PIONEER POWER SOLUTIONS, INC.
Form 10-K
April 02, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2014

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 or other jurisdiction of	(I.R.S. Employer Identification No.)

incorporation or organization)

400 Kelby Street, 9th Floor

Fort Lee, New Jersey 07024

(Address of principal executive offices, including zip code)

(212) 867-0700

(Registrant’s telephone number, including area code)

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

th Street

Title of each class	Name of each exchange on which registered
Common Stock, par value	Nasdaq Stock Market

$.001 per share	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

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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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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, 2014, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting stock 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 $22.8 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 April 1, 2015, 7,405,692 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2015 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2014.

PIONEER POWER SOLUTIONS, INC.

Form 10-K

For the Fiscal Year Ended December 31, 2014

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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, earnings per share, margins and profitability.

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

customers.

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

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

Our ability to expand our business through strategic acquisitions.

Our ability to integrate acquisitions and related businesses.

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

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

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

Our ability to realize revenue reported in our backlog.

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

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

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

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

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

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

The liquidity and trading volume of our common stock.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipated in our forward-looking statements. Moreover, new risks regularly emerge and it is not possible for

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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.

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PART I

ITEM 1. BUSINESS

Overview

Pioneer Power Solutions, Inc. and its subsidiaries ("Pioneer," "we," "us," "our," or "the Company") manufactures, sells and services a broad range of specialty electrical transmission, distribution and on-site power generation equipment for applications in the utility, industrial, commercial and backup power markets. Our principal products and services include custom-engineered electrical transformers, switchgear and engine-generator sets and controls, complemented by a national field-service network to maintain and repair power generation assets. We are headquartered in Fort Lee, New Jersey and operate from 13 additional locations in the U.S., Canada and Mexico for manufacturing, service, centralized distribution, engineering, sales and administration.

Our largest customers, which include a number of recognized national and regional utilities, industrial companies and engineering, procurement and construction firms, are 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, expansion of our salesforce coverage and through acquisitions 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 2014, we realigned our operations into two reportable segments: Transmission & Distribution Solutions (“T&D Solutions”) and Critical Power Solutions (“Critical Power”).

Our T&D Solutions business provides equipment solutions that help customers effectively and efficiently manage their electrical power distribution systems to desired specifications. The reporting segment is comprised of two primary product categories: electrical transformers and switchgear. These solutions are marketed principally through our Pioneer Transformers Ltd., Jefferson Electric, Inc. and Pioneer CEP brand names.

Our Critical Power Solutions business provides customers with sophisticated power generation equipment, switchgear, related electrical distribution infrastructure 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. The reporting segment is comprised of two primary product categories and one main service category: engine-generator sets, switchgear and controls, and preventative maintenance and monitoring services. These solutions are marketed by our operations headquartered in Minneapolis, currently doing business under the Pioneer Critical Power Inc. and Titan Energy Systems Inc. ("Titan") brand names.

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 generally being driven by the overall pace of new commercial construction.

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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 Transformers	Small & medium power: substation class units for utilities and large industrial applications
	Padmount: used in utility distribution networks, underground and in renewable projects
	Network: Subway/vault-type units used to ensure reliability of utility service
	Unitized Padmount: an equipment combination used in place of a conventional substation
	Others: mini-pad, platform-mount and other specialty low voltage designs
Dry-Type Transformers	Medium voltage & power-dry: custom-designed for applications where a liquid-filled transformer is not suitable for safety concerns and/or other constraints
	OEM: custom designed and manufactured magnetic components and subassemblies incorporated by customers into their product offering
	Power quality: harmonic-eliminating and mitigating transformers, passive filters, K-factor, control, drive isolation and other magnetically-driven power quality solutions
	Low voltage standard: catalogue of ventilated, encapsulated and other designs sold to electrical distributors and brand label customers for general purpose electrical loads
	Low voltage custom: quick-turn, low voltage distribution transformers manufactured to customer electro-mechanical specifications
Switchgear	Traditional low voltage panelboards, switchboards and switchgear, using electrical components from major manufacturers. We offer Underwriters Laboratories ratings 67, 508A and 891
	Unit substations and other specialty solutions
	Custom manufactured and U.L. approved Nema electrical enclosures

