$106.4 million, down from \$114.4 million during the year ended December 31, 2017.

*T&D Solutions.* Revenue from our transformer product lines decreased by \$0.1 million, or 0.1%, driven by customers delaying 2018 deliveries to 2019. Revenue from our switchgear product lines decreased by \$4.3 million, or 32.7% as result of lower sales of our transfer switches and medium voltage switchgear products.

*Critical Power.* Revenue for our equipment sales decreased by \$4.3 million, or 73.2%, driven by our decision to concentrate our efforts on service revenue, which provides higher profit margins. The increase in service revenue of \$0.6 million, or 6.9% is further confirmation of this strategy.

**Gross Profit and Gross Margin**

The following table represents our gross profit by reporting segment for the periods indicated (in thousands, except percentages):

|                             | For the Year Ended<br>December 31, |          |          |        |
|-----------------------------|------------------------------------|----------|----------|--------|
|                             | 2018                               | 2017     | Variance | %      |
| T&D Solutions               |                                    |          |          |        |
| Gross profit                | \$17,726                           | \$14,825 | \$2,901  | 19.6   |
| Gross margin %              | 18.7                               | 14.9     | 3.8      |        |
| Critical Power Solutions    |                                    |          |          |        |
| Gross profit                | 1,525                              | 2,914    | (1,389 ) | (47.7) |
| Gross margin %              | 13.4                               | 19.3     | (5.9 )   |        |
| Consolidated gross profit   | \$19,251                           | \$17,739 | \$1,512  | 8.5    |
| Consolidated gross margin % | 18.1                               | 15.5     | 2.6      |        |

For the year ended December 31, 2018, our gross margin percentage was 18.1% of revenues, compared to 15.5% during the year ended December 31, 2017. The 2.6% increase in our consolidated gross margin percentage is explained predominantly by the results of our T&D Solutions segment.

*T&D Solutions.* The 3.8% increase in our T&D Solutions gross margin resulted primarily from the write-off of \$1.7 million of inventory in our switchgear business in 2017 and the write off of raw material inventory of \$0.9 million not relocated from Canada when we relocated our production in Farnham, Quebec, Canada, to Reynosa, Mexico in 2017. The raw material inventory was not relocated due to the review of allowable sourcing and suppliers of components for finished goods pursuant to our safety files for products produced.

*Critical Power.* The 5.9% decrease in our Critical Power segment gross margin was driven primarily by lower sales while the fixed costs remained comparable.

### ***Operating Expenses***

The following table represents our operating expenses by reportable segment for the periods indicated (in thousands, except percentages):

|  | For the Year Ended |          |            |         |
|--|--------------------|----------|------------|---------|
|  | December 31,       |          | Variance % |         |
|  | 2018               | 2017     |            |         |
| <b>T&amp;D Solutions</b>                       |                    |          |            |         |
| Selling, general and administrative expense    | \$14,383           | \$13,370 | \$1,013    | 7.6     |
| Depreciation and amortization expense          | 529                | 651      | (122 )     | (18.7 ) |
| Restructuring and integration                  | —                  | 219      | (219 )     | (100.0) |
| Foreign exchange gain                          | (341 )             | (325 )   | (16 )      | 4.9     |
| Segment operating expense                      | \$14,571           | \$13,915 | \$656      | 4.7     |
| <b>Critical Power Solutions</b>                |                    |          |            |         |
| Selling, general and administrative expense    | \$1,625            | \$2,063  | \$(438 )   | (21.2 ) |
| Depreciation and amortization expense          | 1,222              | 1,533    | (311 )     | (20.3 ) |
| Segment operating expense                      | \$2,847            | \$3,596  | \$(749 )   | (20.8 ) |
| <b>Unallocated Corporate Overhead Expenses</b> |                    |          |            |         |
| Selling, general and administrative expense    | \$3,644            | \$3,470  | \$174      | 5.0     |
| Depreciation expense                           | 62                 | 71       | (9 )       | (12.7 ) |
| Segment operating expense                      | \$3,706            | \$3,541  | \$165      | 4.7     |
| <b>Consolidated</b>                            |                    |          |            |         |
| Selling, general and administrative expense    | \$19,652           | \$18,903 | \$749      | 4.0     |
| Depreciation and amortization expense          | 1,813              | 2,255    | (442 )     | (19.6 ) |
| Restructuring and integration                  | —                  | 219      | (219 )     | (100.0) |
| Foreign exchange gain                          | (341 )             | (325 )   | (16 )      | (4.9 )  |

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|                                |          |          |      |     |
|--------------------------------|----------|----------|------|-----|
| Consolidated operating expense | \$21,124 | \$21,052 | \$72 | 0.3 |
|--------------------------------|----------|----------|------|-----|

*Selling, General and Administrative Expense.* For the year ended December 31, 2018, consolidated selling, general and administrative expense, before depreciation and amortization, increased by approximately \$0.7 million, or 4.0%, to \$19.7 million, as compared to \$18.9 million during the year ended December 31, 2017. As a percentage of our consolidated revenue, selling, general and administrative expense increased to 18.5% in 2018, as compared to 16.5% in 2017.

The selling, general and administrative expense in our T&D Solutions segment increased by \$1.0 million, or 7.6%, during the year ended December 31, 2018, as compared to 2017 primarily due to higher professional fees and commission expense.

The selling, general and administrative expense in our Critical Power segment decreased by \$0.4 million, or 21.2% as compared to 2017 primarily due to lower payroll related costs.

*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. Depreciation and amortization expense decreased by \$0.4 million during the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily due to lower purchases of property, plant and equipment.

*Restructuring and Integration.* There was no restructuring and integration expense in the year ended December 31, 2018. In 2017, the Company completed the relocation of the medium voltage transformer production facility from Canada to a lower cost facility and incurred \$0.2 million of expense.

*Foreign Exchange Gain.* For the year ended December 31, 2018, approximately 37% of our consolidated operating revenues were denominated in Canadian dollars, and the majority of our expenses were denominated and disbursed in U.S. dollars. We have not historically engaged in currency hedging activities. Fluctuations in foreign currency exchange rates between the time we initiate and then settle transactions with our customers and suppliers can have an impact on our operating results. For the years ended December 31, 2018 and 2017, we recorded a gain of \$0.3 million due to currency fluctuations.

### ***Operating Income (Loss)***

The following table represents our operating income (loss) by reportable segment for the periods indicated:

|   | For the Year Ended |           |          |        |
|---|--------------------|-----------|----------|--------|
|   | December 31,       |           |          |        |
|   | 2018               | 2017      | Variance | %      |
| T&D Solutions                           | \$3,155            | \$910     | \$2,245  | 246.7  |
| Critical Power Solutions                | (1,322)            | (682)     | (640)    | (93.8) |
| Unallocated Corporate Overhead Expenses | (3,706)            | (3,541)   | (165)    | (4.7)  |
| Total operating loss                    | \$(1,873)          | \$(3,313) | \$1,440  | (43.5) |

*T&D Solutions.* Operating income from this segment increased by \$2.2 million in 2018 compared to 2017, due to lower restructuring costs and improved gross profit in switchgear business.

*Critical Power.* The Critical Power segment operating loss increased by \$0.6 million during 2018 from 2017 due to lower gross margin.

*General Corporate Expense.* Our general 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 year ended December 31, 2018, our



unallocated corporate overhead expense increased by \$0.2 million.

### *Non-Operating Expense*

*Interest Expense.* For the year ended December 31, 2018, our interest expense was \$2.7 million, as compared to \$2.5 million for the year ended December 31, 2017. The net 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 2018, as compared to 2017.

*Other Expense.* Our non-operating expense reports certain losses associated with activities not directly related to our core operations. Our non-operating expense was \$0.8 million for the year ended December 31, 2018 as compared to \$0.4 million for the year ended December 31, 2017.

*Provision for Income Taxes.* Our provision reflects an effective tax rate on loss before taxes of 5.7% in 2018, as compared to 49.1% in 2017, as set forth below:

|                             | For the Year Ended<br>December 31, |           |          |
|-----------------------------|------------------------------------|-----------|----------|
|                             | 2018                               | 2017      | Variance |
| Loss before income taxes    | \$(5,361)                          | \$(6,186) | \$825    |
| Income tax expense          | 303                                | 3,039     | (2,736)  |
| Effective income tax rate % | 5.7                                | 49.1      | 43.5     |

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (“U.S. tax reform”) that lowers the statutory tax rate on U.S. earnings, taxes historic foreign earnings at a reduced rate of tax, establishes a quasi-territorial tax system and enacts new taxes associated with global operations.

As part of tax reform, the U.S. has enacted a minimum tax on foreign earnings (“global intangible low-taxed income”) which is now being reflected in the income tax expense.

The decrease in our effective tax rate during 2018 primarily reflects the impact of the Tax Cuts and Jobs Act Enactment and the recognition of a valuation allowance of \$1.6 million and \$4.7 million for the years ended December 31, 2018 and 2017, respectively.

### *Net Loss per Share*

We generated a net loss of \$5.7 million for the year ended December 31, 2018, as compared to net loss of \$9.2 million during the year ended December 31, 2017. In 2018, our net loss per basic and diluted share was \$0.65, as compared to a net loss of \$1.06 during the year ended December 31, 2017.

## **LIQUIDITY AND CAPITAL RESOURCES**

*General.* At December 31, 2018, we had cash and cash equivalents of approximately \$0.2 million and total debt outstanding of \$26.3 million, when including bank overdrafts and liabilities of 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 should be sufficient to finance our cash requirements for anticipated operating activities, capital improvements and principal repayments of debt through at least the next twelve months.

*Cash Provided by Operating Activities.* Cash provided by our operating activities was approximately \$2.2 million during the year ended December 31, 2018, compared to \$1.7 million during the year ended December 31, 2017, primarily due to working capital changes.

*Cash Provided by / Used in Investing Activities.* Cash provided by investing activities during the year ended December 31, 2018 was approximately \$0.2 million, as compared to \$1.4 million cash used in investing activities during the year ended December 31, 2017. Additions to our property, plant and equipment in the ordinary course of business were approximately \$0.6 million and \$1.5 million during the years ended December 31, 2018 and 2017, respectively.

*Cash Used in / Provided by Financing Activities.* Cash used in our financing activities was \$3.4 million during the year ended December 31, 2018, as compared to \$0.6 million of cash provided by financing activities during the year ended December 31, 2017. During 2018, borrowings under our revolving credit facilities increased by \$0.1 million.

*Working Capital.* As of December 31, 2018, we had a working capital deficit of \$5.1 million, including \$0.2 million of cash and cash equivalents, compared to a working capital deficit of \$1.7 million, including \$0.2 million of cash and cash equivalents at December 31, 2017. At December 31, 2018 and 2017, we had \$0.4 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 to \$47.5 million as of December 31, 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 our working capital position will improve including a reduction in our overall debt levels.

*Assessment of Liquidity.* At December 31, 2018, we had total debt of \$26.3 million and \$0.2 million of cash and cash equivalents on hand. We have historically met our cash needs through a combination of cash flows from operating activities and bank borrowings under our revolving credit facilities. Our cash requirements are generally for operating activities, debt repayment, capital improvements and acquisitions. In addition, as further discussed below, our credit facilities maturity dates have been extended until April 1, 2020.

The financial statements included in this annual report have been prepared assuming that we will continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business. Significant assumptions underlie this belief, including, among other things, that there will be no material adverse developments in our business, liquidity, capital requirements and that our credit facilities with our lender will remain available to us and will not need to be replaced.

## **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. 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 were to 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. In December 2018 we repaid the outstanding principal balance under Facility C of \$316 CAD with proceeds received from the sale of the Farnham, Quebec, Canada building.

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 December 31, 2018, we had approximately \$5.8 million in U.S. dollar equivalents outstanding under our Canadian Facilities. Our borrowings consisted of approximately \$5.8 million outstanding under Facility A. As of December 31, 2018, the Company was not in compliance with its financial covenants and on March 25, 2019, the Company received a waiver from BMO on all financial covenant breaches existing as of December 31, 2018.

As of December 31, 2017, we had approximately \$3.5 million in U.S. dollar equivalents outstanding under our Canadian Credit Facilities. Our borrowings consisted of approximately \$2.9 million outstanding under Facility A, \$0.1 million outstanding under Facility B and \$0.5 million outstanding under Facility C.

### *United States Credit Facilities*

In April 2016, we entered into an Amended and Restated Credit Agreement (“US ARCA”) with BMO with respect to our existing U.S. facilities that replaced and superseded all of our businesses’ prior financing arrangements with the bank (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 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 December 31, 2018, we had approximately \$18.8 million outstanding under our U.S. Facilities. Our borrowings consisted of approximately \$15.0 million outstanding under USD Facility A, and \$3.8 million outstanding under USD Facility B. As of December 31, 2018, the Company was not in compliance with its financial covenants and on March 25, 2019, the Company received a waiver from BMO on all financial covenant breaches existing as of December 31, 2018.

As of December 31, 2017, we had approximately \$19.4 million outstanding under our U.S. Credit Facilities. Our borrowings consisted of approximately \$14.9 million outstanding under USD Facility A, and \$4.5 million outstanding under USD Facility B.

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

As of December 31, 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 \$0.6 million during the year ended December 31, 2018, as compared to \$1.5 million during the year ended December 31, 2017. We have no major future capital projects planned, or significant replacement spending anticipated during 2018.

### **Factors That May Affect Future Operations**

We believe that our future operating results will continue to be subject to quarterly variations based upon a wide variety of factors, including the cyclical nature of the electrical equipment industry and the markets for our products and services. Our operating results could also be impacted by a weakening of the Canadian dollar, changing customer requirements and exposure to fluctuations in prices of important raw supplies, such as copper, steel and aluminum. We attempt to minimize increases resulting from fluctuations in supply costs through the inclusion of escalation clauses with respect to commodities in our customer contracts. We have various insurance policies, including cybersecurity, covering risks in amounts that we consider adequate. In addition to these measures, we attempt to recover other cost increases through improvements to our manufacturing efficiency and through increases in prices where competitively feasible. Lastly, other economic conditions we cannot foresee may affect customer demand. We predominately sell to customers in the utility, industrial production and commercial construction markets. Accordingly, changes in the condition of any of our customers may have a greater impact than if our sales were more evenly distributed between different end markets. For a further discussion of factors that may affect future operating results see the sections entitled “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements.”

### **Off Balance Sheet Transactions and Related Matters**

Other than operating leases, we have no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.



## New Accounting Pronouncements

The information required by this Item is provided in “Note 2. Summary of Significant Accounting Policies” to our audited financial statements for the year ended December 31, 2018 included in this Annual Report on Form 10-K.

## 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.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 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 2016-04, *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 are required under 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. Once this standard becomes effective, companies may use either of the following transition methods: (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, T&D Solutions and 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 currently recognize revenue to the new standard in order to quantify the impact of this ASU. We have made policy elections within the amended standard that are consistent with our current accounting. We adopted ASU 2014-09 in our first quarter of 2018 using the modified retrospective approach. We have performed a quantitative assessment of adopting ASU 2014-09 and concluded that there was no material impact to our financial statements other than enhanced disclosures and no changes to the opening retained earnings.

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.

In April 2016, the FASB issued ASU No. 2016-09, “*Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting*”. Under ASU No. 2016-09, companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital (“APIC”). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and the APIC pools will be eliminated. In addition, ASU No. 2016-09 eliminates the requirement that excess tax benefits be realized before companies can recognize them. ASU No. 2016-09 also requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. Furthermore, ASU No. 2016-09 will increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer’s statutory income tax withholding obligation. An employer with a statutory income tax withholding obligation will now be allowed to withhold shares with a fair value up to the amount of taxes owed using the maximum statutory tax rate in the employee’s applicable jurisdiction(s). ASU No. 2016-09 requires a company to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on the statement of cash flows. Under current GAAP, it was not specified how these cash flows should be classified. In addition, companies will now have to elect whether to account for forfeitures on share-based payments by (1) recognizing forfeitures of awards as they occur or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. The amendments of this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted but all of the guidance must be adopted in the same period. We adopted ASU No. 2016-09 in 2017. The adoption of the new guidance did not materially affect our financial position, results of operations or 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.

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.

In January 2017, the FASB issued ASU No. 2017-04, *“Simplifying the Test for Goodwill Impairment”*. This standard was established to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. We adopted this standard during the fourth quarter of 2017 in conjunction with our goodwill impairment assessment. As of the measurement date October 1, 2018, dry type transformers and critical power reporting units had negative carrying values. The Company allocated \$5.6 million and \$3.0 million of goodwill to dry type and critical power reporting units, respectively. The Company recorded an impairment charge of \$1.4 million to the remaining goodwill of the switchgear reporting unit in 2017. The Company recorded no impairment to goodwill during the year ended December 31, 2018.

