

PIONEER POWER SOLUTIONS, INC.  
Form 10-Q  
November 12, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

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

**OR**

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

**Commission file number: 333-155375**

**PIONEER POWER SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

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

**400 Kelby Street, 9th Floor**

**Fort Lee, New Jersey 07024**

(Address of principal executive offices)

**(212) 867-0700**

(Registrant's telephone number, including area code)

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

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

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

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

(Do not check if a smaller reporting company)

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

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

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

**PIONEER POWER SOLUTIONS, INC.**

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

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

Weighted average common shares outstanding:

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

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

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**PIONEER POWER SOLUTIONS, INC.**

**Consolidated Statements of Comprehensive Income**

**(In thousands)**

**(Unaudited)**

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

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

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

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

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

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

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

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

Cash and cash equivalents

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

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

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## **1. Basis of Presentation**

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

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

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

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

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

## **Recent Accounting Pronouncements**

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

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

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

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

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

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

### **3. Acquisitions**

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

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

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

**4. Inventories**

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

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

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

**5. Goodwill and Other Intangible Assets**

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

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

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

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

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