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 reduce or increase the voltage of electricity traveling through a power line. This increase or decrease in voltage is accomplished by transferring electric energy from one internal coil or winding to another coil through electromagnetic induction. Electric power generating plants use generator transformers to “step-up,” or increase, voltage that is transferred through power lines in order to transmit the electricity more efficiently and 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 the systems they make.

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

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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. All of our liquid-filled transformers are designed and manufactured specifically to a customer order.

We manufacture dry-type transformers and custom magnetics at our facilities in Farnham, Quebec and 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 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 35kV 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 – including 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.

Our principal product categories include low voltage electric power distribution panelboards, switchboards and switchgear 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, and also serves to supply our Critical Power segment with several classes of switchgear used in its customer projects.

Critical Power Solutions Segment

Our Critical Power segment is engaged in designing, manufacturing, selling, commissioning and aftermarket service of onsite power generation and control equipment. Our 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. In addition, our Critical Power business specializes in customized equipment and controls for complex primary power applications, enabling on-site users to parallel multiple power sources with the utility power grid, in combined heat, power and cooling applications, and for peak shaving and demand/load side management of electrical power.

Depending on the needs of our customers, we offer our solutions on a complete equipment package basis, or as a standalone equipment or service solution that addresses one or more requirements of an overall power project. 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.

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Summary of Critical Power Segment Offerings

Product Category	Solutions
Power Generation Equipment	Engine-generator sets: power generation equipment with up to 2 MW of power output per genset, sourced from Generac Industrial Power and all major manufacturers. Available singly or in multi-unit paralleled configurations. Fuel options include natural gas, diesel and bi-fuel.
	Uninterruptible Power Supply (UPS) systems
Switchgear	Proprietary technology solutions: GenMax® Paralleling switchgear (PSG): low & medium voltage for managing multiple power sources
	Automatic Transfer Switches: provides models manufactured by Pioneer and by other major manufacturers
	Other equipment: controls, load banks, surge protection and related equipment for power conditioning and reliability
Service	Scheduled preventative maintenance, and 24/7 repair and support services provided for all makes and models of equipment under one to five year contracts
	Regional service: provided by our technicians in the Midwest, Florida and New York
	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
Remote Monitoring	UPS systems from major manufacturers Proprietary real-time remote monitoring, metering and control system for onsite power sources and associated equipment
	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

Power Generation Equipment

We provide our industrial and commercial customers with a variety of power generation equipment and fuel options which, depending on their needs and applications, can range from several kilowatts to 2 MW of output per engine generator, or “genset.” For higher output requirements, we excel in projects requiring multiple gensets in side-by-side arrangements that are paralleled for synchronous operation.

Our Critical Power business is the sole authorized distributor for Generac Power Systems' line of Industrial Power equipment and parts in the states of Minnesota, Iowa and Nebraska, and one of only 30 such distributors throughout North America. Outside of these three Midwestern states, we sell power generation equipment made by all major manufacturers, including Generac. In order to more competitively serve our customers, we regularly provide Pioneer-manufactured power distribution equipment to each project, including switchgear and transformers. We also offer niche solutions such as GenMax® – our proprietary harmonic suppression technology that resolves power reliability and genset capacity issues frequently encountered when new gensets are introduced to a system of existing ones and the make, models and power output of the gensets are different.

To fully meet the onsite power reliability needs of our customers, we realize a small portion of our revenue from the sale of uninterruptible power supply (UPS) systems. UPS systems are used by data-intensive businesses to provide battery backup power to servers until the emergency backup genset(s) come online. Once the gensets are producing proper voltage and frequency, the UPS switches the load onto the gensets. For UPS system sales, we are an authorized dealer for GE and also represent APC, Eaton-Powerware and other manufacturers.