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, is to be presented outside of any subtotal of operating income. The Company elected to apply the practical expedient which allows for comparable classification of costs of benefits incurred by the Company for the year ended December 31, 2018 and 2017 as included in Note 15 to the consolidated financial statements in Part II of this Annual Report on Form 10-K as the estimation basis for applying the retrospective presentation requirements of the standard.

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.

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.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not Applicable.



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## **Report of Independent Registered Public Accounting Firm**

### **Board of Directors and Stockholders**

**Pioneer Power Solutions, Inc.**

**Fort Lee, New Jersey**

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Pioneer Power Solutions, Inc. (the “Company”) and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive loss, stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principles**

On January 1, 2018, the Company adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) and Accounting Standards Update 2016-02, Leases (Topic 842). The effects of the adoptions are described in Notes 2 and 4 to the consolidated financial statements.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2014.

New York, New York

March 29, 2019



**PIONEER POWER SOLUTIONS, INC.****Consolidated Statements of Operations****(In thousands, except per share data)**

|   | For the Year Ended<br>December 31, |            |
|---|------------------------------------|------------|
|   | 2018                               | 2017       |
| Revenues                                    | \$ 106,390                         | \$ 114,391 |
| Cost of goods sold                          |                                    |            |
| Cost of goods sold                          | 87,139                             | 95,779     |
| Restructuring and integration               | —                                  | 873        |
| Total cost of goods sold                    | 87,139                             | 96,652     |
| Gross profit                                | 19,251                             | 17,739     |
| Operating expenses                          |                                    |            |
| Selling, general and administrative         | 21,465                             | 21,158     |
| Restructuring and integration               | —                                  | 219        |
| Foreign exchange gain                       | (341 )                             | (325 )     |
| Total operating expenses                    | 21,124                             | 21,052     |
| Operating loss                              | (1,873 )                           | (3,313 )   |
| Interest expense                            | 2,662                              | 2,462      |
| Other expense                               | 826                                | 411        |
| Loss before taxes                           | (5,361 )                           | (6,186 )   |
| Income tax expense                          | 303                                | 3,039      |
| Net loss                                    | \$(5,664 )                         | \$(9,225 ) |
| Net loss per common share:                  |                                    |            |
| Basic                                       | \$(0.65 )                          | \$(1.06 )  |
| Diluted                                     | \$(0.65 )                          | \$(1.06 )  |
| Weighted average common shares outstanding: |                                    |            |
| Basic                                       | 8,726                              | 8,717      |
| Diluted                                     | 8,726                              | 8,717      |

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

**PIONEER POWER SOLUTIONS, INC.**

**Consolidated Statements of Comprehensive Loss**

**(In thousands)**

|  | For the Year<br>Ended<br>December 31, |           |
|--|---------------------------------------|-----------|
|  | 2018                                  | 2017      |
| Net loss   | \$(5,664)                             | \$(9,225) |
| Other comprehensive (loss) income  |                                       |           |
| Foreign currency translation adjustments                                     | (161 )                                | 174       |
| Amortization of net prior service costs and net actuarial losses, net of tax | 62                                    | (108 )    |
| Other comprehensive (loss) income  | (99 )                                 | 66        |
| Comprehensive loss   | \$(5,763)                             | \$(9,159) |

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

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

|   | December 31, |          |
|---|--------------|----------|
|   | 2018         | 2017     |
| <b>ASSETS</b>   |              |          |
| Current assets  |              |          |
| Cash and cash equivalents   | \$211        | \$218    |
| Accounts receivable, net  | 16,327       | 15,000   |
| Inventories, net  | 27,310       | 26,113   |
| Income taxes receivable   | 566          | 743      |
| Prepaid expenses and other current assets   | 2,510        | 3,017    |
| Total current assets  | 46,924       | 45,091   |
| Property, plant and equipment, net  | 5,284        | 6,858    |
| Deferred income taxes   | 2,971        | 2,729    |
| Other assets  | 5,222        | 4,651    |
| Intangible assets, net  | 3,584        | 6,399    |
| Goodwill  | 8,527        | 8,527    |
| Total assets  | \$72,512     | \$74,255 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |              |          |
| Current liabilities   |              |          |
| Bank overdrafts   | \$1,769      | \$1,181  |
| Revolving credit facilities   | 20,755       | 17,814   |
| Short term borrowings   | —            | 5,430    |
| Accounts payable and accrued liabilities  | 27,845       | 20,381   |
| Current maturities of long-term debt and capital lease obligations  | 1,174        | 782      |
| Income taxes payable  | 873          | 1,164    |
| Total current liabilities   | 52,416       | 46,752   |
| Long-term debt, net of current maturities   | 2,619        | 4,153    |
| Pension deficit   | 148          | 283      |
| Other long-term liabilities   | 3,786        | 3,853    |
| Deferred income taxes   | 1,592        | 1,665    |
| Total liabilities   | 60,561       | 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;<br>8,726,045 shares issued and outstanding on December 31, 2018 and 2017 | 9            | 9        |
| Additional paid-in capital  | 23,966       | 23,801   |
| Accumulated other comprehensive loss  | (5,897 )     | (5,798 ) |
| Accumulated deficit   | (6,127 )     | (463 )   |
| Total stockholders' equity  | 11,951       | 17,549   |

|  |          |          |
|--|----------|----------|
| Total liabilities and stockholders' equity | \$72,512 | \$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)**

|  | For the Year Ended<br>December 31, |            |
|--|------------------------------------|------------|
|  | 2018                               | 2017       |
| Operating activities                                       |                                    |            |
| Net loss   | \$(5,664 )                         | \$(9,225 ) |
| Depreciation   | 1,222                              | 1,285      |
| Amortization of intangible assets                          | 1,460                              | \$1,774    |
| Amortization of right-of-use assets                        | 622                                | 535        |
| Amortization of debt issuance cost                         | 75                                 | 205        |
| Deferred income tax (benefit) expense                      | (329 )                             | 2,201      |
| Change in receivable reserves                              | (350 )                             | 239        |
| Change in inventory reserves                               | 241                                | (102 )     |
| Inventory write off  | —                                  | 2,642      |
| Accrued pension  | (55 )                              | (8 )       |
| Stock-based compensation                                   | 165                                | 466        |
| Loss on disposition of fixed assets                        | 21                                 | 40         |
| Intangible asset impairment                                | 1,350                              | —          |
| Goodwill impairment  | —                                  | 1,445      |
| Foreign currency remeasurement loss (gain)                 | 42                                 | (27 )      |
| Changes in current operating assets and liabilities:       |                                    |            |
| Accounts receivable  | (1,373 )                           | 2,594      |
| Inventories  | (2,118 )                           | (1,975 )   |
| Prepaid expenses and other assets                          | (708 )                             | (256 )     |
| Income taxes   | (93 )                              | (923 )     |
| Accounts payable and accrued liabilities                   | 7,645                              | 790        |
| Net cash provided by operating activities                  | 2,153                              | 1,700      |
| Investing activities                                       |                                    |            |
| Additions to property, plant and equipment                 | (589 )                             | (1,450 )   |
| Proceeds from sale of fixed assets                         | 762                                | 22         |
| Net cash provided by (used in) investing activities        | 173                                | (1,428 )   |
| Financing activities                                       |                                    |            |
| Bank overdrafts  | 699                                | (61 )      |
| Short term borrowings                                      | (5,430 )                           | 1,457      |
| Borrowing under debt agreement                             | 40,599                             | 40,481     |
| Repayment of debt  | (38,848)                           | (40,993)   |
| Payment of debt issuance cost                              | (18 )                              | (61 )      |
| Net proceeds from the exercise of options for common stock | —                                  | 120        |

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|   |          |         |
|---|----------|---------|
| Principal repayments of financing leases                | (414 )   | (301 )  |
| Net cash (used in) provided by financing activities     | (3,412 ) | 642     |
| (Decrease) Increase in cash and cash equivalents        | (1,086 ) | 914     |
| Effect of foreign exchange on cash and cash equivalents | 1,079    | (942 )  |
| Cash and cash equivalents                               |          |         |
| Beginning of period                                     | 218      | 246     |
| End of period   | \$211    | \$218   |
| Supplemental cash flow information:                     |          |         |
| Interest paid   | \$2,603  | \$2,087 |
| Income taxes paid, net of refunds                       | 587      | 1,725   |

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

**PIONEER POWER SOLUTIONS, INC.****Consolidated Statements of Stockholders' Equity****(Dollars in thousands)**

|  | Common Stock |        | Additional | Accumulated   | Accumulated | Total         |
|--|--------------|--------|------------|---------------|-------------|---------------|
|  | Shares       | Amount | paid-in    | other         | deficit/    | stockholders' |
|  |              |        | capital    | comprehensive | Retained    | equity        |
|  |              |        |            | income        | earnings    |               |
|  |              |        |            | (loss)        |             |               |
| Balance - January 1, 2017                                  | 8,699,712    | \$ 9   | \$ 23,215  | \$ (5,863     | ) \$ 8,838  | \$ 26,199     |
| Net loss   | —            | —      | —          | —             | (9,225      | ) (9,225      |
| Stock-based compensation                                   | —            | —      | 466        | —             | —           | 466           |
| Foreign currency translation adjustment                    | —            | —      | —          | 173           | —           | 173           |
| Pension adjustment, net of taxes                           | —            | —      | —          | (108          | ) —         | (108          |
| Cumulative adjustment from adoption of accounting standard | —            | —      | —          | —             | (76         | ) (76         |
| Issuance of common stock                                   | 26,333       | —      | 120        | —             | —           | 120           |
| Balance - December 31, 2017                                | 8,726,045    | \$ 9   | \$ 23,801  | \$ (5,798     | ) \$ (463   | ) \$ 17,549   |
| Net loss   | —            | —      | —          | —             | (5,664      | ) (5,664      |
| Stock-based compensation                                   | —            | —      | 165        | —             | —           | 165           |
| Foreign currency translation adjustment                    | —            | —      | —          | (161          | ) —         | (161          |
| Pension adjustment, net of taxes                           | —            | —      | —          | 62            | —           | 62            |
| Balance - December 31, 2018                                | 8,726,045    | \$ 9   | \$ 23,966  | \$ (5,897     | ) \$ (6,127 | ) \$ 11,951   |

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

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

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

#### **1. BASIS OF PRESENTATION**

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 eleven (11) additional locations in the U.S., Canada and Mexico for manufacturing, centralized distribution, engineering, sales and administration.

#### **NASDAQ Listing**

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

#### **Segments**

In determining operating and reportable segments in accordance with ASC 280, Segment Reporting (“ASC 280”), the Company concluded that it has two reportable segments, which are also our operating segments: Transmission & Distribution Solutions (“T&D Solutions”) and Critical Power Solutions. Financial information about the Company’s segments is presented in Note 16 – Business Segment, Geographic and Customer Information.

#### **Reversal of Discontinued Operations**

During the fourth quarter of 2017, as part of its review of strategic alternatives, the Company made the decision to sell its switchgear business operated by Pioneer Custom Electric Products, Inc., which is part of T&D Solutions segment.



On May 2, 2018, Pioneer Custom Electric Products, Inc, a wholly owned subsidiary of Pioneer Power Solutions, Inc., entered into an Asset Purchase Agreement with CleanSpark, Inc. (“CleanSpark”), pursuant to which PCEP was to sell certain assets comprising the PCEP business to CleanSpark. The Company had agreed to extend the closing of the sale through December 31, 2018 to allow all parties additional time to satisfy all closing conditions.

On December 27, 2018, each of PCEP and CleanSpark signed a third letter agreement (the “Letter Agreement”) which further extended the Termination Date to January 16, 2019. On January 22, 2019, the Company and CleanSpark executed a merger agreement whereby Pioneer Critical Power, Inc., a wholly owned subsidiary of the Company, was sold to CleanSpark. On January 22, 2019, PCEP and CleanSpark terminated the Asset Purchase Agreement by mutual written agreement.

The Company had previously presented the operations of PCEP as discontinued operations for all periods presented in its annual report on Form 10-K for the year ended December 31, 2017.

Due to the change of the circumstances as described above, the Company is presenting the results of PCEP within continuing operations and including results of the switchgear reporting unit in the T&D Solutions Segment for all periods presented in the financial statements as of December 31, 2018. As circumstances allow, the Company will pursue the sale of PCEP.

## **Liquidity**

The accompanying financial statements have been prepared on a basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements during year ended December 31, 2018, the Company incurred net losses of \$5.7 million, has an accumulated deficit of \$6.1 million, and has a working capital deficit of \$5.5 million. At December 31, 2018, we had total debt of \$26.3 million and \$0.2 million of cash and cash equivalents on hand. We have historically met our cash needs through a combination of cash flows from operating activities and bank borrowings under our revolving credit facilities. Our cash requirements are generally for operating activities, debt repayment, capital improvements and acquisitions. In addition, as further discussed in Note 10 our credit facilities maturity dates have been extended until April 1, 2020.

The financial statements included in this annual report have been prepared assuming that we will continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business. Significant assumptions underlie this belief, including, among other things, that there will be no material adverse developments in our business, liquidity, capital requirements and that our credit facilities with our lender will remain available to us and will not need to be replaced.

Management believes that its capital resources are adequate to fund operations through the first quarter of 2020, but the Company is dependent on its agreement with BMO to meet its working capital obligations. The Company has certain credit arrangements with its lender that contain subjective acceleration clauses and the Company has had several instances of non-compliance with certain of the covenants included in such facilities. Management has historically been able to obtain from its lender waivers of any non-compliance and management believes that it will be able to continue to obtain necessary waivers in the event of future non-compliance, however there can be no guarantees and should the lender not provide a waiver in the future, the debt could become due immediately. Additionally, operations of the Company are subject to certain risks and uncertainties, including, among others, uncertainty of commercial manufacturing at acceptable margins, marketing or sales acceptance, and dependence on key personnel.

## **Rounding**

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

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

### **General**

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Principles of Consolidation**

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

### **Reclassifications**

Certain reclassifications have been made in prior years' financial statements to conform to the presentation used in the current year. These reclassifications have not resulted in any changes to the previously reported net income for any year.

### **Use of Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The financial statements include estimates based on currently available information and management's judgment as to the outcome of future conditions and circumstances. Significant estimates in these financial statements include allowance for doubtful accounts receivable, inventory provision, useful lives and impairment of long-lived assets, income tax provision, goodwill impairment, cost of pension benefits and estimates related to purchase price allocation.

Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of the financial statements and actual results could differ from the estimates and assumptions.

### **Revenue Recognition**

Revenue is recognized when (1) a contract with a customer exists, (2) performance obligations promised in a contract are identified based on the products or services that will be transferred to the customer, (3) the transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products or services to the customer, (4) the transaction price is allocated to the performance obligations in the contract and (5) the Company satisfies performance obligations. 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.

### **Cost of Goods Sold**

Cost of goods sold for the T&D Solutions and Critical Power segments primarily includes charges for materials, direct labor and related benefits, freight (inbound and outbound), direct supplies and tools, purchasing and receiving costs, inspection costs, internal transfer costs, warehousing costs and utilities related to production facilities and, where appropriate, an allocation of overhead. Cost of goods sold for Critical Power Solutions also includes indirect labor and infrastructure cost related to the provision of field services.

### **Financial Instruments**

The Company's financial instruments consist primarily of cash and cash equivalents, receivables, payables and debt instruments. The carrying values of these financial instruments approximate their respective fair values as they are either short-term in nature or carry interest rates which are periodically adjusted to market rates. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value.

## **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less.

## **Accounts Receivable**

The Company accounts for trade receivables at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. The Company writes off trade receivables when they are deemed uncollectible. The Company records recoveries of trade receivables previously written off when it receives them. Management considers the Company's allowance for doubtful accounts, which was \$0.2 and \$0.5 million as of December 31, 2018 and 2017, respectively, sufficient to cover any exposure to loss in its accounts receivable.

## **Long-Lived Assets**

Depreciation and amortization for property, plant and equipment, and finite life intangible assets, is computed and included in cost of goods sold and in selling and administrative expense, as appropriate. Long-lived assets, consisting primarily of property, plant and equipment, are stated at cost less accumulated depreciation. Property, plant and equipment are depreciated using the straight line method, based on the estimated useful lives of the assets (buildings – 25 years, machinery and equipment - 5 to 15 years, computer hardware and software - 3 to 5 years, furniture & fixtures 5 to 7 years, leasehold improvements – term of lease). Depreciation commences in the year the assets are ready for their intended use. As a convention, in the initial year an asset is placed in service, the Company takes one half year of depreciation.

Finite life intangible assets consist primarily of customer relationships in multiple categories that are specific to the businesses acquired and for which estimated useful lives were determined based on actual historical customer attrition rates. The Company's other finite life intangible assets consist of non-compete agreements, which have defined terms, certain trademarks which the Company has elected to gradually discontinue, and internally-developed software. These finite life intangible assets are amortized by the Company over periods ranging from four to ten years. The Company accelerated and fully amortized the distributor territory license intangible asset upon the termination of its distribution agreement with a supplier during the year ended December 31, 2017.

