

PIONEER POWER SOLUTIONS, INC.

Form 10-Q

November 12, 2014

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, 2014

OR

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

Commission file number: 001-35212

PIONEER POWER SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware 27-1347616
(State of incorporation) (I.R.S. Employer Identification No.)
400 Kelby Street, 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 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 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
(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

The number of shares outstanding of the registrant's Common Stock, \$0.001 par value, as of November 12, 2014 was 7,172,255.

PIONEER POWER SOLUTIONS, INC.

Form 10-Q

For the Quarter Ended September 30, 2014

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

	Page
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Earnings for the Three and Nine Months Ended September 30, 2014 and 2013</u>	1
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013</u>	2
<u>Consolidated Balance Sheets at September 30, 2014 and December 31, 2013</u>	3
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u>	4
<u>Notes to Unaudited Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 4. Controls and Procedures</u>	18
<u>Item 5. Other Information</u>	18

PART II. OTHER INFORMATION

<u>Item 1A. Risk Factors</u>	19
<u>Item 6. Exhibits</u>	19



Table of Contents

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,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	\$ 26,111	\$ 22,447	\$ 68,068	\$ 66,993
Cost of goods sold	19,403	16,548	52,251	50,434
Gross profit	6,708	5,899	15,817	16,559
Operating expenses				
Selling, general and administrative	4,071	3,610	11,549	10,662
Foreign exchange (gain) loss	(172)	(4)	(108)	43
Total operating expenses	3,899	3,606	11,441	10,705
Operating income	2,809	2,293	4,376	5,854
Interest expense	141	226	406	594
Other expense	169	236	171	403
Earnings before income taxes	2,499	1,831	3,799	4,857
Provision for income taxes	717	822	1,125	1,674
Net earnings	\$ 1,782	\$ 1,009	\$ 2,674	\$ 3,183
Earnings per common share:				
Basic	\$ 0.25	\$ 0.17	\$ 0.37	\$ 0.53
Diluted	\$ 0.25	\$ 0.17	\$ 0.37	\$ 0.53
Weighted average common shares outstanding:				
Basic	7,172	6,051	7,172	5,956
Diluted	7,226	6,083	7,238	5,977

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

1

Table of Contents

PIONEER POWER SOLUTIONS, INC.

Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net earnings	\$ 1,782	\$ 1,009	\$ 2,674	\$ 3,183
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(951)	249	(970)	(235)
Amortization of net prior service costs and net actuarial losses	(2)	53	71	83
Other comprehensive income (loss)	(953)	302	(899)	(152)
Comprehensive income	\$ 829	\$ 1,311	\$ 1,775	\$ 3,031

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

Table of Contents

PIONEER POWER SOLUTIONS, INC.

Consolidated Balance Sheets

(In thousands)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 682	\$ 425
Accounts receivable, net	14,125	9,739
Inventories, net	14,671	12,643
Income taxes receivable	61	65
Deferred income taxes	2,953	1,982
Prepaid expenses and other current assets	1,264	1,291
Total current assets	33,756	26,145
Property, plant and equipment, net	11,395	12,213
Noncurrent deferred income taxes	1,064	1,091
Other assets	1,170	1,129
Intangible assets, net	4,989	5,285
Goodwill	7,934	7,998
Total assets	\$ 60,308	\$ 53,861
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Revolving credit facilities	\$ 2,241	\$ 795
Accounts payable and accrued liabilities	12,689	8,370
Current maturities of long-term debt	1,958	2,108
Income taxes payable	1,990	1,072
Total current liabilities	18,878	12,345
Long-term debt, net of current maturities	5,452	7,205
Pension deficit	34	213
Noncurrent deferred income taxes	3,229	3,306
Total liabilities	27,593	23,069
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 shares issued and outstanding	7	7
Additional paid-in capital	16,312	16,164
Accumulated other comprehensive loss	(2,328)	(1,429)

Retained earnings	18,724	16,050
Total shareholders' equity	32,715	30,792
Total liabilities and shareholders' equity	\$ 60,308	\$ 53,861

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

3

Table of Contents

PIONEER POWER SOLUTIONS, INC.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Operating activities		
Net earnings	\$ 2,674	\$ 3,183
Depreciation	959	881
Amortization of intangibles	239	213
Deferred tax expense	(1,020)	(147)
Accrued pension	(172)	(157)
Stock-based compensation	163	152
Foreign currency remeasurement gain	(140)	-
Changes in current operating assets and liabilities:		
Accounts receivable	(4,754)	(1,743)
Inventories	(2,412)	1,361
Prepaid expenses and other assets	49	(422)
Income taxes	975	(34)
Accounts payable and accrued liabilities	4,535	(71)
Net cash provided by operating activities	1,096	3,216
Investing activities		
Additions to property, plant and equipment	(594)	(2,501)
Business acquisitions, net of cash acquired	-	(1,601)
Note receivable	(109)	-
Net cash used in investing activities	(703)	(4,102)
Financing activities		
Decrease in bank overdrafts	-	(1)
Increase (decrease) in revolving credit facilities	1,468	(3,044)
Increase in long-term debt	-	455
Repayment of long-term debt	(1,513)	(1,688)
Net proceeds from issuance of common stock	(15)	7,869
Net cash (used in) provided by financing activities	(60)	3,591
Increase in cash and cash equivalents	333	2,705
Effect of foreign exchange on cash and cash equivalents	(76)	118

Cash and cash equivalents		
Beginning of year	425	467
End of period	\$ 682	\$ 3,290

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

4

Table of Contents

PIONEER POWER SOLUTIONS, INC.

Notes to Unaudited Consolidated Financial Statements

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.

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 con