Switchgear

Our Critical Power segment designs and manufactures paralleling switchgear (PSG), automatic transfer switches (ATSs) and provides other necessary equipment to create a reliable and dependable power generation system. The primary function of our PSG solutions is to reliably switch the power source to the load, protect and operate the power generation source(s), meter output and provide paralleling and load sharing capability between multiple on-site power sources and the utility grid. Our paralleling switchgear is an integral component to ensuring

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optimal power generation and electrical distribution system performance, both for primary and backup power installations. Installations requiring a PSG solution typically involve more complex and redundant power schemes, such as in data centers, hospitals, industrial facilities, remote locations not connected to the power grid and other sites where emergency backup power sources are a necessity to protect operations from the consequences of blackouts or brownouts. Our focus is on larger installations where a single genset is not sufficient or where multiple gensets may be required to provide system resilience. We believe that our PSG solutions represent a scalable, cost-effective and intelligent automation option through their embedded programming and logic to synchronize multiple on-site power sources, and the capability to operate them in concert with the utility feed(s).

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 equipment and parts, a fleet of service vehicles and a staff of certified field service technicians in the Midwest, Florida and the New York metropolitan area. To complete our geographic coverage, we maintain a network of field service partners located in other regions, enabling us to provide a 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 5,000 generators owned by more than 1,000 customers located throughout the United States, including for multi-site, multi-state customers such as Target Corporation.

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, provide us with a recurring revenue stream, and generally yield higher margins as compared to genset equipment sales and sales of our custom-engineered switchgear. 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 complete 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 and other reports 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 safeguarding 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 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

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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, earnings and shareholder value. We intend to expand rapidly over the next several years through a two-pronged strategy. First, 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. The second element of our growth strategy is to pursue strategic acquisitions that provide us with complementary product and service offerings, new sales channels, end-markets and scalable operations.

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. Our strategy is to continue to expand the portfolio of solutions we offer in order to address more elements of every electrical infrastructure project. We believe this approach makes us more relevant to our customers, allows us to compete more effectively and increases the number of sales opportunities we get to compete for.

We intend to build our revenue and earnings at rates exceeding industry norms. Our financial goals are to double our revenues and our operating margin during the next two to four years 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;
- Driving incremental sales in new channels and markets through our corporate selling group;
- 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 simplification, and outsourcing production for an increasing number of our standard 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 long initial sales-cycle, 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 and completed construction of our state-of-the-art production area at the end of 2013. Growth in this product class will be predicated on expanding our market penetration, particularly in the U.S. where in 2013 we began

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adding dedicated medium voltage and liquid-filled transformer sales personnel and new independent sales representatives.

- Liquid-filled Transformers Sale 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.
- Switchgear Increase our product range to include traditional low voltage and medium voltage, metal clad and metal enclosed switchgear, to be used both in conventional electrical distribution applications, in unitized substations, as well as for supply to our Critical Power Solutions business.

Critical Power Solutions Segment

Within our Critical Power Solutions business, we intend to accomplish our growth objectives by implementing the following business initiatives:

- National Service Accounts 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.
- Paralleling Switchgear We believe we excel at large projects for mission critical facilities that require sophisticated standby and primary power redundancy schemes. These projects generally demand higher engineering content due to the necessary customization of the switchgear and related controls, which we believe provides us a stronger basis upon which to compete than in more straight-forward applications. We intend to grow our sales in this product line by adding to our newly-recruited staff of professional sales persons, growing our network of independent manufacturers' representatives who specialize in critical power, and by building on our supplier relationship to Generac Power Systems and its network of 30 industrial distributors throughout North America, of which we are one.
- Project Packaging Beginning in the third quarter of 2014, we completed our first major data center projects where, together with our paralleling switchgear, we were able to provide our customers additional equipment manufactured by us (liquid-filled transformers), as well as from third parties (engine generators). We intend to extend this strategy to include ongoing preventative maintenance services, and new products we have under development such as our lineup of automatic transfer switches.
- Power generation equipment Increase our sales of power generation and associated equipment in our existing and new market territories by recruiting qualified, professional sales people, and by broadening the range of ancillary equipment options they have available for sale, including solutions manufactured by us. These sales also create opportunities for us to secure long-term service contracts and deploy our monitoring technologies, programs that generate recurring revenue at attractive profit margins.