Long-lived assets and finite life intangible assets are reviewed for impairment whenever events or circumstances have occurred that indicate the remaining useful life of the asset may warrant revision or that the remaining balance of the asset may not be recoverable. Upon indications of impairment, or in the normal course of annual testing, assets and liabilities are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The measurement of possible impairment is generally estimated by the ability to recover the balance of an asset group from its expected future operating cash flows on an undiscounted basis. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value thereof. Determining asset groups and underlying cash flows requires the use of significant judgment.

## **Goodwill and Indefinite Life Intangible Assets**

Goodwill was generated through the acquisitions made by the Company between 2010 and 2015. As the total consideration paid exceeded the value of the net assets acquired, the Company recorded goodwill for each of the completed acquisitions. At the date of acquisition, the Company performed a valuation to determine the value of the intangible assets, and the allocation of the purchase price to the assets and liabilities acquired. The goodwill is attributable to synergies and economies of scale provided to us by the acquired entity.

The Company tests its goodwill and indefinite-lived intangible asset for impairment at least annually (as of October 1) and whenever events or circumstances change that indicate impairment may have occurred. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in the Company's expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate of its segments; unanticipated competition; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of goodwill, the indefinite-lived intangible assets and the Company's consolidated financial results. As described in Note 9, the company recorded impairment charges of \$870, \$377 and \$103 against technology-related industry accreditation, customer relationships and non-complete agreements, respectively, in 2018 and \$1,445 against goodwill in 2017.

The Company tests its goodwill for impairment at the reporting unit level, which is an operating segment or a segment that is one level below its operating segments. An operating segment is defined by ASC 280-10-50 as a component of an enterprise that earns revenue and incurs expenses, of which discrete financial information is available. The goodwill has been assigned to the reporting unit to which the value relates. Two of the Company's four reporting units have goodwill. The Company tests goodwill by estimating the fair value of the reporting unit using a discounted cash flow model and other valuation techniques, but may elect to perform a qualitative analysis. A quantitative analysis is used to determine an estimated fair value representing the amount at which a reporting unit could be bought or sold in a current transaction between willing parties on an arms-length basis. The estimated fair value of each reporting unit is derived using a discounted cash flow method based on market and reporting unit-specific assumptions, including estimated future revenues and expenses, weighted average cost of capital, capital expenditures, the useful life over which cash flows will occur and other assumptions which are considered reasonable and inherent in discounted cash flow analysis. A qualitative analysis is performed by assessing certain trends and factors, including projected market outlook and growth rates, forecasted and actual sales and operating profit margins, discount rates, industry data and other relevant qualitative factors. These trends and factors are compared to, and based on, the assumptions used in the most recent quantitative assessment.

Indefinite life intangible assets consist primarily of trademarks. The fair value of these assets are determined using a royalty relief methodology of the income approach similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability. The royalty relief methodology isolates the revenues derived from the use of the intangible asset, applies an appropriate pretax royalty rate to the revenues, deducts income taxes, discounts the cash flow over the projection period to present value using an appropriate discount rate and adds the present value of the tax shield.

### **Foreign Currency Translation**

The functional currency for the Companies foreign subsidiaries is the local currency in which the entity is located. The financial statements of all subsidiaries with a functional currency other than the U.S. dollar have been translated into U.S. dollars. All assets and liabilities of foreign operations are translated into U.S. dollars using year-end exchange rates, and all revenues and expenses are translated at weighted average rates during the respective period. The U.S. dollar results that arise from such translation, as well as exchange gains and losses on intercompany balances of a long-term investment nature, are included in the cumulative currency translation adjustments in accumulated other comprehensive income in stockholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings.

### **Income Taxes**

The Company accounts for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing the provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company believes that the deferred tax asset recorded as of December 31, 2018 and 2017 is realizable through future reversals of existing taxable temporary differences and future taxable income. If the Company was to subsequently determine that it would be able to realize deferred tax assets in the future in excess of its net recorded amount, an adjustment to deferred tax assets would increase net income for the period in which such determination was made. The Company will continue to assess the adequacy of the valuation allowance on a quarterly basis. The Company's tax filings are subject to audit by various taxing authorities.

The objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences or events that have been recognized in the



Company's financial statements or tax returns. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position (see "Unrecognized Tax Benefits" below).

Income tax related interest and penalties are grouped with interest expense on the consolidated statement of operations.

### **Unrecognized Tax Benefits**

The Company accounts for unrecognized tax benefits in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") "Income Taxes" ("ASC 740"). ASC 740 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon ultimate settlement with a taxing authority, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

Additionally, ASC 740 requires the Company to accrue interest and related penalties, if applicable, on all tax positions for which reserves have been established consistent with jurisdictional tax laws. See Note 14 Income Taxes.

## **Share-Based Payments**

The Company accounts for share based payments in accordance with the provisions of FASB ASC 718 “Compensation – Stock Compensation” and accordingly recognizes in its financial statements share based payments at their fair value. In addition, it recognizes in the financial statements an expense based on the grant date fair value of stock options granted to employees and directors. The expense is recognized on a straight line basis over the expected option life while taking into account the vesting period and the offsetting credit is recorded in additional paid-in capital. Upon exercise of options, the consideration paid together with the amount previously recorded as additional paid-in capital is recognized as capital stock. The Company estimates its forfeiture rate in order to determine its compensation expense arising from stock based awards. The Company uses the Black-Scholes Merton option pricing model to determine the fair value of the options. Non-employee members of the Board of Directors are deemed to be employees for the purposes of recognizing share-based compensation expense.

## **Employee Benefit Plan**

The Company sponsors a defined benefit plan as described in Note 15 Pension Plan. The cost of pension benefits earned by employees is actuarially determined using the accumulated benefit method and a discount rate, used to measure interest cost on the accrued employee future benefit obligation, based on market interest rates on high-quality debt instruments with maturities that match the timing and benefits expected to be paid by the plan. Plan assets are valued using current market values and the expected return on plan assets is based on the net asset value of the plan assets. The costs that relate to employee current service are charged to income annually.

The transitional obligation created upon adoption of the FASB ASC 715 “Compensation – Retirement Benefits” is amortized over the average remaining service period of employees. For a given year, unrecognized actuarial gains or losses are recognized into income if the unamortized balance at the beginning of the year is more than 10% of the greater of the plan asset or liability balance. Any unrecognized actuarial gain or loss in excess of this threshold is recognized in income over the remaining service period of the employees.

The Company reflects the funded status of its defined pension plans as a net asset or net liability in its balance sheet, with an offsetting amount in accumulated other comprehensive income, and recognizes changes in that funded status in the year in which the changes occur through comprehensive income.

## **Inventories**

Inventories are stated at the lower of cost or net realizable value using first-in, first-out (FIFO) or weighted-average methods and include the cost of materials, labor and manufacturing overhead. The Company uses estimates in determining the level of reserves required to state inventory at the lower of cost or market. The Company estimates are based on market activity levels, production requirements, the physical condition of products and technological innovation. Changes in any of these factors may result in adjustments to the carrying value of inventory. See Note 6 - Inventories.

### **Income (Loss) Per Share**

Basic income (loss) per share is computed by dividing the income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed by dividing the income (loss) for the period by the weighted average number of common and common equivalent shares outstanding during the period. (See Note 17 - Basic and Diluted Net Loss Per Share).

### **Fair Value Measurements**

FASB ASC 820 "Fair Value Measurement and Disclosure" applies to all assets and liabilities that are being measured and reported on a fair value basis. ASC 820 establishes a framework for measuring fair value in U.S GAAP, and expands disclosure about fair value measurements. ASC 820 enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The fair value represents management's best estimates based on a range of methodologies and assumptions. The carrying value of receivables and payables arising in the ordinary course of business approximate fair value because of the relatively short period of time between their origination and expected realization.

The Company's financial instruments consist primarily of cash and cash equivalents, receivables, payables and debt instruments. The carrying values of these financial instruments approximate their respective fair values as they are either short-term in nature or carry interest rates which are periodically adjusted to market rates. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value.

### **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 are required under 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. Once this standard becomes effective, companies may use either of the following transition methods: (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"). The Company completed a review of its various revenue streams within its 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 currently recognize revenue to the new standard in order to quantify the impact of this ASU. We have made policy elections within the amended standard that are consistent with our current accounting. We adopted ASU 2014-09 in our first quarter of 2018 using the modified retrospective approach. We have performed a quantitative assessment of adopting ASU 2014-09 and concluded that there was no material impact to our financial statements other than enhanced disclosures and no changes to the

opening retained earnings.

*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.

*Share-Based Compensation.* In April 2016, the FASB issued ASU No. 2016-09, “*Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting*”. Under ASU No. 2016-09, companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital (“APIC”). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and the APIC pools will be eliminated. In addition, ASU No. 2016-09 eliminates the requirement that excess tax benefits be realized before companies can recognize them. ASU No. 2016-09 also requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. Furthermore, ASU No. 2016-09 will increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer’s statutory income tax withholding obligation. An employer with a statutory income tax withholding obligation will now be allowed to withhold shares with a fair value up to the amount of taxes owed using the maximum statutory tax rate in the employee’s applicable jurisdiction(s). ASU No. 2016-09 requires a company to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on the statement of cash flows. Under current GAAP, it was not specified how these cash flows should be classified. In addition, companies will now have to elect whether to account for forfeitures on share-based payments by (1) recognizing forfeitures of awards as they occur or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. The amendments of this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted but all of the guidance must be adopted in the same period. We adopted ASU No. 2016-09 in 2017. The adoption of the new guidance did not materially affect our financial position, results of operations or cash flows.

*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.

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.

*Simplifying the Test for Goodwill Impairment.* In January 2017, the FASB issued ASU No. 2017-04, “*Simplifying the Test for Goodwill Impairment*.” This standard was established to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. We adopted this standard during the fourth quarter of 2017 in conjunction with our goodwill impairment assessment. As of the measurement date October 1, 2018, dry type transformers and critical power reporting units had negative carrying values. The Company allocated \$5.6 million and \$3.0 million of goodwill to dry type and critical power reporting units, respectively. The Company recorded an impairment charge of \$1.4 million to the remaining goodwill of the switchgear reporting unit in 2017. The Company recorded no impairment to goodwill during the year ended December 31, 2018.

*Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* 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, is to be presented outside of any subtotal of operating income. The Company elected to apply the practical expedient which allows for comparable classification of costs of benefits incurred by the Company for the year ended December 31, 2018 and 2017 as included in Note 15 to the consolidated financial statements in Part II of this Annual Report on Form 10-K as the estimation basis for applying the retrospective presentation requirements of the standard.

*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. RESTRUCTURING AND INTEGRATION

During the second quarter of 2015, the Company began evaluating improvement strategies intended to reorganize, simplify and reduce costs from operations through closer business integration, pursuant to a restructuring and integration plan to be carried out in stages with an original completion date by mid-2016.

There was no restructuring and integration expense in the year ended December 31, 2018.

In the T&D Segment, the relocation of our Medium Voltage Transformer line began as of the end of 2016, and was completed in the first half of 2017. Included in cost of goods sold of T&D Segment for the year ended December 31, 2017 is a restructuring charge of \$873 related to write off of raw material inventory not relocated from Canada to Mexico.

The following is a summary of the components of restructuring and integration expenses, before taxes, relating to operating expenses during the year ended December 31, 2017:

| Year Ended December 31, 2017                  | T&D<br>Segment | Critical<br>Power<br>Segment | Total  |
|---|----------------|------------------------------|--------|
| Business integration expenses                 | 219            | —                            | 219    |
| Pre-tax restructuring and integration expense | \$ 219         | \$                           | —\$219 |

For the year ended December 31, 2017, the business integration expenses occurred due to completion of the relocation of Bemag's production to a lower cost facility.



Charges associated with each action were included in restructuring, integration and impairment expenses in our consolidated statement of operations, and reflected in our table of Operating Income (Loss) by segment group in Note 16 – Business Segment and Geographic Information.

The components and changes in the Company’s restructuring liability were as follows:

|   | Severance<br>and<br>Related | Product Line<br>Harmonization | Facility<br>Closure<br>and<br>Exit<br>Costs | Total |
|---|-----------------------------|-------------------------------|---|-------|
| Restructuring liability as of January 31, 2017  | \$ 113                      | \$ 46                         | \$ 592                                      | \$751 |
| Restructuring and integration expense           | —                           | —                             | 219   | 219   |
| Cash paid                                       | (113 )                      | (46 )                         | (811 )                                      | (970) |
| Restructuring liability as of December 31, 2017 | \$ —                        | \$ —                          | \$ —  | \$—   |

#### 4. 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:

|               | For the Year Ended<br>December 31, |           |
|---------------|------------------------------------|-----------|
|               | 2018                               | 2017      |
| Products      | \$96,590                           | \$105,225 |
| Services      | 9,800                              | 9,166     |
| Total Revenue | \$106,390                          | \$114,391 |

See Note 16 – Business Segment, Geographic and Customer Information.

**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.

**5. 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 year ended December 31, 2018 and 2017, other expense was \$0.8 million and \$0.4 million, respectively.

**6. INVENTORIES**

The components of inventories are summarized below:

|   | December 31, |          |
|---|--------------|----------|
|   | 2018         | 2017     |
| Raw materials                               | \$14,952     | \$10,376 |
| Work in process                             | 5,547        | 5,082    |
| Finished goods                              | 7,323        | 10,919   |
| Provision for excess and obsolete inventory | (512 )       | (264 )   |
| Total inventories                           | \$27,310     | \$26,113 |

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 December 31, 2018 and December 31, 2017 are goods in transit of approximately \$7.7 million and \$3.1 million, respectively.

At December 31, 2017, raw materials in the amount of \$3.0 million, 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 \$5.4 million as of December 31, 2017. There were no aggregate borrowings under this agreement as of December 31, 2018.

**7. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are summarized below:

|  | December 31, |         |
|--|--------------|---------|
|  | 2018         | 2017    |
| Land                                     | \$5          | \$50    |
| Buildings                                | 1,574        | 2,547   |
| Machinery and equipment                  | 10,578       | 10,668  |
| Furniture and fixtures                   | 447          | 475     |
| Computer hardware and software           | 1,261        | 1,370   |
| Leasehold improvements                   | 677          | 721     |
| Construction in progress                 | 348          | 18      |
|  | 14,890       | 15,849  |
| Less: Accumulated depreciation           | (9,606)      | (8,991) |
| Total property, plant and equipment, net | \$5,284      | \$6,858 |

In December 2018 the Company sold the Farnham, Quebec, Canada building for approximately \$0.8 million.

Depreciation expense was approximately \$1.2 and \$1.3 million for December 31, 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 December 31, 2018 and December 31, 2017. The Company expects to fully recover these amounts. At December 31, 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

Goodwill is tested at the reporting unit level annually and if necessary, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

In 2018, the Company determined certain definite lived intangible assets within the switchgear reporting unit had carrying values that exceeded its fair value. As a result, the Company recorded impairment charges of \$870, \$377 and \$103 against technology-related industry accreditation, customer relationships and non-complete agreements, respectively.

Prior to 2017, the Company tested goodwill for impairment using a quantitative analysis consisting of a two-step approach. The first step of our quantitative analysis consisted of a comparison of the carrying value of our reporting units, including goodwill, to the estimated fair value of our reporting units using a discounted cash flow methodology. If step one results in the carrying value of the reporting unit exceeding the fair value of such reporting unit, we would then proceed to step two which would require us to calculate the amount of impairment loss, if any, that we would record for such reporting unit. In the fourth quarter of 2017 the Company adopted ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment" and eliminated Step 2 from the goodwill impairment test.

As of the measurement date October 1, 2018, dry type transformers and critical power reporting units had negative carrying values. The Company allocated \$5.6 million and \$3.0 million of goodwill to dry type and critical power reporting units, respectively. The Company recorded an impairment charge of \$1.4 million to the remaining goodwill of the switchgear reporting unit in 2017, which is included within the T&D Solutions Segment. The Company recorded no impairment to goodwill during the year ended December 31, 2018.

