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First Quarter 2015 Conference Call
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C O R P O R A T E P A R T I C I P A N T S

Brett Mass, *Hayden IR*

Nathan J. Mazurek, *Chairman & Chief Executive Officer*

Andrew Minkow, *Chief Financial Officer & Director*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Matt Koranda, *ROTH Capital Partners*

Michael Epstein, *Northeast Securities*

P R E S E N T A T I O N

Operator:

Good day and welcome to today's Pioneer Solutions, Inc. Second Quarter 2015 Conference Call. Today's conference is being recorded.

At this time, it's my pleasure to turn the conference over to your host for today's call Brett Maas from Hayden IR. Please go ahead.

Brett Maas:

Thank you, and welcome to Pioneer Power Solutions 2015 second quarter financial results conference call. The call today will be hosted by Nathan Mazurek, Chairman and Chief Executive Officer; and Andrew Minkow, Chief Financial Officer. Following this discussion there will be a formal Q&A session open to participants on the call. We appreciate having the opportunity to review the second quarter and year-to-date financial results.

Before we get started, let me remind you that this call is being broadcast over the Internet and that a recording of the call and the text of Management's prepared remarks will be available on the company's website.

During this call Management will be making forward-looking statements. These statements are based on current expectations and assumptions that are subject to risk and uncertainties that could cause actual results to differ materially. Please refer to the cautionary text regarding the forward-looking statements

contained in the earnings release issued today, and in the posted version of these prepared remarks, both of which apply to the content of this call.

I'll now like to turn the call over to Nathan Mazurek, Chairman and CEO. Nathan?

Nathan J. Mazurek:

Thank you, Brett. Good afternoon and thank you all for joining us today for our conference call. During the first half of 2015, we delivered $55.3 million in revenue, an increase of 32% versus the same six months last year, due in part to our acquisition of Titan, but also as a result of 8% organic growth year-over-year evidencing the underlying strength and demand for our power solutions.

We continued to build upon on our backlog of orders which increased to $32.8 million, up both year-over-year and sequentially. The backlog in our T&D solutions segment was essentially flat compared to the prior quarter, while the backlog in our Critical Power Solutions segment increased nearly 14% since March 31st, driven in large part by our national service and repair business and a new multi-year regional service contract with a major cellular service company.

Our acquisition of Titan in December 2014 is helping to drive top line growth and we are encouraged that it's poised to now contribute meaningfully to our bottom line as well. During the six months in our T&D Solutions segment, our US transformer sales grew 40% versus last year, driven mostly by new US based OEM business, which helped soften the impact of our Canadian transformer sales that were down 14% versus last year, stemming from recessionary economic conditions in Canada, coupled with the continuing decline of the Canadian dollar to near 10-year lows.

Our relatively new T&D switchgear business is progressing according plan, particularly in the area of sales growth. Taking into account the acquisition we completed less than two weeks ago, which I will talk about more later, I think the prospects for our T&D switchgear business have been greatly enhanced.

In our Critical Power Solutions segment, our generator sales and recurring service business is exceeding our revenue expectations and on the cost side our margins by product, service and location continue to trend in a positive direction. We expect the earnings power of this business unit will become more apparent in the coming quarters.

Our Critical Power engine-generator controls business, also based in Minneapolis, lacked any meaningful long cycle projects to ship during the first half of 2015 and it is in the process of regrouping and rebuilding its backlog. Its product development efforts however had been fruitful and we recently received UL approval for our new line of automatic transfer switches. Going forward, we expect the automatic transfer switch product line to help fill in the valleys between peaks in our backlog as we ship from quarter-to-quarter.

I want to highlight the progress we have made at our T&D switchgear unit, whose sales have nearly doubled since the first half of last year and at an improved gross margin and with narrowing operating losses. Independently this business is poised to become a contributor to our earnings.

But now add to this, that on August 1st, it completed the acquisition of Pacific Power Systems Integration Inc. or Pacific, I believe that the transition to profitability will now be accelerated and at a higher level. Pacific is located just five miles down the road from our current Los Angeles based switchgear facility and will be consolidated fully into our location by the end of this year. Pacific specializes in manufacturing customer electrical power distribution and control equipment, with a specific emphasis on low voltage draw-out, metal-enclosed and metal-clad switchgear, and Pacific's track record is extensive having successfully completed over 100 projects in the last 15 years through EPC firms and directly with customers mostly in the oil refining utility and mass transit sectors.