Acquisitions

We believe a disciplined acquisition program is a key component to accelerating our growth and we intend to acquire businesses that broaden the range of customer solutions we provide, increase our market share or expand our geographic reach. In addition to switchgear and transformer manufacturers, we also intend to acquire manufacturing and service businesses focused on other technically-advanced, customized, ancillary or complementary products that address market segments where we seek further penetration such as in data centers, backup power equipment and service, traction power, renewable energy and natural resources. We operate in a highly fragmented industry that is served by a few global diversified electrical equipment manufacturers and numerous small manufacturing companies that provide niche products and services to various sub-segments of the power transmission and distribution market. We favor candidates that have competencies and business characteristics similar to our own, and those that we expect will benefit from some of the major trends affecting our

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industry. Our acquisitions since 2010 of Jefferson Electric, Inc., Bemag Transformer Inc., Power Systems Solutions, Inc., Pico Electrical Equipment, Inc., Titan Energy Worldwide, Inc. and Harmonics Limited are examples of the implementation of our acquisition strategy.

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, although we have become increasingly engaged in producing conventional and certain specialty categories of electrical switchgear. 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 switchgear and related equipment is significantly larger and more complex given the number and classes of solutions available. Within our Critical Power Solutions segment, we believe that our PSG and ATS switchgear offerings, together with our service programs for power generation and ancillary equipment, addresses annual U.S. demand exceeding $2.0 billion and is growing at a much higher secular rate than the market for general T&D equipment. The market for on-site power generation equipment itself is substantially larger, representing worldwide annual demand of $16 billion according to estimates cited by Generac Holdings Inc.

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. According to the North American Electric Reliability Corp. (NERC), Level 5 Transmission Load Relief (TLR) events, which are triggered when power outages are imminent or in progress, grew at a 16% compounded annual growth rate from 2003 to 2013. These events demonstrate the current power grid's inadequate capacity to accommodate all requests for reliable power. 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.

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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 by a factor of 50 over the next decade, according to General Electric, fueling 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). The 2013 DatacenterDynamics Industry Census projected North American investment in data centers to increase 10.4% in 2014, to $36.2 billion. Much of this growth was expected to be for spending in the electrical sector, including switchgear, uninterruptible power supplies and generators, systems that typically represent over 40% of data center development cost. 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. These systems require paralleling switchgear, such as we provide, operated by hardware embedded with sophisticated programming and logic to synchronize multiple power sources reliably and efficiently.

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.

Customers

In 2014, approximately 49% 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 50% of our sales in 2014 were to U.S. customers, represented in large part by companies involved in commercial construction. The remaining 1% of our sales were to export customers primarily serving the Central and Latin American markets. We sold our electrical equipment and services to over 3,200 individual customers in 2014 and our twenty largest customers represented approximately 57% of our consolidated revenue.

We have a significant number of repeat customers and long-standing relationships with engineering, procurement and construction (EPC) firms hired by end-users to select products such as ours. Our customers order from us as their needs may require, and the level of such orders may change significantly from period to period based on changes in the scheduling of their projects or size of their capital budget. Despite these factors causing variability in our revenue, our repeat order frequency has been very consistent from year to year. Approximately 80% of our revenue in 2014 originated from customers who also ordered from us in 2013.