Changes in the carrying amount of goodwill by reportable segment during the years ended December 31, 2018 and 2017 are as follows:

|                                 | T&D<br>Solutions<br>Segment | Critical<br>Power<br>Solutions<br>Segment | Total<br>Goodwill |
|---------------------------------|-----------------------------|---|-------------------|
| Gross Goodwill:                 |                             |   |                   |
| Balance as of January 1, 2017   | \$ 7,978                    | \$ 2,970                                  | \$ 10,948         |
| No activity                     | —                           | —   | —                 |
| Balance as of December 31, 2017 | \$ 7,978                    | \$ 2,970                                  | \$ 10,948         |



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|                                 |             |          |             |
|---------------------------------|-------------|----------|-------------|
| Accumulated impairment losses:  |             |          |             |
| Balance as of January 1, 2017   | \$ (976 )   | \$ —     | \$ (976 )   |
| Impairment charges              | (1,445 )    | —        | (1,445 )    |
| Balance as of December 31, 2017 | \$ (2,421 ) | \$ —     | \$ (2,421 ) |
| Net Goodwill                    | \$ 5,557    | \$ 2,970 | \$ 8,527    |
| Gross Goodwill:                 |             |          |             |
| Balance as of January 1, 2018   | \$ 7,978    | \$ 2,970 | \$ 10,948   |
| No activity                     | —           | —        | —           |
| Balance as of December 31, 2018 | \$ 7,978    | \$ 2,970 | \$ 10,948   |
| Accumulated impairment losses:  |             |          |             |
| Balance as of January 1, 2018   | \$ (2,421 ) | \$ —     | \$ (2,421 ) |
| No activity                     | —           | —        | —           |
| Balance as of December 31, 2018 | \$ (2,421 ) | \$ —     | \$ (2,421 ) |
| Net Goodwill                    | \$ 5,557    | \$ 2,970 | \$ 8,527    |

Changes in intangible asset balances for the years ended December 31, 2018 and 2017 consisted of the following:

|                                 | T&D<br>Solutions<br>Segment | Critical<br>Power<br>Solutions<br>Segment | Total<br>Intangible<br>Assets |
|---------------------------------|-----------------------------|---|-------------------------------|
| Balance as of January 1, 2017   | \$ 5,565                    | \$ 2,603                                  | \$ 8,168                      |
| Amortization                    | (415 )                      | (1,358 )                                  | (1,773 )                      |
| Foreign currency translation    | 4                           | —   | 4                             |
| Balance as of December 31, 2017 | \$ 5,154                    | \$ 1,245                                  | \$ 6,399                      |
| Amortization                    | (339 )                      | (1,121 )                                  | (1,460 )                      |
| Impairment charges              | (1,350 )                    | —   | (1,350 )                      |
| Foreign currency translation    | (5 )                        | —   | (5 )                          |
| Balance as of December 31, 2018 | \$ 3,460                    | \$ 124                                    | \$ 3,584                      |

The components of intangible assets at December 31, 2018 are summarized below:

|   | Weighted<br>Average<br>Amortization<br>Years | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Impairment<br>Charges | Foreign<br>Currency<br>Translation | Net<br>Book<br>Value |
|---|--|-----------------------------|-----------------------------|-----------------------|------------------------------------|----------------------|
| Customer relationships                        | 7 (a)  | \$ 7,202                    | \$ (6,175 )                 | \$ (377 )             | \$ —                               | \$ 650               |
| Non-compete agreements                        | 4 (a)  | 705                         | (587 )                      | (103 )                | —                                  | 15                   |
| Trademarks                                    | Indefinite                                   | 1,816                       | —                           | —                     | —                                  | 1,816                |
| Internally developed software                 | 7  | 289                         | (165 )                      | —                     | —                                  | 124                  |
| Developed technology                          | 10   | 492                         | (197 )                      | —                     | —                                  | 295                  |
| Technology-related industry<br>accreditations | Indefinite<br>(a)                            | 1,576                       | —                           | (870 )                | (22 )                              | 684                  |
| Total intangible assets                       |  | \$ 12,080                   | \$ (7,124 )                 | \$ (1,350 )           | \$ (22 )                           | \$ 3,584             |

During 2018, the Company recorded impairment charges to customer relationships, non-compete agreements and (a) technology-related industry accreditations intangible assets of the switchgear business upon determining that the carrying value of these assets was not recoverable.

The components of intangible assets at December 31, 2017 are summarized below:

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|  | Weighted Average<br>Amortization Years | Gross Carrying<br>Amount | Accumulated<br>Amortization | Foreign<br>Currency<br>Translation | Net Book<br>Value |
|--|--|--------------------------|-----------------------------|------------------------------------|-------------------|
| Customer relationships                     | 7                                      | \$ 7,202                 | \$ (4,907)                  | \$ -                               | \$ 2,295          |
| Non-compete agreements                     | 6                                      | 705                      | (485)                       | -                                  | 220               |
| Trademarks                                 | Indefinite                             | 1,816                    | -                           | -                                  | 1,816             |
| Distributor territory license (a)          |  | 474                      | (474)                       | -                                  | -                 |
| Internally developed software              | 7                                      | 289                      | (124)                       | -                                  | 165               |
| Developed technology                       | 10                                     | 492                      | (148)                       | -                                  | 344               |
| Technology-related industry accreditations | Indefinite                             | 1,576                    | -                           | (17)                               | 1,559             |
| Total intangible assets                    |  | \$ 12,554                | \$ (6,138)                  | \$ (17)                            | \$ 6,399          |

(a) During 2017, the Company accelerated and fully amortized distributor territory license intangible asset upon the termination of its distribution agreement with a supplier.

Future scheduled annual straight-line amortization expense over the useful lives of finite life intangible assets is as follows:

| <b>Years Ending December 31,</b> | <b>Total</b>   |
|----------------------------------|----------------|
| 2019                             | \$215          |
| 2020                             | 200            |
| 2021                             | 200            |
| 2022                             | 124            |
| 2023                             | 106            |
| Thereafter                       | 239            |
|                                  | <b>\$1,084</b> |

## 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. 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 were to 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. In December 2018 we repaid the outstanding principal balance under Facility C of \$316 CAD with proceeds received from the sale of the Farnham, Quebec, Canada building.

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 December 31, 2018, we had approximately \$5.8 million in U.S. dollar equivalents outstanding under our Canadian Facilities. Our borrowings consisted of approximately \$5.8 million outstanding under Facility A. As of December 31, 2018, the Company was not in compliance with its financial covenants and on March 25, 2019, the Company received a waiver from BMO on all financial covenant breaches existing as of December 31, 2018.

As of December 31, 2017, we had approximately \$3.5 million in U.S. dollar equivalents outstanding under our Canadian Credit Facilities. Our borrowings consisted of approximately \$2.9 million outstanding under Facility A, \$0.1 million outstanding under Facility B and \$0.5 million outstanding under Facility C.

### *United States Credit Facilities*

In April 2016, we entered into an Amended and Restated Credit Agreement (“US ARCA”) with BMO with respect to our existing U.S. facilities that replaced and superseded all of our businesses’ prior financing arrangements with the bank (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 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 Electrogroup 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 December 31, 2018, we had approximately \$18.8 million outstanding under our U.S. Facilities. Our borrowings consisted of approximately \$15.0 million outstanding under USD Facility A, and \$3.8 million outstanding under USD Facility B. As of December 31, 2018, the Company was not in compliance with its financial covenants and on March 25, 2019, the Company received a waiver from BMO on all financial covenant breaches existing as of December 31, 2018.

As of December 31, 2017, we had approximately \$19.4 million outstanding under our U.S. Credit Facilities. Our borrowings consisted of approximately \$14.9 million outstanding under USD Facility A, and \$4.5 million outstanding under USD Facility B.

Long-term debt consists of the following:

|                                 | December 31, |         |
|---------------------------------|--------------|---------|
|                                 | 2018         | 2017    |
| Term credit facilities, net (a) | \$3,793      | \$4,933 |
| Capital lease obligations       | —            | 2       |
| Total debt                      | 3,793        | 4,935   |
| Less current portion            | (1,174)      | (782 )  |
| Total long-term debt            | \$2,619      | \$4,153 |

(a) The balances as of December 31, 2018 and 2017 are net of debt issuance costs of \$45 and \$102, respectively.

Excluding debt issuance costs of \$45, the annual maturities of long-term debt at December 31, 2018, were as follows:

| <b>Years Ending December 31,</b> | <b>Long-term<br/>Debt<br/>Maturities</b> |
|----------------------------------|--|
| 2019                             | \$ 1,200                                 |
| 2020                             | 2,638                                    |
| 2021                             | —  |
| 2022                             | —  |
| Thereafter                       | —  |
| Total long-term debt maturities  | \$ 3,838                                 |

### ***Short Term Borrowings***

We maintain a short term borrowing arrangement to fund the purchase of raw materials utilized in certain manufacturing processes. There were no borrowings under this agreement as of December 31, 2018. As of December 31, 2017, the aggregate borrowings under this agreement amounted to \$5.4 million. See Note 6 - Inventories.

## **11. COMMITMENTS AND CONTINGENCIES**



**Leases**

The company leases certain offices, facilities and equipment under operating and financing leases. Our leases have remaining terms of 1 year to 7 years some of which contain options to extend up to 10 years. As of December 31, 2018 and 2017, assets recorded under finance leases were \$3,339 and \$2,900 respectively, and accumulated amortization associated with finance leases was \$880 and \$418, respectively.

The components of the lease expense were as follows:

|                                    | For the<br>Year Ended<br>December<br>31, |       |
|------------------------------------|--|-------|
|                                    | 2018                                     | 2017  |
| Operating lease cost               | \$755                                    | \$675 |
| Finance lease cost                 |  |       |
| Amortization of right-of-use asset | \$622                                    | \$535 |
| Interest on lease liabilities      | 157                                      | 166   |
| Total finance lease cost           | \$779                                    | \$701 |

Other information related to leases was as follows:

Supplemental Cash Flows Information

|  | December<br>31, |       |
|--|-----------------|-------|
|  | 2018            | 2017  |
| Cash paid for amounts included in the measurement of lease liabilities |                 |       |
| Operating cash flows from operating leases                             | \$768           | \$694 |
| Operating cash flows from finance leases                               | 157             | 166   |
| Financing cash flows from finance leases                               | 414             | 301   |
| Right-of-use assets obtained in exchange for lease obligations:        |                 |       |
| Operating leases   | 664             | 581   |
| Finance leases   | 622             | 535   |

Weighted Average Remaining Lease Term

|                  | <b>December<br/>31,</b> |            |
|------------------|-------------------------|------------|
|                  | 2018                    | 2017       |
| Operating leases | 3<br>years              | 3<br>years |
| Finance leases   | 6<br>years              | 7<br>years |

Weighted Average Discount Rate

|                  | December 31, |        |
|------------------|--------------|--------|
|                  | 2018         | 2017   |
| Operating leases | 6.00 %       | 5.50 % |
| Finance leases   | 6.37 %       | 5.90 % |

Future minimum lease payments under non-cancellable leases as of December 31, 2018 were as follows:

|                                     | Operating<br>Leases | Finance<br>Leases |
|-------------------------------------|---------------------|-------------------|
| 2019                                | \$ 779              | \$ 630            |
| 2020                                | 755                 | 532               |
| 2021                                | 410                 | 562               |
| 2022                                | 91                  | 363               |
| 2023                                | —                   | 309               |
| Thereafter                          | —                   | 853               |
| Total future minimum lease payments | 2,035               | 3,249             |
| Less imputed interest               | (164 )              | (570 )            |
| Total future minimum lease payments | \$ 1,871            | \$ 2,679          |

Reported as of December 31, 2018:

|  | Operating<br>Leases | Finance<br>Leases |
|--|---------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 687              | \$ 473            |
| Other long-term liabilities              | 1,187               | 2,205             |
| Total                                    | \$ 1,874            | \$ 2,678          |

## **Litigation and Claims**

The Company is from time to time party to various lawsuits, claims and other proceedings that arise in the ordinary course of our 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. As of the filing of this report, this action is scheduled for trial in the second quarter of 2019. 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. We cannot execute the sale of PCEP until the lawsuit has been resolved.

With respect to all such lawsuits, claims and proceedings, the Company records a reserve when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe that the resolution of any currently pending lawsuits, claims and proceedings, either individually or in the aggregate, will have a material adverse effect on its financial position, results of operations or liquidity. However, the outcomes of any currently pending lawsuits, claims and proceedings cannot be predicted, and therefore, there can be no assurance that this will be the case.

## **12. STOCKHOLDERS' EQUITY**

### **Common Stock**

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

## **Preferred Stock**

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

## **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 an unrealized loss of \$161 for the year ended December 31, 2018, as compared to an unrealized gain \$174 for the year ended December 31, 2017.

### 13. STOCK-BASED COMPENSATION

On December 2, 2009, the Company adopted the 2009 Equity Incentive Plan (the “2009 Plan”) for the purpose of issuing incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified stock options, restricted stock, stock appreciation rights, performance unit awards and stock bonus awards to employees, directors, consultants and other service providers. A total of 320,000 shares of common stock are reserved for issuance under the 2009 Plan. Options may be granted under the 2009 Plan on terms and at prices as determined by the board of directors or by the plan administrators appointed by the board of directors.

On May 11, 2011, the board of directors of the Company adopted the Pioneer Power Solutions, Inc. 2011 Long-Term Incentive Plan (the “2011 Plan”) which was subsequently approved by stockholders of the Company on May 31, 2011. The 2011 Plan replaces and supersedes the 2009 Plan. The Company’s outside directors and employees, including the Company’s principal executive officer, principal financial officer and other named executive officers, and certain contractors are all eligible to participate in the 2011 Plan. The 2011 Plan allows for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards, which may be granted singly, in combination, or in tandem, and upon such terms as are determined by the Board or a committee of the Board that is designated to administer the Plan. Subject to certain adjustments, the maximum number of shares of the Company’s common stock that may be delivered pursuant to awards under the 2011 Plan is 700,000 shares. As of December 31, 2018, 424,800 stock options had been granted and are considered outstanding, consisting of 21,000 incentive stock options and 403,800 non-qualified stock options.

Expense for stock-based compensation recorded for the years ended December 31, 2018 and 2017 was approximately \$0.2 and \$0.5 million, respectively. All of the stock-based compensation expense is included in selling, general and administrative expenses in the accompanying consolidated statements of operations. As of December 31, 2018, the Company had total stock-based compensation expense remaining to be recognized of approximately \$14.

The fair value of the stock options granted was measured using the Black-Scholes valuation model with the following assumptions:

|                         | Year Ended December<br>31, |              |
|-------------------------|----------------------------|--------------|
|                         | 2018                       | 2017         |
| Expected volatility     | 29.3%                      | 31.1 - 31.3% |
| Expected life in years  | 5.5                        | 5.5 - 6.0    |
| Risk-free interest rate | 2.65%                      | 2.08 - 2.15% |
| Dividend yield          | 0%                         | 0%           |

A summary of stock option activity for the years ended December 31, 2018 and 2017, and changes during the years then ended is presented below:

|                                     | Stock<br>Options | Weighted<br>average<br>exercise<br>price | Weighted<br>average<br>remaining<br>contractual<br>term | Aggregate<br>intrinsic<br>value |
|-------------------------------------|------------------|--|---|---------------------------------|
| Outstanding as of January 1, 2017   | 247,400          | \$ 8.75                                  | 5.90  | \$ 135                          |
| Granted                             | 262,000          | 7.30                                     | 9.20  | 81                              |
| Exercised                           | (26,333 )        | 4.55                                     |   |                                 |
| Forfeited                           | (47,267 )        | 6.74                                     | 6.80  |                                 |
| Outstanding as of January 1, 2018   | 435,800          | \$ 8.35                                  | 7.50  | \$ 216                          |
| Granted                             | 7,000            | 5.60                                     |   |                                 |
| Exercised                           | —                | —  |   |                                 |
| Forfeited                           | (18,000 )        | 8.54                                     |   |                                 |
| Outstanding as of December 31, 2018 | 424,800          | \$ 8.30                                  | 6.50  | \$ 22                           |
| Exercisable as of December 31, 2018 | 411,133          | \$ 8.36                                  | 6.40  | \$ 22                           |

The total number of shares reserved for the plan is 700,000 leaving a balance of 248,867 available for future grants.