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Customers including but not limited to Jacobs Engineering, British Petroleum, Conoco Phillips, Pacific Gas & Electric, LADWP, SMUD and transportation agencies such as the LA Metropolitan Transportation Authority, Bay Area Rapid Transit and the Port Authority of New York and New Jersey.

The acquisition significantly enhances our technical qualifications with more advanced classifications of switchgear, and provides access to larger, long-cycle project opportunities, new customers and end markets where we plan to leverage our full suite of engineered product solutions.

The transaction provides an opportunity that is more significant than Pacific standalone historical revenue of approximately $5 million a year, as we will have a more compelling combined offering to sell and a larger customer base to sell to.

Pacific's new switchgear offerings open the door for Pioneer to bid on larger and more complex projects, bringing to bear the expertise of multiple business units within our overall enterprise.

This acquisition effectively completes our portfolio of low and medium voltage switchgear offerings, and positions us for sustainable double-digit growth without the benefit of any future acquisitions.

We expect Pacific to enable multiple opportunities to increase our efficiency and top line growth in both our T&D Solutions and Critical Power segments by enabling us to capitalize on new production and internal supply chain synergies. We expect the Pacific transaction to be neutral to our full year 2015 non-GAAP earnings and contribute approximately $0.05 to $0.10 to non-GAAP earnings per share in 2016.

While I am encouraged with our continued growth and the progress in several of our business units, we continue to face external headwinds and internal challenges, which have impacted our 2015 profitability.

Our T&D solutions segment continues to be impacted by recessionary economic conditions and a general lack of commercial industrial spending in Canada, as well as the declining and continued decline of the Canadian versus US dollar.

Our largest and historically most profitable business, our Canadian liquid filed transformer unit, has held up its profitability level remarkably well in the face of its current economic environment, thanks in large part to our stable base of utility customers and the diverse end markets that we serve.

Our Canadian dry-type transformer business however is struggling against systemic weakness in its end markets that have turned it into a loss maker requiring more radical change.

In the aggregate, the situation in Canada and the performance of our T&D businesses there explains almost $5 million of the drop in our annual Adjusted EBITDA through June 2015 as compared to the year ended December 2013.

Growth in our US operations has certainly helped to compensate but many of these business units are not yet nearly large, nor mature enough to contribute an offsetting amount of EBITDA.

During the second quarter, we began evaluating and implementing improvement strategies for the purpose of improving profitability by reorganizing, simplifying and cutting operational costs, while continuing to support our expected growth. Our restructuring and integration plan is being evaluated and implemented in stages. Some overhead cut have already been implemented principally affecting headcount, which I will talk about more in a bit.

Other actions we intend to take will require more time as they involve consolidating our production activities into fewer locations, which we expect to complete by mid-2016. We anticipate these actions

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when fully evaluated and quantified will result in restructuring type charges starting in the third quarter of this year. As we work through the plan and achieve greater clarity, we will be in a better position to convey the timing and magnitude of changes resulting from our actions.

Based on what we know today, we expect our final plans will yield annual fixed cost savings of at least $2.5 million, not counting other cost efficiencies that we will seek to achieve through more seamless integration and selective outsourcing of lower value added production activities. We expect these initiatives will primarily affect our Canadian and US dry-type transformer businesses in the T&D segment, and to a lesser extent our two reporting units within Critical Power Solutions.

In addition, as a result of the acquisition of Pacific and its immanent consolidation into our existing switchgear plant near by, we expect to realize additional fixed cost savings that are not included in the $2.5 million number I just gave you a minute ago.

We expect the biggest component of the annual cost savings to originate from our strategy to reposition and significantly restructure the business of our Canadian dry-type transformer unit forming part of our T&D Solutions reporting segment.

The challenges this business is facing precipitated a pretax loss of $1.3 million during the six month period ended June 30 2015, which is not acceptable. Its operations will be rationalized and ultimately function as part of our strong performing US based transformer business, which essentially provides a same product offering to our US customers.