Approximately 13% and 19% of our sales in 2014 and 2013, respectively, were made to Hydro-Quebec Utility Company, a provincial government-owned utility in the Province of Quebec, Canada. The majority of our sales to Hydro-Quebec Utility Company 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 Utility Company's election that provide for a maximum term of three years. 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 Utility Company to order any minimum quantity of products from us and do not grant us any form of supply exclusivity. Hydro-Quebec Utility Company has been a customer of ours and our predecessors for in excess of 45 years, over which time we have been party to consecutive long-term contracts for an uninterrupted period spanning several decades. We believe the status of our business relationship with Hydro-Quebec Utility Company to be good.

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In addition, Siemens Industry, Inc. and its affiliated companies accounted for 10% and 12% of our consolidated sales in 2014 and 2013, respectively. Our pricing agreement with Siemens Industry, Inc. does not obligate Siemens Industry, Inc. to purchase transformers from us in quantities consistent with the past or at all. While the loss of a significant number of customers would have a material adverse effect on our business, aside from Hydro-Quebec Utility Company and Siemens Industry, Inc., we do not believe that the loss of any specific customer would have a material adverse effect on our business.

Marketing, Sales and Distribution

A substantial portion of the transformers manufactured by us, and most of the switchgear products we offer, are sold directly to customers by our 30 full-time marketing and sales personnel and 6 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 50 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, 2014 was approximately $36.0 million, as compared to $24.4 million as of December 31, 2013. We anticipate that most of our current backlog will be delivered during 2015. 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 Solutions segment competes with larger, more established regional companies that represent Caterpillar, Cummins, Kohler and other generator manufacturers, as well as with providers of switchgear including Emerson Electric Company, GE Zenith, IEM Power Systems, Inc., Regal Beloit Corporation and Russelectric Inc.

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, custom-manufactured panelboard and switchboard products and in paralleling switchgear solutions 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

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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 30% 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 2014 included Essex Group, Inc., National Material L.P., Three D Metals Canada Inc., Metelec Ltée and Rea Magnet Wire Co. Inc.

Employees

At December 31, 2014, we had 474 employees consisting of 151 salaried staff and 323 hourly workers. We also had two part-time employees. Our hourly employees located at our plant in Farnham, Quebec, Canada are covered by a collective bargaining agreement with a provincial labor union that expires in March 2017. 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 2015. 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 with an initial term ending in February 2016, with automatic one year renewals thereafter unless terminated earlier by either party for review and negotiation of key provisions. We consider our relationship with our employees to be good.

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, earnings 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.

Legal Proceedings

We are not presently a party to any material legal proceedings nor are we aware of any such threatened or pending litigation.

Available Information

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Our corporate website is located at 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. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. 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.

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.

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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, 2014 and our other periodic filings with the Securities and Exchange Commission. Additional risks and uncertainties that we are unaware of may become important factors that affect us. If any of the following events occur, our business, financial conditions and operating results may be materially and adversely affected. In that event, the trading price of our common stock may decline, and you could lose all or part of your investment.

Risks Relating to Our Business and Industry

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

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, earnings, cash flow or financial condition.

The commercial and industrial building and maintenance sectors began to experience a significant decline in 2008. The downturn in these segments contributed to a decline in the demand for our T&D Solutions, particularly our standard distribution transformers and general purpose switchgear products, as well as a decline in demand for power generation equipment distributed by our Critical Power Solutions reporting unit. We cannot predict the timing, duration or severity of another such downturn in these segments which may adversely impact sales, earnings and cash flow.