Intrinsic value is the difference between the market value of the stock at December 31, 2018 and the exercise price which is aggregated for all options outstanding and exercisable. A summary of the weighted-average grant-date fair value of options, total intrinsic value of options exercised, and cash receipts from options exercised is shown below:

|  | Year Ended<br>December<br>31, |        |
|--|-------------------------------|--------|
|  | 2018                          | 2017   |
| Weighted-average fair value of options granted (per share) | \$1.81                        | \$2.40 |
| Intrinsic value gain of options exercised                  | —                             | 81     |
| Cash receipts from exercise of options                     | —                             | 120    |



**14. INCOME TAXES**

The components of income (loss) before income taxes are summarized below:

|                                   | Year Ended<br>December 31, |           |
|-----------------------------------|----------------------------|-----------|
|                                   | 2018                       | 2017      |
| Income/(loss) before income taxes |                            |           |
| U.S. operations                   | \$(8,105)                  | \$(7,721) |
| Foreign operations                | 2,744                      | 1,535     |
| Loss before income taxes          | \$(5,361)                  | \$(6,186) |

The components of the income tax provision were as follows:

|                            | Year Ended<br>December 31, |         |
|----------------------------|----------------------------|---------|
|                            | 2018                       | 2017    |
| Current                    |                            |         |
| Federal                    | \$—                        | \$—     |
| State                      | 71                         | 176     |
| Foreign                    | 584                        | 643     |
| Deferred                   | (352)                      | 2,220   |
| Total income tax provision | \$303                      | \$3,039 |

A reconciliation from the statutory U.S. income tax rate and the Company's effective income tax rate, as computed on loss before taxes, is as follows:

|   | Year Ended<br>December 31, |           |
|---|----------------------------|-----------|
|   | 2018                       | 2017      |
| Federal income tax at statutory rate      | \$(1,126)                  | \$(2,350) |
| State and local income tax, net           | (314 )                     | (65 )     |
| Foreign rate differential                 | 157                        | (143 )    |
| Other permanent items                     | 397                        | 86        |
| Impact of tax cuts and jobs act enactment | —                          | 516       |

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|   |        |         |
|---|--------|---------|
| Impact of repatriation of foreign subsidiary income | (330 ) | 312     |
| Valuation allowance                                 | 1,581  | 4,710   |
| True-up & other                                     | (62 )  | (27 )   |
| Total   | \$303  | \$3,039 |

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (“U.S. tax reform”) that lowers the statutory tax rate on U.S. earnings, taxes historic foreign earnings at a reduced rate of tax, establishes a quasi-territorial tax system and enacts new taxes associated with global operations.

The impact of U.S. tax reform has been recorded on a provisional basis as the legislation provides for additional guidance to be issued by the U.S. Department of the Treasury on several provisions including the computation of the transitional tax. This amount was adjusted in 2018 based on guidance issued during the year. Additional guidance may be issued after 2018 and any resulting effects will be recorded in the quarter of issuances. In addition, analysis performed and conclusions reached as part of the tax return filing process and additional guidance on accounting for U.S. tax reform could affect the provisional amount.

As part of tax reform, the U.S. has enacted a minimum tax on foreign earnings (“global intangible low-taxed income”) which is now being reflected in the income tax expense.

The Company's provision for income taxes reflects an effective tax rate on loss before income taxes of 5.7% in 2018, as compared to 49.1% in 2017. The decrease in the Company's effective tax rate during 2018 primarily reflects the impact of the Tax Cuts and Jobs Act Enactment and the recognition of a valuation allowance.

The Company intends to reimburse funds borrowed from its subsidiary during 2019. To finance the reimbursement the Canadian subsidiary will issue a limited dividend of \$9,724. The Company has provided for \$486 of Canadian withholding taxes as well as a loss \$1,753 for foreign exchange upon realization of the dividend. Beyond the limited dividend, the Company has not established deferred income taxes on accumulated undistributed earnings of its foreign subsidiary, which are expected to be reinvested indefinitely. Repatriation of all accumulated earnings of its foreign subsidiary would be impracticable to the extent such earnings represent capital to support normal business operations. Although no U.S. federal taxes will be imposed on future distribution of foreign earnings, the distributions could be subject to Canadian withholding tax and state income taxes.

The net deferred income tax asset was comprised of the following:

|  | December 31, |         |
|--|--------------|---------|
|  | 2018         | 2017    |
| Noncurrent deferred income taxes         |              |         |
| Total assets                             | \$2,971      | \$2,729 |
| Total liabilities                        | (1,592)      | (1,665) |
| Net noncurrent deferred income tax asset | 1,379        | 1,064   |
| Net deferred income tax asset            | \$1,379      | \$1,064 |

The tax effect of temporary differences between GAAP accounting and federal income tax accounting creating deferred income tax assets and liabilities were as follows:

|   | December 31, |       |
|---|--------------|-------|
|   | 2018         | 2017  |
| Deferred tax assets                     |              |       |
| Canada net operating loss carry forward | \$120        | \$148 |
| U.S. net operating loss carry forward   | 659          | —     |
| Non-deductible reserves                 | 877          | 1,180 |
| Non-deductible interest expense         | 800          | —     |
| Pension plan                            | 39           | 75    |
| Tax credits                             | 4,631        | 4,631 |
| Fixed Assets                            | 26           | 104   |
| Intangibles                             | 1,635        | 1,203 |
| Other                                   | 465          | 116   |

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|                            |          |          |
|----------------------------|----------|----------|
| Valuation allowance        | (6,281)  | (4,728)  |
| Net deferred tax assets    | 2,971    | 2,729    |
| Deferred tax liabilities   |          |          |
| Fixed Assets, Land         | (313 )   | (415 )   |
| Intangibles                | (723 )   | (764 )   |
| Other                      | (556 )   | (486 )   |
| Net deferred tax liability | (1,592)  | (1,665)  |
| Deferred tax asset, net    | \$ 1,379 | \$ 1,064 |

The assessment of the amount of value assigned to the Company's deferred tax assets under the applicable accounting rules is judgmental. The Company is required to consider all available positive and negative evidence in evaluating the likelihood that the Company will be able to realize the benefit of its deferred tax assets in the future. Such evidence includes scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and the results of recent operations. Since this evaluation requires consideration of events that may occur some years into the future, there is an element of judgment involved. Realization of our deferred tax assets is dependent on generating sufficient taxable income in future periods. The Company does not believe that it is more likely than not that future taxable income will be sufficient to allow the Company to recover substantially all of the value assigned to its deferred tax assets. Accordingly, the Company has provided for a valuation allowance on the Company's domestic deferred tax assets as the combined effect of future domestic source income and the future reversals of future tax assets and liabilities may be insufficient to realize the full benefits of the assets. The increase in the valuation allowance during the year ended December 31, 2018 is primarily attributable to interest expense limitation pursuant to IRC Section 163 (J). During 2017, the Company had provided a valuation allowance of the Company's foreign tax credits as we had not anticipated generating sufficient foreign source income.

As of December 31, 2018, the Company has approximately \$2.6 million of net operating loss carryforwards. The Company has no Canadian net operating loss carryforwards. The Company has approximately \$4.6 million of deferred tax assets on which it is taking a partial valuation allowance of approximately \$1.6 million. The Company has approximately \$4.6 million of foreign tax credits for which it has provided a full valuation allowance and \$39 of research and development credits which expire in 2032.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, exclusive of interest and penalties, is as follows:

|  | Uncertain<br>Tax<br>Position |
|--|------------------------------|
| Balance as of January 1, 2017  | \$ 204                       |
| Increases due to changes in foreign exchange                             | 14                           |
| Balance as of December 31, 2017  | \$ 218                       |
| Decreases related to tax return becoming statuted barred during the year | (89 )                        |
| Balance as of December 31, 2018  | \$ 129                       |

The Company's policy is to recognize interest and penalties related to income tax matters as interest expense.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Although timing of the resolution and/or closure of audits is highly uncertain, the Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

The tax years subject to examination by major tax jurisdiction include the years 2011 and forward by the U.S. Internal Revenue Service and most state jurisdictions, and the years 2014 and forward for the Canadian jurisdiction except for related non-resident transactions which would be open for the years 2011 and forward.

## 15. 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 employer contributes 100% to the plan. The benefits, or the rate per year of credit service, are established by the Company's subsidiary and updated at its discretion.

### Cost of Benefits

The components of the expense the Company incurred under the pension plan are as follows:

|   | For the Year         |       | Affected Line Item<br><b>in the Statements of<br/>Consolidated Operations</b> |
|---|----------------------|-------|---|
|   | Ended                |       |   |
|   | December 31,<br>2018 | 2017  |   |
| Current service cost, net of employee contributions | \$54                 | \$42  | Selling, general and administrative   |
| Interest cost on accrued benefit obligation         | 98                   | 103   | Other expense   |
| Expected return on plan assets                      | (168)                | (163) | Other expense   |
| Amortization of transitional obligation             | 10                   | 10    | Other expense   |
| Amortization of past service costs                  | 7                    | 7     | Other expense   |
| Amortization of net actuarial gain                  | 54                   | 47    | Other expense   |
| Total cost of benefit                               | \$55                 | \$46  |   |

### Benefit Obligation

The Company's obligation for the pension plan is valued annually as of the beginning of each fiscal year. The projected benefit obligation represents the present value of benefits ultimately payable to plan participants for both past and future services expected to be provided by the plan participants.

The Company's obligations pursuant to the pension plan are as follows:

|   | December 31, |         |
|---|--------------|---------|
|   | 2018         | 2017    |
| Projected benefit obligation, at beginning of year  | \$2,985      | \$2,628 |
| Current service cost, net of employee contributions | 54           | 42      |
| Employee contributions                              | 32           | 31      |
| Interest cost                                       | 98           | 103     |
| Impact of change in discount rate                   | (219 )       | 173     |
| Benefits paid                                       | (166 )       | (180 )  |
| Foreign exchange adjustment                         | (229 )       | 188     |
| Projected benefit obligation, at end of year        | \$2,555      | \$2,985 |

A summary of expected benefit payments related to the pension plan is as follows:

| Years Ending December 31, | Pension Plan |
|---------------------------|--------------|
| 2019                      | \$ 152       |
| 2020                      | 148          |
| 2021                      | 145          |
| 2022                      | 141          |
| 2023                      | 137          |
| 2024-2028                 | 660          |

Other changes in plan assets and benefit obligations recognized in other comprehensive income / (loss) are as follows:

|                                    | For the Year Ended December 31, |         |
|------------------------------------|---------------------------------|---------|
|                                    | 2018                            | 2017    |
| Net income/(loss)                  | \$15                            | \$(199) |
| Amortization of prior service cost | 7                               | 7       |
| Amortization of gain               | 54                              | 47      |
| Amortization of transitional asset | 10                              | 10      |

|   |      |         |
|---|------|---------|
|   | 86   | (135)   |
| Taxes   | 24   | (27 )   |
| Total recognized in other comprehensive income/(loss), net of taxes | \$62 | \$(108) |

The estimated net gain amortized from accumulated other comprehensive income / (loss) into net periodic benefit cost over the next year amounts to approximately \$54. The estimated prior service cost amortized from accumulated other comprehensive income into net periodic benefit cost over the next year amounts to approximately \$7. The estimated transitional asset amortized from accumulated other comprehensive income into net periodic benefit cost over the next year amounts to approximately \$10.



The accumulated other comprehensive income / (loss) consists of the following amounts that have not yet been recognized as components of net benefit cost:

|                                      | December 31, |         |
|--------------------------------------|--------------|---------|
|                                      | 2018         | 2017    |
| Unrecognized prior service cost      | \$81         | \$88    |
| Unrecognized net actuarial loss      | 1,442        | 1,508   |
| Unrecognized transitional obligation | 35           | 46      |
| Deferred income taxes                | (413 )       | (435 )  |
| Total                                | \$1,145      | \$1,207 |

### Plan Assets

Assets held by the pension plan are invested in accordance with the provisions of the Company's approved investment policy. The pension plan's strategic asset allocation was structured to reduce volatility through diversification and enhance return to approximate the amounts and timing of the expected benefit payments. The asset allocation for the pension plan at the end of 2018 and 2017 and the target allocation for 2019, by asset category, is as follows:

|                         | December |       | 2019       |   |
|-------------------------|----------|-------|------------|---|
|                         | 31,      |       | Target     |   |
|                         | 2018     | 2017  | Allocation |   |
| Equity securities       | 36 %     | 34 %  | 36         | % |
| Fixed income securities | 56       | 57    | 56         |   |
| Real estate             | 8        | 7     | 8          |   |
| Other                   | 0        | 2     | 0          |   |
| Total                   | 100%     | 100 % | 100        | % |

The fair market values, by asset category are as follows:

|                   | Fair Value   |       |
|-------------------|--------------|-------|
|                   | Measurements |       |
|                   | at           |       |
|                   | December 31, |       |
|                   | 2018         | 2017  |
| Equity securities | \$867        | \$919 |

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|                         |         |         |
|-------------------------|---------|---------|
| Fixed income securities | 1,348   | 1,540   |
| Real estate             | 192     | 189     |
| Other                   | —       | 54      |
| Total                   | \$2,407 | \$2,702 |

Changes in the assets held by the pension plan in the years 2018 and 2017 are as follows:

|   | December 31, |         |
|---|--------------|---------|
|   | 2018         | 2017    |
| Fair value of plan assets, at beginning of year | \$2,702      | \$2,456 |
| Actual return on plan assets                    | (35 )        | 136     |
| Employer contributions                          | 87           | 85      |
| Employee contributions                          | 32           | 31      |
| Benefits paid                                   | (166 )       | (180 )  |
| Foreign exchange adjustment                     | (213 )       | 174     |
| Fair value of plan assets, at end of year       | \$2,407      | \$2,702 |

## Contributions

The Company's policy is to fund the pension plan at or above the minimum required by law. The Company made \$0.1 million of contributions to its defined benefit pension plan in each of the 2018 and 2017 years. The Company expects to make contributions of less than \$0.1 million to the defined benefit pension plan in 2019. Changes in the discount rate and actual investment returns which continue to remain lower than the long-term expected return on plan assets could result in the Company making additional contributions.

## Funded Status

The funded status of the pension plan is as follows:

|                                | December 31, |         |
|--------------------------------|--------------|---------|
|                                | 2018         | 2017    |
| Projected benefit obligation   | \$2,555      | \$2,985 |
| Fair value of plan assets      | 2,407        | 2,702   |
| Accrued obligation (long term) | \$148        | \$283   |

## Assumptions

Assumptions used in accounting for the pension plan are as follows:

|  | December 31, |       |
|--|--------------|-------|
|  | 2018         | 2017  |
| Weighted average discount rate used to determine the accrued benefit obligations | 3.90%        | 3.40% |
| Discount rate used to determine the net pension expense                          | 3.40%        | 3.80% |
| Expected long-term rate on plan assets   | 6.50%        | 6.50% |

To determine the expected long-term rate of return on pension plan assets, the Company considers the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. The Company applies the expected rate of return to a market related value of the assets which reduces the underlying variability in assets to which the Company applies that expected return. The Company amortizes gains and losses as well as the effects of changes in actuarial assumptions and plan provisions over a period no longer than the average

future service of employees.

Primary actuarial assumptions are determined as follows:

The expected long-term rate of return on plan assets is based on the Company's estimate of long-term returns for equities and fixed income securities weighted by the allocation of assets in the plans. The rate is impacted by changes in general market conditions, but because it represents a long-term rate, it is not significantly impacted by short-term market swings. Changes in the allocation of plan assets would also impact this rate.

The assumed discount rate is used to discount future benefit obligations back to today's dollars. The discount rate is reflective of yield rates on U.S. long-term investment grade corporate bonds on and around the December 31 valuation date. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase the Company's obligation and expense.

## **16. BUSINESS SEGMENT, GEOGRAPHIC AND CUSTOMER 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 all other Company subsidiaries, together with sales and expenses attributable to strategic sales group for its T&D Solutions marketing activities.

The T&D Solutions segment is involved in the design, manufacture and distribution of electrical transformers and switchgear 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:

|                          | For the Year Ended<br>December 31, |           |
|--------------------------|------------------------------------|-----------|
|                          | 2018                               | 2017      |
| Revenues                 |                                    |           |
| T&D Solutions            |                                    |           |
| Transformers             | \$86,263                           | \$86,325  |
| Switchgear               | 8,747                              | 13,001    |
|                          | \$95,010                           | \$99,326  |
| Critical Power Solutions |                                    |           |
| Equipment                | 1,580                              | 5,898     |
| Service                  | 9,800                              | 9,167     |
|                          | 11,380                             | 15,065    |
| Consolidated             | \$106,390                          | \$114,391 |

|   | For the Year<br>Ended<br>December 31, |         |
|---|---------------------------------------|---------|
|   | 2018                                  | 2017    |
| Depreciation and Amortization           |                                       |         |
| T&D Solutions                           | \$1,525                               | \$1,730 |
| Critical Power Solutions                | 1,718                                 | 1,792   |
| Unallocated Corporate Overhead Expenses | 62                                    | 71      |
| Consolidated                            | \$3,305                               | \$3,593 |

|   | For the Year<br>Ended<br>December 31, |           |
|---|---------------------------------------|-----------|
|   | 2018                                  | 2017      |
| Operating Income (Loss)                 |                                       |           |
| T&D Solutions                           | \$3,155                               | \$910     |
| Critical Power Solutions                | (1,322)                               | (682)     |
| Unallocated Corporate Overhead Expenses | (3,706)                               | (3,541)   |
| Consolidated                            | \$(1,873)                             | \$(3,313) |

The following table presents information which reconciles segment assets to consolidated total assets:

December 31,

|                          | 2018     | 2017     |
|--------------------------|----------|----------|
| Assets                   |          |          |
| T&D Solutions            | \$59,432 | \$60,171 |
| Critical Power Solutions | 7,745    | 9,414    |
| Corporate                | 5,335    | 4,670    |
| Consolidated             | \$72,512 | \$74,256 |

Corporate assets consist primarily of cash and deferred tax assets.

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

|               | December 31, |           |
|---------------|--------------|-----------|
|               | 2018         | 2017      |
| Revenues      |              |           |
| United States | \$74,122     | \$77,924  |
| Canada        | 32,140       | 36,251    |
| Others        | 128          | 216       |
| Total         | \$106,390    | \$114,391 |

Sales to Siemens and Hydro-Quebec Utility Company accounted for approximately 17% and 10%, respectively, of the Company's total sales in 2018, as compared to 18% and 11%, respectively, in 2017.

The distribution of the Company's property, plant, and equipment by geographic location is approximately as follows:

|                               | December 31, |         |
|-------------------------------|--------------|---------|
|                               | 2018         | 2017    |
| Property, plant and equipment |              |         |
| Canada                        | \$1,596      | \$2,801 |
| United States                 | 938          | 708     |
| Mexico                        | 2,750        | 3,349   |
| Total                         | \$5,284      | \$6,858 |

## 17. BASIC AND DILUTED LOSS PER COMMON SHARE

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

|            | For the Year<br>Ended<br>December 31, |      |
|------------|---------------------------------------|------|
|            | 2018                                  | 2017 |
| Numerator: |                                       |      |

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|   |  |           |           |
|---|--|-----------|-----------|
| Net loss  |  | \$(5,664) | \$(9,225) |
| Denominator:  |  |           |           |
| Weighted average basic shares outstanding                       |  | 8,726     | 8,717     |
| Effect of dilutive securities - equity based compensation plans |  | —         | —         |
| Net dilutive effect of warrants outstanding                     |  | —         | —         |
| Denominator for diluted net income per common share             |  | \$8,726   | \$8,717   |
| Net loss per common share:                                      |  |           |           |
| Basic   |  | \$(0.65 ) | \$(1.06 ) |
| Diluted   |  | \$(0.65 ) | \$(1.06 ) |
| Anti-dilutive securities (excluded from per share calculation): |  |           |           |
| Equity based compensation plans                                 |  | \$365     | \$383     |
| Warrants  |  | \$—       | \$51      |



## 18. SUBSEQUENT EVENTS

On January 22, 2019, Pioneer Critical Power, Inc., a Delaware corporation (“PCPI”), a wholly-owned subsidiary of the Company, CleanSpark, Inc., a Nevada corporation (“CleanSpark”), and CleanSpark Acquisition, Inc., a Delaware corporation (“Merger Sub”), entered into an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which, among other things, Merger Sub merged with and into PCPI, with PCPI becoming a wholly-owned subsidiary of the CleanSpark and the surviving company of the merger (the “Merger”).

At the effective time of the Merger, all of the issued and outstanding shares of common stock of PCPI, par value \$0.01 per share, were converted into the right to receive (i) 1,750,000 shares of common stock, par value \$0.001 per share (“Common Stock”), of CleanSpark, (ii) a five-year warrant to purchase 500,000 shares of Common Stock at an exercise price of \$1.60 per share, and (iii) a five-year warrant to purchase 500,000 shares of Common Stock at an exercise price of \$2.00 per share.

The Merger Agreement also contains representations, warranties and covenants of the parties customary for transactions similar to those contemplated by the Merger Agreement. Such representations and warranties are made solely for purposes of the Merger Agreement and, in some cases, may be subject to qualifications and limitations agreed to by the parties in connection with the negotiated terms of the Merger Agreement and may have been qualified by disclosures that were made in connection with the parties’ entry into the Merger Agreement.

In connection with the Merger Agreement, the Company, CleanSpark and PCPI entered into an Indemnity Agreement (the “Indemnity Agreement”), dated January 22, 2019, pursuant to which the Company agreed to assume the liabilities and obligations related to the claims made by Myers Powers Products, Inc. in the case titled *Myers Power Products, Inc. v. Pioneer Power Solutions, Inc., Pioneer Custom Electrical Products, Corp., et al.*, Los Angeles County Superior Court Case No. BC606546 (the “Myers Power Case”) as they may relate to PCPI or CleanSpark after the closing of the Merger. In addition, the Company agreed to indemnify and hold harmless CleanSpark and the surviving company of the Merger and their respective officers, directors, agents, members and employees, and the heirs successors and assigns of the foregoing from and against all losses incurred by reason of claims made by Myers Power Products, Inc. as presented or substantially similar to that presented in the Myers Powers Case that are brought against CleanSpark or the surviving company of the Merger after the closing of the Merger. The Indemnify Agreement expires five years from the date of the Indemnity Agreement.

In connection with entry into the Merger Agreement, the Company and CleanSpark entered into a Contract Manufacturing Agreement (the “Contract Manufacturing Agreement”), dated as of January 22, 2019, pursuant to which the Company will manufacture at its Santa Fe Springs, California facility parallel switchgears, automatic transfer switches and related control and circuit protective equipment (collectively, “Products”) exclusively for purchase by CleanSpark. CleanSpark will purchase the Products via purchase orders issued to the Company at any time and from

time to time. The price for the Products payable by CleanSpark to the Company will be negotiated on a case by case basis, but all purchases of Products will have a target price of 91% of the CleanSpark customer's purchase order price and will not be more than 109% of the Company's cost. The Contract Manufacturing Agreement has a term of 18 months and may be extended by mutual agreement of the Company and CleanSpark.

In connection with entry into the Merger Agreement, the Company and CleanSpark entered into a Non-Competition and Non-Solicitation Agreement (the "Non-Compete Agreement"), dated January 22, 2019, pursuant to which the Company agreed not to, among other things, own, manage, operate, finance, control, advise, render services to or guarantee the obligations of any person or entity that engages in or plans to engage in the design, manufacture, distribution and service of paralleling switchgear, automatic transfer switches, and related products (the "Restricted Business"). The Company agreed not to engage in the Restricted Business within any state or county within the United States in which CleanSpark or the surviving company of the Merger conducts such Restricted Business for a period of four (4) years from the date of the Non-Compete Agreement.

In addition, the Company also agreed, for a period of four (4) years from the date of the Non-Compete Agreement, not to, among other things, directly or indirectly (i) solicit, induce, or attempt to induce customers, suppliers, licensees, licensors, franchisees, consultants of the Restricted Business as conducted by the Company, CleanSpark or the surviving company to cease doing business with the surviving company or CleanSpark or (ii) solicit, recruit, or encourage any of the surviving company's or CleanSpark's employees, or independent contractors to discontinue their employment or engagement with the surviving company or CleanSpark.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES.**

**Management’s Conclusions Regarding Effectiveness of Disclosure Controls and Procedures**

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 Exchange Act, as of December 31, 2018, the end of the period covered by this Annual Report on Form 10-K. The Disclosure Controls evaluation was done in conjunction with an independent consulting firm and under the supervision and with the participation of management, including our chief executive officer and chief financial officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. As of December 31, 2018, based on the evaluation of these disclosure controls and procedures our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

**Management’s Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate over time.

Prior to the year ended December 31, 2018, our management had identified control deficiencies which constituted a material weakness in our internal control over financial reporting. Management has taken steps to strengthen our internal control over financial reporting. Specifically, we have implemented the following remediation items:

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.

Management, including our chief executive officer and our chief financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. In our assessment of the effectiveness of internal control over financial reporting as of December 31, 2018, we determined that our internal control over financial reporting of the December 31, 2018, is effective.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting, as permitted by the rules of the SEC.

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

Other than the changes discussed above in the remediation items, there has been no change in our internal control over financial reporting during the year ended December 31, 2018 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION.**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

#### **Executive Officers and Directors**

The following table sets forth the name, age and positions of our executive officers and the members of our board of directors:

| <b>Name</b>       | <b>Age</b> | <b>Position with the Company</b>  |
|-------------------|------------|---|
| Nathan J. Mazurek | 57         | President, Chief Executive Officer and Chairman of the Board of Directors |
| Thomas Klink      | 56         | Chief Financial Officer, Secretary, Treasurer and Director                |
| Yossi Cohn        | 40         | Director  |
| David J. Landes   | 63         | Director  |
| Ian Ross          | 75         | Director  |
| David Tesler      | 45         | Director  |
| Jonathan Tulkoff  | 57         | Director  |

Our directors hold office until the earlier of their death, resignation or removal by stockholders or until their successors have been qualified. Our directors serve a term of office to expire at the annual meeting of stockholders in 2019. At each annual meeting of stockholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the next annual meeting of stockholders after their election, with each director to hold office until his or her successor shall have been duly elected and qualified.

Our officers hold office until the earlier of their death, resignation or removal by our board of directors or until their successors have been selected. They serve at the pleasure of our board of directors.

**Nathan J. Mazurek.** Mr. Mazurek has served as our chief executive officer, president and chairman of the board of directors since December 2, 2009. From December 2, 2009 through August 12, 2010, Mr. Mazurek also served as our chief financial officer, secretary and treasurer. Mr. Mazurek has over 25 years of experience in the electrical equipment and components industry. Mr. Mazurek has served as the chief executive officer, president, vice president, sales and marketing and chairman of the board of directors of Pioneer Transformers Ltd. since 1995. Mr. Mazurek has served as the president of American Circuit Breaker Corp., a former manufacturer and distributor of circuit breakers, since 1988. From 1999 through 2017, Mr. Mazurek served as director of Empire Resources, Inc., a distributor of semi-finished aluminum and steel products. From 2002 through 2007, Mr. Mazurek served as president of Aerovox, Inc., a manufacturer of AC film capacitors. Mr. Mazurek received his BA from Yeshiva College in 1983 and his JD from Georgetown University Law Center in 1986. Mr. Mazurek brings to the board extensive experience with our company and in our industry. Since he is responsible for, and familiar with, our day-to-day operations and implementation of our strategy, his insights into our performance and into the electrical equipment and components industry are critical to board discussions and to our success.

**Thomas Klink.** Mr. Klink has served as a director since April 30, 2010 and as our chief financial officer, secretary and treasurer since January 7, 2016. Since 1996, he has served in various positions at Jefferson Electric, Inc., including as its chief executive officer, chief financial officer, vice president, treasurer, secretary and chairman of the board of directors. Previously, from 1994 to 1996, Mr. Klink served as a division controller at MagneTek, Inc., a company listed on NASDAQ, reporting to the corporate controller. Mr. Klink also previously served as a controller for U.S. Music Corporation, a manufacturer of musical instruments from 1990 through 1994. Mr. Klink received his BBA in Accounting from the University of Wisconsin – Milwaukee in 1984. Mr. Klink brings extensive industry and leadership experience to our board, including over 15 years of experience in the electrical equipment industry.

**Yossi Cohn.** Mr. Cohn has served as a director since December 2, 2009. Mr. Cohn founded L3C Capital Partners, LLC, an investor in multi-family residential properties, in June 2009, and serves as a partner in the firm. Mr. Cohn served as a director of investor relations at IDT Corporation, a NYSE-listed telecommunications company, from September 2005 through May 2007. Prior to joining IDT Corporation, Mr. Cohn was a director of research at SAGEN Asset Management, an asset manager of funds of hedge funds, from January 2005 through May 2005. Mr. Cohn began his career as an analyst in the funds-of-funds investment group of Millburn Ridgefield Corporation, where he worked from 2001 through January 2005. Our board believes Mr. Cohn's background at these and other companies, particularly in areas of capital markets, financial, strategic and investment management experience, makes him an effective member of our board.

**David J. Landes.** Mr. Landes has served as a director since December 2, 2009. Mr. Landes has served as president of Provident Sunnyside, LLC, CYMA Investments LLC and 2530 Foster Partners, LLC, each private real estate and investment companies for over the past five years. Mr. Landes received a BA from Columbia University, a JD from the University of Chicago and a PhD from Princeton University. Mr. Landes practiced corporate and securities law at Shearman and Sterling in New York City. Mr. Landes' experience as a lawyer and principal provides him with significant knowledge and insight regarding corporate governance, financing, capital markets and executive leadership. In addition, since he is a founding member of the managing partner of Provident Pioneer Partners, L.P., our sole shareholder until December 2009, Mr. Landes provides the board with a unique perspective on our history and performance.

**Ian Ross.** Mr. Ross has served as a director since March 24, 2011. In 2000, Mr. Ross co-founded and has since served as president of Omniverter Inc., a company specializing in electrical power quality solutions for industrial producers and electrical utilities in the U.S. and Canada. He has also served as the president of KIR Resources Inc. and KIR Technologies Inc. since 1999, companies engaged in management consulting and import/export activities in the electrical equipment industry, respectively. Mr. Ross previously held positions in Canada as vice president technology with Schneider Canada, a specialist in energy management, and vice president of the distribution products business at Federal Pioneer Ltd., now part of Schneider Canada. Previously, Mr. Ross held a number of successive board level positions in UK engineering companies, culminating in five years as managing director, Federal Electric, Ltd., before moving to Canada in 1986 at the request of Federal Pioneer Ltd. He received an MA in mechanical sciences (electrical and mechanical engineering) from Cambridge University and subsequently qualified as an accountant ACMA. Our board believes that Mr. Ross' relationships and broad experience in the electrical transmission and distribution equipment industry will assist us in continuing to grow our business and realizing our strategic goals.

**David Tesler.** Mr. Tesler has served as a director since December 2, 2009. Mr. Tesler is President of LeaseProbe, LLC, a provider of lease abstracting services, since he founded the company in 2004. In 2008, LeaseProbe, LLC acquired Real Diligence, LLC, a provider of financial due diligence services. The combined company does business as Real Diligence and operates as an integrated outsourced provider of legal and commercial due diligence services for the commercial real estate industry. Prior to 2004, Mr. Tesler practiced law at Skadden Arps Slate Meager & Flom LLP and at Jenkins & Gilchrist, Parker Chapin LLP. Mr. Tesler received his BA from Yeshiva College, an MA in medieval history from Bernard Revel Graduate School and a JD from Benjamin A. Cardozo School of Law. Mr. Tesler brings extensive legal, strategic and executive leadership experience to our board.

**Jonathan Tulkoff.** Mr. Tulkoff has served as director since December 2, 2009. Mr. Tulkoff began his career as a currency trader at Marc Rich & Co, he then joined Forest City enterprises, a publicly traded real estate development company, and was a VP in the acquisition and development division. In 2016, Mr. Tulkoff founded Commodity Asset Management, an industrial materials investment fund. For the last twenty years, Mr. Tulkoff has been involved in trading, marketing and financing of physical commodities, with distinct expertise in ferrous metals. Mr. Tulkoff is Series 3 licensed. Our board believes Mr. Tulkoff's extensive strategic, international and executive leadership experience, particularly in commodity markets for metal products which represent one of the largest components of our company's cost of manufacture, make him an effective member of our board. The board of directors regards all of the individuals above as competent professionals with many years of experience in the business community. The board of directors believes that the overall experience and knowledge of the members of the board of directors will contribute to the overall success of our business.

## **Family Relationships**

There are no family relationships among any of our directors and executive officers. Messrs. Mazurek and Klink are parties to certain agreements related to their service as executive officers and directors described in the "Agreements with Executive Officers" section of Item 11.



## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and officers, and persons who own more than ten percent of our common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Directors, officers and persons who own more than ten percent of our common stock are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us, during the fiscal year ended December 31, 2018, each of our directors, officers and greater than ten percent stockholders complied with all Section 16(a) filing requirements applicable to our directors, officers and greater than ten percent stockholders.

## **Board Committees**

Our board of directors established an audit committee on March 24, 2011, which has the composition and responsibilities described below. We do not have a standing nominating and corporate governance committee or a compensation committee.

*Audit Committee.* The audit committee consists of Messrs. Cohn, Ross and Tulkoff, each of whom our board has determined to be financially literate and qualify as an independent director under Section 5605(a)(2) of the rules of the Nasdaq Stock Market. In addition, Mr. Ross is the chairman of the audit committee and qualifies as a financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K. The audit committee's duties are to recommend to our board of directors the engagement of independent auditors to audit our financial statements and to review our accounting and auditing principles. The audit committee will review the scope, timing and fees for the annual audit and the results of audit examinations performed by internal auditors and independent public accountants, including their recommendations to improve the system of accounting and internal controls. The audit committee held a total of five meetings during the fiscal year ended December 31, 2018. The audit committee operates under a formal charter adopted by the board of directors that governs its duties and conduct. Copies of the charter can be obtained free of charge from the Company's web site, [www.pioneerpowersolutions.com](http://www.pioneerpowersolutions.com), by contacting the Company by mail at the address appearing on the first page of this Annual Report on Form 10-K to the attention of Investor Relations, or by telephone at (212) 867-0700.

## **Code of Business Conduct and Ethics**

We have adopted a code of business conduct and ethics that applies to our directors, officers, and employees, including our principal executive officer, principal financial officer and principal accounting officer, which is posted on our website at [www.pioneerpowersolutions.com](http://www.pioneerpowersolutions.com). We intend to disclose future amendments to certain provisions of the code of ethics, or waivers of such provisions granted to executive officers and directors, on this website within four business days following the date of such amendment or waiver.