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

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

- the size, timing and terms of sales and orders, especially large customer orders;
- variations caused by customers delaying, deferring or canceling purchase orders or making smaller purchases than expected;
- the timing and volume of work under new agreements;
- the spending patterns of customers;
- customer orders received;
- a change in the mix of our products having different margins;
- a change in the mix of our customers, contracts and business;
- increases in design and manufacturing costs;
- the length of our sales cycles;
- the rates at which customers renew their contracts with us;
- changes in pricing by us or our competitors, or the need to provide discounts to win business;
- a change in the demand or production of our products caused by severe weather conditions;
- our ability to control costs, including operating expenses;
- losses experienced in our operations not otherwise covered by insurance;
- the ability and willingness of customers to pay amounts owed to us;
- the timing of significant investments in the growth of our business, as the revenue and profit we hope to generate from those expenses may lag behind the timing of expenditures;
- costs related to the acquisition and integration of companies or assets;

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

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

We depend on Hydro-Quebec Utility Company and Siemens Industry, Inc. for a large portion of our business, and any change in the level of orders from Hydro-Quebec Utility Company or Siemens Industry, Inc., has, in the past, had a significant impact on our results of operations. In particular, Hydro-Quebec Utility Company represented approximately 13% and 19% of our net sales in the years ended December 31, 2014 and 2013, respectively. In addition, Siemens Industry, Inc. accounted for 10% and 12% of our net sales in the years ended December 31, 2014 and 2013, respectively. Our long term supply agreement with Hydro-Quebec Utility Company has an initial term expiring in February 2017, and a one-year extension option at Hydro-Quebec Utility Company’s election. We therefore cannot assure you that Hydro-Quebec Utility Company will continue to purchase transformers from us in quantities consistent with the past or at all. In addition, our pricing agreement with Siemens Industry, Inc. does not obligate Siemens Industry, Inc. to purchase transformers from us in quantities consistent with the past or at all. If either of these customers was to significantly cancel, delay or reduce the amount of business it does with us for any reason,

there would be a material adverse effect on our business, financial condition and operating results.

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

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

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:

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

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

For example, in mid-2010 we acquired substantially all the assets and the capital stock of a company to form Pioneer Wind Energy Systems Inc., a business that sought to provide project integration solutions, including equipment sales, procurement, after-sales services and financing to community wind and industrial customers. In September 2011, following weak domestic wind energy market conditions, combined with our inability to effectively redesign this business' operating model, we decided to discontinue this business. On a cumulative basis, from formation through to the discontinuation of Pioneer Wind Energy Systems Inc., our results from operations were impacted by a cumulative net loss of $3.0 million. Also, in July 2011, we acquired all the capital stock of Bemag Transformer Inc., a Quebec-based manufacturer of low and medium voltage dry-type transformers and custom magnetics. During the fourth quarter and year ended December 2014, the Bemag reporting unit had lower sales and cash flows than previously projected and its business outlook turned significantly more challenging during the fourth quarter. As a result, the reporting unit recognized $1.4 million in non-cash charges for goodwill and intangible asset impairments that were driven primarily by a downturn in Canada's natural resource sector and expected future capital spending on products manufactured by the reporting unit. This downturn accelerated dramatically during the fourth quarter of 2014 as measured by the price of oil, and a devaluation of the Canadian dollar, the latter of which directly resulted in higher costs for the reporting unit's key raw material inputs. These developments in the fourth quarter of 2014, coupled with increased competition and higher bad debt expense related to customer insolvencies, also followed a $3.0 million investment by us to expand the reporting unit's facilities and production capacity which was completed in 2013. Accordingly, we revised our outlook and valuation of the reporting unit, and the consequential impairment charges reflect an updated forecast that assumes a slower rate of revenue growth and lower near-term profit margins than anticipated at the time the reporting unit was acquired in 2011.

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 earnings. We may not be able to identify additional attractive acquisition candidates on terms favorable to us or in a timely manner. We may require additional debt or equity financing for future acquisitions, which may not be available on terms favorable to us, if at all. Moreover, we may not be able to integrate any acquired businesses into our business or to operate any acquired businesses profitably. Recently acquired businesses 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 contemporary increase in revenues, which would result in decreased profitability.

For example, our Pioneer CEP reporting unit, which was established through an acquisition in August 2013, generated an operating loss of approximately $1.2 million during the year ended December 2014. In addition, our strategic sales group, initiated in March 2013 to market the full breadth of our company-wide solutions to increase our penetration of certain sales channels and end markets, generated an operating loss of $0.7 million during the year ended December 2014. While we believe these operations are instrumental to enhancing our long-term revenue and earnings growth, there can be no assurance that they will scale to profitability in the timeframes anticipated by us or at all.

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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 2015 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 earnings. For example, if the Canadian dollar appreciates relative to the U.S. dollar, the fluctuation will result in a positive impact on the revenues that we report. However, if the Canadian dollar depreciates relative to the U.S. dollar, which was especially the case during 2014, 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 60% of our revenues for the years ended December 31, 2014 and 2013, 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.

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Our Critical Power Solutions segment, through our wholly-owned subsidiary Titan Energy Systems Inc., currently derives a significant portion of its revenues pursuant to a distributor agreement with Generac Power Systems Inc.; a termination or expiration of our distributor agreement with Generac Power Systems Inc., or any reduction in market acceptance of products sold by us pursuant to the distributor agreement could have an adverse effect on our financial condition and operating results.

Under the terms of our distributor agreement with Generac Power Systems Inc., we are responsible for marketing, distributing and servicing the Generac Industrial Power line of products in the states Minnesota, Iowa and Nebraska. Our agreement has an initial term expiring on March 31, 2016, and automatically expires unless extended by Generac, with 90 days' prior notice, for consecutive additional two-year (2) periods beyond the expiration of the then current term. Approximately 40% of Titan's business involves the sale of Generac Industrial Power products. As such, Titan's business is dependent on market acceptance of Generac products. We believe that Generac has a solid reputation as a manufacturer, with excellent brand recognition and customer support and a growing market share in many of the markets it serves. However, there can be no assurance that Generac will be able to maintain its reputation and grow its market position in the future. If Generac is unsuccessful in developing and enhancing its product lines to meet evolving and sophisticated customer needs, is unable to maintain the quality of its products, or if it is unable to provide its products at competitive prices, the market acceptance for Generac products may deteriorate over time. Any resulting decrease in the demand for Generac products could have a material adverse impact on our business, results of operations and future prospects.

We are also dependent on Generac for the timely supply of parts and equipment to fulfill its deliveries to our customers and meet the requirements of our service maintenance contracts. From time to time, during periods of intense demand, Generac finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not, in the past, proven to be a significant impediment to us in conducting our business. However, there can be no assurance that Generac will continue to supply its products in the quantities and timeframes required by our customers. While delays in the availability of product supply in sufficient quantities may adversely affect our business, results of operations and financial condition, historically this has not been an issue for us.

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

Bemag Transformer Inc. depends on three electrical distributor groups for a large portion of its business, and any change in the level of orders from these distributors, has, in the past, had a significant impact on Bemag Transformer Inc.'s results of operations. Collectively, purchases from these distributor groups represented approximately 43% of Bemag Transformer Inc.'s sales in 2014 and approximately 6% of our sales on a consolidated basis. We expect aggregate sales to these distributor groups to continue to represent less than 10% of our consolidated sales in 2015. Our Bemag Transformer Inc. subsidiary has pricing and rebate agreements with these distributor groups that are negotiated annually and, if the pricing and rebate agreements are modified or not renewed in future periods or are less

favorable than those offered by competitors, we cannot assure you that these distributor groups will continue to purchase transformers from us in quantities consistent with the past or at all. If any of these distributor groups were to influence our customers to cancel, significantly delay or reduce the amount of business they do with Bemag Transformer Inc., there could be a material adverse effect on our business, financial condition and operating results. Moreover, although Bemag Transformer Inc. has agreements for the sale of its products through these three distributor groups, these agreements do not obligate the groups to distribute transformers from Bemag Transformer Inc. in quantities consistent with the past or at all. If any of these distributor groups were to become insolvent, our business, financial condition and operating results could also be materially adversely affected.

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

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

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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 majorit