## **ITEM 11. EXECUTIVE COMPENSATION**

### **Compensation Philosophy and Process**

The responsibility for establishing, administering and interpreting our policies governing the compensation and benefits for our executive officers lies with our senior management, subject to the review and approval of our board of directors. Our board of directors has not retained the services of any compensation consultants.

The goals of our executive compensation program are to attract, motivate and retain individuals with the skills and qualities necessary to support and develop our business within the framework of our size and available resources. In 2018, we designed our executive compensation program to achieve the following objectives:

- attract and retain executives experienced in developing and delivering products such as our own;
- motivate and reward executives whose experience and skills are critical to our success;
- reward performance; and
- align the interests of our executive officers and other key employees with those of our stockholders by motivating our executive officers and other key employees to increase stockholder value.

As a “controlled company” under the corporate governance rules of the Nasdaq stock market, we are not required to have a compensation committee, nor have we engaged any compensation consultants to determine or recommend the amount and form of executive and director compensation during and for 2018. At this time, our board of directors has determined that the financial and administrative burden of engaging compensation consultants is not justified in light of our Company’s size, its resources and our relatively small number of executive officers and directors. Rather, the recommended level, components and rationale for our compensation program are developed and presented each year by our principal executive officers to the board of directors for its consideration and approval. Our board of directors has specific authority to limit cash bonus awards to our named executive officers, as provided for in their employment agreements, which authority may not be delegated to other persons at this time.

**2018 and 2017 Summary Compensation Table**

The following table summarizes, for each of the last two fiscal years ended December 31, 2018 and 2017, the compensation paid to (i) Nathan J. Mazurek, our chief executive officer, president and chairman of the board of directors, and (ii) Thomas Klink, who has served as our chief financial officer, secretary and treasurer since January 7, 2016 and prior to that served as the president of Jefferson Electric, Inc. and a director, whom we refer to collectively herein as the “named executive officers”.

| Name and Principal Position  | Year | Salary<br>(\$) | Option<br>Awards<br>(1)<br>(\$) | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|--|------|----------------|---------------------------------|-----------------------------------|---------------|
| Nathan J. Mazurek<br>President, Chief Executive Officer, Chairman of the Board<br>of Directors                       | 2018 | 465,000        | 1,814                           | 15,000                            | (2) 481,814   |
|  | 2017 | 440,000        | 312,291                         | 18,000                            | (2) 770,291   |
| Thomas Klink<br>Chief Financial Officer, Secretary, Treasurer, President of<br>Jefferson Electric, Inc. and Director | 2018 | 356,667        | 1,814                           | 20,000                            | (3) 378,480   |
|  | 2017 | 331,667        | 240,774                         | 23,000                            | (3) 595,441   |

Amounts represent the aggregate grant date fair value, as determined in accordance with FASB ASC Topic 718, with the exception that the amounts shown assume no forfeitures. The assumptions used to calculate the value of (1) share based awards are set forth in “Item 8. Financial Statements and Supplementary Data – Note 13. Stock-Based Compensation” contained in this Annual Report. These amounts do not represent the actual value that may be realized by our named executive officers, as that is dependent on the long-term appreciation in our common stock.

(2) Comprised of board of directors meeting fees.

(3) Comprised of board of directors and audit committee meeting fees.

## Agreements with Executive Officers

### *Nathan J. Mazurek*

We entered into an employment agreement with Mr. Mazurek, dated as of December 2, 2009, pursuant to which Mr. Mazurek was to serve as our chief executive officer for a term of three years. Pursuant to this employment agreement, Mr. Mazurek was entitled to receive an annual base salary of \$250,000 from December 2, 2009 through December 2, 2010, which was increased to \$275,000 on December 2, 2010 and to \$300,000 on December 2, 2011. Mr. Mazurek was entitled to receive an annual cash bonus at the discretion of our board of directors, or a committee thereof, of up to 50% of his annual base salary, which percentage was permitted to be increased in the discretion of the board. In the event that Mr. Mazurek was terminated without cause, Mr. Mazurek would have been entitled to receive his base salary for the balance of the term of the agreement.

This agreement prohibited Mr. Mazurek from competing with us for a period of four years following the date of termination, unless he was terminated without cause or due to disability or he voluntarily resigned following a breach by us of this agreement, in which case he was prohibited from competing with us for a period of only two years.

We entered into a new employment agreement with Mr. Mazurek, dated as of March 30, 2012, pursuant to which Mr. Mazurek will serve as our chief executive officer for a three year term ending on March 31, 2015. Pursuant to this new employment agreement, Mr. Mazurek was entitled to receive an annual base salary of \$350,000 during the remainder of the 2012 calendar year, which increased to \$365,000 during the 2013 calendar year and then to \$380,000 for the remainder of his employment term. The other material terms of the new employment agreement are substantially similar to those under his previous agreement, except that Mr. Mazurek has agreed not to compete with us for a period of one year following the termination of his employment for any reason.

On November 11, 2014, we entered into a first amendment to our employment agreement with Mr. Mazurek, pursuant to which the term of the employment agreement was extended by a period of three years ending on March 31, 2018. In addition, pursuant to this employment agreement, as amended, Mr. Mazurek became entitled to receive an annual base salary of \$410,000 beginning on the amendment effective date and ending on December 31, 2015, which increased to \$425,000 during the 2016 calendar year.

On June 30, 2016, we entered into a second amendment to our employment agreement with Mr. Mazurek, pursuant to which the term of the employment agreement was extended by a period of five years ending on March 31, 2021. In addition, pursuant to this employment agreement, as amended, Mr. Mazurek became entitled to receive an annual base salary of \$425,000 for the period beginning on January 1, 2016 and ending on December 31, 2016, \$440,000, for the period beginning on January 1, 2017 and ending on December 31, 2017, \$465,000, for the period beginning on January 1, 2018 and ending on December 31, 2018, \$490,000, for the period beginning on January 1, 2019 and ending on December 31, 2019, and \$515,000 per annum, for the period beginning on January 1, 2020 and ending on March 31, 2021.

### *Thomas Klink*

On April 30, 2010, in connection with our acquisition of Jefferson Electric, Inc., Jefferson Electric, Inc. entered into an employment agreement with Thomas Klink pursuant to which Mr. Klink is serving as Jefferson Electric, Inc.'s president, subject to the authority of our chief executive officer, Mr. Mazurek, for an original term of three years. Mr. Klink was initially entitled to receive an annual base salary of \$312,000. Mr. Klink's employment may be terminated upon his death or disability, upon the occurrence of certain events that constitute "cause," and without cause. If terminated without cause, Mr. Klink will be entitled to receive as severance an amount equal to his base salary for the

remainder of the employment period under the agreement, conditioned upon his execution of a release in form reasonably acceptable to counsel of Jefferson Electric, Inc. On April 30, 2013, Jefferson Electric, Inc. and Mr. Klink entered into an amendment to this employment agreement, pursuant to which the term was extended to April 30, 2016, unless terminated earlier in accordance with its terms, and Mr. Klink's annual base salary was reduced to \$250,000.

On January 7, 2016, Mr. Klink was appointed as our chief financial officer, secretary and treasurer.

On June 30, 2016, we entered into a second amendment to our employment agreement with Mr. Klink, pursuant to which the term was extended to April 30, 2019. In addition, Mr. Klink became entitled to an annual base salary of \$315,000 for the period beginning on May 1, 2016 and ending on April 30, 2017, \$340,000 for the period beginning on May 1, 2017 and ending on April 30, 2018, and \$365,000 for the period beginning on May 1, 2018 and ending on April 30, 2019.

On February 15, 2019, we entered into a third amendment to our employment agreement with Mr. Klink, pursuant to which the term was extended to April 30, 2020, and Mr. Klink's annual based salary was adjusted to \$390,000 for the period beginning on May 1, 2019 and ending on April 30, 2020.

**Outstanding Equity Awards at Fiscal Year End**

The following table provides information on stock options previously awarded to each of the named executive officers and which remained outstanding as of December 31, 2018. This table includes unexercised and unvested options awards. Each outstanding award is shown separately for each named officer.

| Name              | Date of Grant | Option Awards   |   | Option Exercise Price (\$) | Option Expiration Date |           |
|-------------------|---------------|---|---|----------------------------|------------------------|-----------|
|                   |               | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable |                            |                        |           |
| Nathan J. Mazurek | 3/23/2010     | 400   | (2)   | —                          | \$ 16.25               | 3/23/2020 |
|                   | 3/24/2011     | 400   | (2)   | —                          | 12.00                  | 3/24/2021 |
|                   | 3/23/2012     | 1,000   | (2)   | —                          | 4.11                   | 3/23/2022 |
|                   | 3/20/2013     | 25,000  | (3)   | —                          | 5.60                   | 3/20/2023 |
|                   | 3/20/2013     | 1,000   | (2)   | —                          | 5.60                   | 3/20/2023 |
|                   | 3/06/2014     | 50,000  | (3)   | —                          | 10.21                  | 3/06/2024 |
|                   | 3/06/2014     | 1,000   | (2)   | —                          | 10.21                  | 3/06/2024 |
|                   | 3/30/2015     | 1,000   | (2)   | —                          | 8.98                   | 3/30/2025 |
|                   | 3/10/2016     | 1,000   | (2)   | —                          | 3.68                   | 3/10/2026 |
|                   | 3/30/2017     | 1,000   | (2)   | —                          | 7.30                   | 3/30/2027 |
|                   | 3/30/2017     | 130,000   | (4)   | —                          | 7.30                   | 3/30/2027 |
| 4/03/2018         | —             |   | 1,000   | (2)                        | 5.60                   | 4/03/2028 |
| Thomas Klink      | 3/24/2011     | 1,000   | (1)   | —                          | \$ 12.00               | 3/24/2021 |
|                   | 3/24/2011     | 400   | (2)   | —                          | 12.00                  | 3/24/2021 |
|                   | 3/23/2012     | 3,000   | (1)   | —                          | 4.11                   | 3/23/2022 |
|                   | 3/23/2012     | 1,000   | (2)   | —                          | 4.11                   | 3/23/2022 |
|                   | 3/20/2013     | 3,000   | (1)   | —                          | 5.60                   | 3/20/2023 |
|                   | 3/20/2013     | 1,000   | (2)   | —                          | 5.60                   | 3/20/2023 |
|                   | 3/06/2014     | 1,000   | (2)   | —                          | 10.21                  | 3/06/2024 |
|                   | 3/30/2015     | 1,000   | (2)   | —                          | 8.98                   | 3/30/2025 |
|                   | 3/10/2016     | 1,000   | (2)   | —                          | 3.68                   | 3/10/2026 |
|                   | 3/30/2017     | 1,000   | (2)   | —                          | 7.30                   | 3/30/2027 |
|                   | 3/30/2017     | 100,000   | (4)   | —                          | 7.30                   | 3/30/2027 |
| 4/03/2018         | —             |   | 1,000   | (2)                        | 5.60                   | 4/03/2028 |

(1) Incentive stock options granted for service as an executive officer. Vests in equal annual installments upon each of the first three anniversaries of the grant date.

(2) Non-qualified stock options granted for service as a director. Vests on the first anniversary of the grant date.

(3) Non-qualified stock options granted for service as an executive officer. Vests in equal annual installments upon each of the first three anniversaries of the grant date.

(4) Non-qualified stock options granted for service as an executive officer. Vests on the first anniversary of the grant date.



## Change of Control Agreements

We do not currently have plans providing for the payment of retirement benefits to our officers or directors, other than as described under “Agreements with Executive Officers” above.

We do not currently have any change-of-control or severance agreements with any of our executive officers or directors, other than as described under “Agreements with Executive Officers” above. In the event of the termination of employment of the named executive officers, any and all unexercised stock options shall expire and no longer be exercisable after a specified time following the date of the termination, other than as described under “Agreements with Executive Officers” above.

## 2009 Equity Incentive Plan

On December 2, 2009, our board of directors and stockholders adopted the 2009 Equity Incentive Plan, pursuant to which 320,000 shares of our common stock were reserved for issuance as awards to employees, directors, consultants and other service providers. The purpose of the 2009 Equity Incentive Plan was to provide an incentive to attract and retain directors, officers, consultants, advisors and employees whose services were considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in our development and financial success. Under the 2009 Equity Incentive Plan, we were authorized to issue incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified stock options, restricted stock, stock appreciation rights, performance unit awards and stock bonus awards. The 2009 Equity Incentive Plan is currently administered by our board of directors but may be subsequently administered by a compensation committee designated by our board of directors. The 2011 Long-Term Incentive Plan that we adopted in May 2011 replaced and superseded the 2009 Equity Incentive Plan in its entirety but any awards granted prior to May 21, 2011 that are still outstanding are subject to the 2009 Equity Incentive Plan.

## 2011 Long-Term Incentive Plan

On May 11, 2011, our board of directors adopted the 2011 Long-Term Incentive Plan, subject to stockholder approval, which was obtained on May 31, 2011. The 2011 Long-Term Incentive Plan replaces and supersedes the 2009 Equity Incentive Plan. Our outside directors and our employees, including the principal executive officer, principal financial officer and other named executive officers, and certain contractors are all eligible to participate in the 2011 Long-Term Incentive Plan. The 2011 Long-Term Incentive Plan allows for the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards, which may be granted singly, in combination, or in tandem, and upon such terms as are determined by the board or a committee of the board that is designated to administer the 2011 Long-Term Incentive Plan. Subject to certain adjustments, the maximum number of shares of our common stock that may be delivered pursuant to awards under the 2011 Long-Term Incentive Plan is 700,000 shares, of which 248,867 were available for future issuances as of December 31, 2018. The 2011 Long-Term Incentive Plan is currently administered by our board of directors but may be subsequently administered by a compensation committee designated by our board of directors.

## Equity Compensation Plan Information

The following table provides certain information as of December 31, 2018 with respect to our equity compensation plans under which our equity securities are authorized for issuance:

| Number of securities | Weighted average | Number of securities |
|----------------------|------------------|----------------------|
|----------------------|------------------|----------------------|



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|  | to be issued<br>upon<br>exercise of<br>outstanding<br>options,<br>warrants<br>and rights | exercise<br>price of<br>outstanding<br>options,<br>warrants<br>and rights | remaining<br>available for<br>future<br>issuance<br>under<br>equity<br>compensation<br>plans |
|--|--|---|--|
| Equity compensation plans approved by security holders     | 424,800  | \$ 8.36   | 248,867  |
| Equity compensation plans not approved by security holders | —  | —   | —  |
| Total  | 424,800  | \$ 8.36   | 248,867  |

**Director Compensation**

The following table provides compensation information for the one year period ended December 31, 2018 for each non-employee member of our board of directors:

| Name             | Fees<br>Earned<br>or<br>Paid in<br>Cash<br>(\$) | Option<br>Awards<br>(\$)(1)(2) | Total<br>(\$) |
|------------------|---|--------------------------------|---------------|
| Yossi Cohn       | 19,000(3)                                       | 1,814                          | 20,814        |
| David J. Landes  | 9,000 (4)                                       | 1,814                          | 10,814        |
| Ian Ross         | 20,000(3)                                       | 1,814                          | 21,814        |
| David Tesler     | 15,000(4)                                       | 1,814                          | 16,814        |
| Jonathan Tulkoff | 20,000(3)                                       | 1,814                          | 21,814        |

Amounts represent the aggregate grant date fair value, as determined in accordance with FASB ASC Topic 718, with the exception that the amounts shown assume no forfeitures. The assumptions used to calculate the value of (1) share based awards are set forth in “Item 8. Financial Statements and Supplementary Data – Note 13. Stock-Based Compensation”. These amounts do not represent the actual value that may be realized by our non-employee directors, as that is dependent on the long-term appreciation in our common stock.

On April 3, 2018, we granted each director non-qualified stock options to purchase 1,000 shares of our common (2) stock. The grants were made under our 2011 Long-Term Incentive Plan at an exercise price of \$5.60 per share. All of the options will vest on April 3, 2019 and expire on April 3, 2028.

(3) Comprised of board of directors and audit committee meeting fees.

(4) Comprised of board of directors meeting fees.

All of our directors, including our employee directors, are paid cash compensation in connection with their attendance at the meetings of the board of directors. Our directors are also reimbursed for reasonable out-of-pocket expenses incurred in connection with their attendance at such meetings. For the year ended December 31, 2018, our directors were paid cash compensation of \$3,000 per meeting for attendance. In addition, the members of our audit committee and our chief financial officer received a fee of \$1,000 per meeting for attendance at a meeting of our audit committee for the year ended December 31, 2018.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information with respect to the beneficial ownership of our common stock as of March 29, 2019 by:

each person known by us to beneficially own more than 5.0% of our common stock;  
 each of our directors;  
 each of the named executive officers; and  
 all of our directors and executive officers as a group.

The percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of the security, or investment power, which includes the power to dispose of or to direct the disposition of the security. Except as indicated in the footnotes to this table, each beneficial owner named in the table below has sole voting and sole investment power with respect to all shares beneficially owned and each person's address, unless otherwise specified in the notes below, is c/o Pioneer Power Solutions, Inc., 400 Kelby Street, 12th Floor, Fort Lee, New Jersey 07024. As of March 29, 2019, we had 8,726,045 shares outstanding.

| Name of Beneficial Owner                                    | Number of<br>Shares<br>Beneficially<br>Owned (1) | Percentage<br>Beneficially<br>Owned (1) |      |   |
|---|--|---|------|---|
| <b>5% Owners</b>  |  |   |      |   |
| Provident Pioneer Partners, L.P.                            | 4,560,000  | (2)                                     | 52.3 | % |
| A. Lawrence Carroll Trust                                   | 725,000  | (3)                                     | 8.3  | % |
| Kennedy Capital Management, Inc.                            | 690,362  | (4)                                     | 7.9  | % |
| North Star Investment Management Corporation                | 645,149  | (5)                                     | 7.4  | % |
| <b>Officers and Directors</b>                               |  |   |      |   |
| Nathan J. Mazurek   | 4,785,800  | (6)                                     | 53.5 | % |
| Thomas Klink  | 214,400  | (7)                                     | 2.4  | % |
| Yossi Cohn  | 7,800  | (8)                                     |      | * |
| David J. Landes   | 4,567,800  | (9)                                     | 52.3 | % |
| Ian Ross  | 7,400  | (8)                                     |      | * |
| David Tesler  | 11,550   | (10)                                    |      | * |
| Jonathan Tulkoff  | 17,800   | (11)                                    |      | * |
| All directors and executive officers as a group (7 persons) | 5,052,550  |   | 56.5 | % |

\* represents ownership of less than 1%.

- Shares of common stock beneficially owned and the respective percentages of beneficial ownership of common stock assumes the exercise of all options, warrants and other securities convertible into common stock beneficially owned by such person or entity currently exercisable or exercisable within 60 days of March 29,
- (1) 2019. Shares issuable pursuant to the exercise of stock options and warrants exercisable within 60 days are deemed outstanding and held by the holder of such options or warrants for computing the percentage of outstanding common stock beneficially owned by such person, but are not deemed outstanding for computing the percentage of outstanding common stock beneficially owned by any other person.  
Includes 4,560,000 shares of common stock held by Provident Pioneer Partners, L.P. Nathan J. Mazurek is the majority stockholder and a control person of Provident Canada Corp., the general partner of Provident Pioneer Partners, L.P., and, as such, has sole voting and investment power over these shares.
  - (2) Beneficial ownership is based on information contained in Amendment No. 5 to Schedule 13G filed on January 29, 2019. A. Lawrence Carroll is the trustee of the A. Lawrence Carroll Trust and, in such capacity, has voting and dispositive power over the securities held for the account of this stockholder. The beneficial owner's address is 415 L'Amiance Drive, #804, Longboat Key, FL 34228.
  - (3) Beneficial ownership is based on information contained in Amendment No. 1 to Schedule 13G filed on February 12, 2019. The beneficial owner's address is 10829 Olive Blvd St Louis, Missouri 63141.
  - (4) Beneficial ownership is based on information contained in Amendment No. 2 to Schedule 13G filed on January 9, 2019. The beneficial owner's address is 20 N. Wacker Drive, Suite 1416, Chicago, Illinois 60606.  
Nathan J. Mazurek is the majority stockholder and a control person of Provident Canada Corp., the general partner of Provident Pioneer Partners, L.P., and, as such, has sole voting and investment power over the 4,560,000 shares of common stock held by Provident Pioneer Partners, L.P. In addition, includes 212,800 shares subject to stock options which are exercisable within 60 days of March 29, 2019.
  - (5) Includes 100,000 shares of common stock and 114,400 shares subject to stock options which are exercisable within 60 days of March 29, 2019.
  - (6) Comprised of shares subject to stock options which are exercisable within 60 days of March 29, 2019.  
David J. Landes is the minority stockholder and a control person of Provident Canada Corp., the general partner of Provident Pioneer Partners, L.P., and, as such, has beneficial ownership of the 4,560,000 shares of common stock held by Provident Pioneer Partners, L.P. In addition, includes 7,800 shares subject to stock options which are exercisable within 60 days of March 29, 2019.
  - (7) Includes 3,750 shares of common stock and 7,800 shares subject to stock options which are exercisable within 60 days of March 29, 2019.
  - (8) Includes 10,000 shares of common stock and 7,800 shares subject to stock options which are exercisable within 60 days of March 29, 2019.
  - (9) Includes 10,000 shares of common stock and 7,800 shares subject to stock options which are exercisable within 60 days of March 29, 2019.
  - (10) Includes 10,000 shares of common stock and 7,800 shares subject to stock options which are exercisable within 60 days of March 29, 2019.
  - (11) Includes 10,000 shares of common stock and 7,800 shares subject to stock options which are exercisable within 60 days of March 29, 2019.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### **Certain Related Transactions and Relationships**

Generally, we do not enter into related party transactions unless the members of the board who do not have an interest in the potential transaction have reviewed the transaction and determined that (i) we would not be able to obtain better terms by engaging in a transaction with a non-related party and (ii) the transaction is in our best interest. This policy applies generally to any transaction in which we are to be a participant and the amount involved exceeds the lesser of \$120,000 or one percent of the average of our total assets at year end for the previous two completed fiscal years, and in which any related person had or will have a direct or indirect material interest. This policy is not currently in writing. In addition, our audit committee, which was established on March 24, 2011, is required to pre-approve any related party transactions pursuant to its charter.

### **Director Independence**

Our board of directors has determined that each of Yossi Cohn, Ian Ross, David Tesler and Jonathan Tulkoff satisfy the requirements for independence set out in Section 5605(a)(2) of the Nasdaq Stock Market Rules and that each of these directors has no material relationship with us (other than being a director and/or a stockholder). In making its independence determinations, the board of directors sought to identify and analyze all of the facts and circumstances relating to any relationship between a director, his immediate family or affiliates and our company and our affiliates and did not rely on categorical standards other than those contained in the Nasdaq Stock Market rule referenced above.

Because Nathan Mazurek, our president, chief executive officer and chairman of the board of directors, controls a majority of our outstanding voting power, we are a “controlled company” under the corporate governance rules of the Nasdaq Stock market. Therefore, we are not required to have a majority of our board of directors be independent, nor are we required to have a compensation committee or an independent nominating function. In light of our status as a controlled company, our small size and our desire to efficiently manage our financial and administrative resources, our board of directors has determined not to have an independent nominating or compensation committee and to have the full board of directors be directly responsible for compensation matters and for nominating members of our board. However, only Messrs. Cohn, Ross, Tesler and Tulkoff satisfy the independence requirement that would apply to the members of such committees under the Nasdaq Stock Market Rules.

## **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

BDO USA, LLP served as our independent registered public accounting firm for the fiscal years ended December 31, 2018 and 2017.

The following table presents aggregate fees for professional services rendered by BDO USA, LLP during the fiscal years ended December 31, 2018 and 2017:

|                        | Year Ended<br>December<br>31, |       |
|------------------------|-------------------------------|-------|
|                        | 2018                          | 2017  |
| Audit fees (1)         | \$490                         | \$586 |
| Audit-related fees (2) | 12                            | 12    |
| Tax fees (3)           | 5                             | 16    |
| Total fees             | \$507                         | \$614 |

Audit fees consisted primarily of fees for the annual audit of our consolidated financial statements, the interim (1) reviews of the quarterly consolidated financial statements, review of a registration statement and normal, recurring accounting consultations.

(2) Audit-related fees consisted of fees related to the audit of an employee benefit plan.

(3) Tax fees consisted primarily of fees related for tax compliance.

#### **Pre-Approval of Independent Registered Public Accounting Firm Fees and Services Policy**

Our audit committee pre-approves all auditing and permitted non-audit services to be performed for us by our independent auditor against estimates submitted by the auditor, except for de minimis non-audit services that are approved by the audit committee prior to the completion of the audit. The audit committee has pre-established limits that require audit committee approval in advance of any additional funds that may be required in excess of the auditor's estimate. The audit committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services. The audit committee pre-approved all of the fees set forth in the table above.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

We have filed the following documents  
a. as part of this Annual Report on Form  
10-K:

#### **1. Consolidated Financial Statements**

The following financial statements are included in Item 8 herein:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Operations for the Years Ended December 31, 2018 and 2017

Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2018 and 2017

Consolidated Balance Sheets as of December 31, 2018 and 2017

Consolidated Statements of Cash Flows for the Years Ended December 31, 2018 and 2017

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2018 and 2017

Notes to Consolidated Financial Statements

#### **2. Financial Statement Schedules**

None

#### **3. Exhibits**

See the Index to Exhibits immediately following the signature page of this Annual Report on Form 10-K.

### **ITEM 16. FORM 10-K SUMMARY.**

None

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## INDEX TO EXHIBITS

### Exhibit No. Description

2.1 Agreement and Plan of Merger Agreement, dated January 22, 2019, between Pioneer Critical Power Inc. and CleanSpark. (Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on January 28, 2019).

3.1 Composite Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registration Statement on Form S-1 of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on June 21, 2011).

3.2 Bylaws (Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on December 2, 2009).

4.1 Form of Warrant to Purchase Common Stock, dated September 24, 2013, issued to Roth Capital Partners, LLC and to Monarch Capital Group, LLC (Incorporated by reference to Exhibit 4.8 to Amendment No. 1 to Registration Statement on Form S-1 of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on September 10, 2013).

10.1+ Form of Director and Officer Indemnification Agreement (Incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission for the year ended December 31, 2010).

10.2+ Pioneer Power Solutions, Inc. 2009 Equity Incentive Plan (Incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on December 7, 2009).

10.3+ Form of 2009 Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on December 7, 2009).

10.4+ Form of 2009 Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.10 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on December 7, 2009).

10.5+ Pioneer Power Solutions, Inc. 2011 Long-Term Incentive Plan (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



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Commission on May 31, 2011).

10.6+ Employment Agreement, dated March 30, 2012, by and between Pioneer Power Solutions, Inc. and Nathan J. Mazurek (Incorporated by reference to Exhibit 10.42 to the Annual Report on Form 10-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on March 30, 2012).

10.7+ First Amendment to Employment Agreement, dated November 11th, 2014, by and between Pioneer Power Solutions, Inc. and Nathan J. Mazurek (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on November 12, 2014).

10.8+ Employment Agreement, dated April 30, 2010, by and between Jefferson Electric, Inc. and Thomas Klink (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 May 4, 2010).

10.9+ First Amendment to Employment Agreement, dated April 30, 2013, by and between Jefferson Electric, Inc. and Thomas Klink (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 April 30, 2013).

10.10 Collective Labor Agreement, dated January 28, 2016, by and between Pioneer Transformers Ltd. and United Steelworkers, Local Section 9414 (Incorporated by reference to Exhibit 10.8 to the Annual Report on Form 10-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission for the year ended December 31, 2010).

10.11 Collective Bargaining Agreement Nexus Magneticos S. de R.L. de C.V., dated January 1, 2011 (Incorporated by reference to Exhibit 10.35 to the Annual Report on Form 10-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission for the year ended December 31, 2010).

10.12 Industrial Lease between Comercializadora Reynosa Para La Industria Maquiladora S.A. DE C.V. and Nexus Magneticos e Mexico S. de R.L. de C.V (Incorporated by reference to Exhibit 10.41 to the Annual Report on Form 10-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on April 1, 2013).

10.13 Amendment Agreement, dated June 30, 2011, by and among Fiducie Familiale Mazoyer, Bon-Ange Inc., Gilles Mazoyer and 834080 Canada Inc. (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on July 5, 2011).

10.14 Equipment Purchase Agreement, dated July 1, 2011, by and among Vermont Transformer, Inc., GCEFF Inc., Gilles Mazoyer and 834080 Canada Inc. (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on July 5, 2011).

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10.15 Security Agreement, dated as of June 28, 2013, by and among Pioneer Power Solutions, Inc., Pioneer Critical Power Inc. and Jefferson Electric, Inc. and Bank of Montreal, Chicago Branch (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on July 3, 2013).

10.16 Guaranty Agreement, dated as of June 28, 2013, by Pioneer Power Solutions, Inc. in favor of Bank of Montreal (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on July 3, 2013).

10.17 Amended and Restated Credit Agreement, dated as of April 29, 2016, by and among Pioneer Power Solutions, Inc., as borrower, each of the domestic subsidiary guarantors signatory thereto and Bank of Montreal, Chicago Branch, as lender (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 May 4, 2016).

10.18 Amended and Restated Credit Agreement, dated as of April 29, 2016, by and among Pioneer Electrogrouop Canada Inc., as borrower, each of the Canadian subsidiary guarantors signatory thereto and Bank of Montreal, as lender (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on May 4, 2016).

10.19+ Second Amendment to Employment Agreement, dated June 30, 2016, by and between Pioneer Power Solutions, Inc. and Nathan J. Mazurek (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 1, 2016).

10.20+ Second Amendment to Employment Agreement, dated June 30, 2016, by and between Jefferson Electric, Inc. and Thomas Klink. (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on July 1, 2016).

10.21+ Third Amendment to Employment Agreement, dated February 15, 2019, by and between Jefferson Electric, Inc. and Thomas Klink. (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on February 20, 2019).

10.22 Waiver Letter, dated March 6, 2017, from Bank of Montreal, Chicago Branch, as lender.

10.23 First Amending Agreement, dated as of March 15, 2017, by and among Pioneer Power Solutions, Inc., as borrower, each of the domestic subsidiary guarantors signatory thereto and Bank of Montreal, Chicago Branch, as lender.

10.24 First Amending Agreement, dated as of March 15, 2017, by and among Pioneer Electrogrouop Canada Inc., as borrower, each of the Canadian subsidiary guarantors signatory thereto and Bank of Montreal, as lender.

10.25 Second Amending Agreement, dated as of March 28, 2018, by and among Pioneer Electrogrouop Canada Inc., as borrower, each of the Canadian subsidiary guarantors signatory thereto and Bank of Montreal, as lender (Incorporated by reference to Exhibit 10.24 to the Annual Report on Form 10-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on April 2, 2018).

10.26

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Second Amending Agreement, dated as of March 28, 2018, by and among Pioneer Power Solutions, Inc., as borrower, each of the domestic subsidiary guarantors signatory thereto and Bank of Montreal, Chicago Branch, as lender (Incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on April 2, 2018).

10.27 Indemnity Agreement, dated January 22, 2019, between the Company, CleanSpark and PCPI. (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 January 28, 2019).

10.28 Contract Manufacturing Agreement, dated January 22, 2019, between the Company and CleanSpark. (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on January 28, 2019).

10.29 Non-Competition and Non-Solicitation Agreement, dated January 22, 2019, between the Company and CleanSpark. (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on January 28, 2019).

10.30 Termination of Asset Purchase Agreement, dated January 22, 2019, between PCEP and CleanSpark. (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Pioneer Power Solutions, Inc. filed with the Securities and Exchange Commission on January 28, 2019).

10.31\*Waiver Letter, dated March 25, 2019, from Bank of Montreal, Montreal Branch, as lender.

21.1\*List of subsidiaries.

23.1\*Consent of BDO USA, LLP.

31.1\*Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2\*Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1\*Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2\*Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101\* The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language), (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Comprehensive Loss, (iv) Consolidated Statements of Cash Flows and (v) Notes to the Consolidated Financial Statements.

+ Management contract or compensatory plan or arrangement.

\* 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: March 29, 2019 By: /s/ Nathan J. Mazurek  
 Name: Nathan J. Mazurek  
 Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>      | <b>Title</b>  | <b>Date</b>    |
|-----------------------|---|----------------|
| /s/ Nathan J. Mazurek |   | March 29, 2019 |
| Nathan J. Mazurek     | President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)                   |                |
| /s/ Thomas Klink      |   | March 29, 2019 |
| Thomas Klink          | Chief Financial Officer, Secretary, Treasurer and Director (Principal Financial Officer and Principal Accounting Officer) |                |
| /s/ Yossi Cohn        |   | March 29, 2019 |
| Yossi Cohn            | Director  |                |
| /s/ David J. Landes   |   | March 29, 2019 |
| David J. Landes       | Director  |                |
| /s/ Ian Ross          |   | March 29,      |

|                         |          |                      |
|-------------------------|----------|----------------------|
| Ian Ross                | Director | 2019                 |
| /s/ David Tesler        |          | March<br>29,<br>2019 |
| David Tesler            | Director |                      |
| /s/ Jonathan<br>Tulkoff |          | March<br>29,<br>2019 |
| Jonathan Tulkoff        | Director |                      |