We anticipate that we will shed some of our Canada product sales in the process thereby adversely impacting the rate of our revenue growth initially. However, we believe that full execution of our strategy by mid-2016 should not only curtail the losses we're experiencing in Canada, but enhance our US based business through integration efficiency.

In our T&D switchgear business, we instituted cuts in late July that should result in approximately $500,000 in annual cost savings, which we will see immediately when reflected in our third quarter results.

Turning to our savings plan for the Critical Power Solutions Segment. Back in the first quarter, we started winding down the operations of our New York, New Jersey equipment sales and service location whose business model was very different from anything else we were doing within Critical Power.

This wind down activity is ongoing. The location contributed approximately $1.9 million in revenue and a small pretax loss on a year-to-date basis. The unit was not in keeping with our strategy to focus on higher margin, higher return activities that create the most shareholder value.

I want to be careful not to suggest in any way that we are pulling back from expanding our Critical Power generator sales and service footprint. In fact, quite the opposite is true, but we want the expansion to occur first within our designated market territories for the sale of Generac's industrial line of backup power systems.

For example, just last month we opened a brand new location in Northern Minnesota that has already landed a significant new customer in the oil and gas pipeline sector, and will help us service the new cellular customer contract I referenced earlier. We have also opened an additional location in Nebraska to serve that territory better as well.

Also in the Critical Power Solutions Segment, our savings plan includes combining the headquarters of its two reporting units into a single location by the first quarter of 2016. Both are already based in

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Minneapolis and under common management and the consolidation is expected to more closely align their strategies and drive operational growth.

All Critical Power switchgear related procurement and assembly activities will be transferred from our Minneapolis facility to our Los Angles switchgear facility given its newly acquired and enhanced technical capabilities as a result of our acquisition of Pacific.

We have a lot of work to do over the coming quarters and our goal is to reveal the earnings power of the acquisitions we have made by executing our integration plans, optimizing returns on investment and exploiting the synergies available across the entire enterprise.

As we head into the second half of 2015, we have clear plans for expanding our pipeline of opportunities together with action plans for operational improvement. However, due to ongoing challenges felt mostly by our Canadian operations, we are revising full year 2015 Adjusted EBITDA and non-GAAP EPS guidance. Our revenue guidance remains unchanged at $110 million to $120 million for the year. Andrew will provide some additional color on full year 2015 guidance momentarily.

Given the recent changes in our business, including the acquisition and our integration initiatives, we thought it would be prudent at this time to also provide some additional directional indicators for full year 2016, which we expect to be a solid year based on several factors including committed projects not yet showing in our backlog, particularly in the solar energy arena.

I will now turn the call all over to Andrew Minkow our Chief Financial Officer to provide the details of our second quarter and year-to-date financial results, as well as our 2015 full year revised guidance and initial guidance for 2016.

Andrew Minkow:

Thank you, Nathan. Second quarter revenues were $26.5 million, up 25.6% from $21.1 million in the second quarter of 2014. The $5.4 million year-over-year increase in our revenue was driven primarily by a $5.3 million increase in our Critical Power Solutions Segment that includes Titan revenues of $5.4 million. This increase is partially offset by an approximately $100,000 year-over-year decrease in segment revenue related to the manufacture, sale and service of switchgear for Critical Power application.

The remaining modest increase of just under $0.1 million in our consolidated revenue was derived from the T&D solutions segment and included higher sales of our switchgear equipment solutions, which was partially offset by a net decline in revenue from our transformer product lines.

The small overall net decrease in transformer sales was driven by our Canadian operations where sales declined $2.7 million or 22%, most of which was as a result of foreign currency translation, which negatively impacted revenues by itself by approximately 12%.

Partially offsetting the sales performance in Canada was growth in our US transformer businesses, which was up 31% year-over-year driven largely by a major new datacenter oriented customer in our OEM sales channel and new customer gains by our corporate selling group.

From time to time, our sales figures are negatively impacted by the effect of foreign currency translation, when comparing our results to prior periods, as was the case this quarter. Approximately 38% of our consolidated sales were to Canadian customers versus 57% during the same quarter of last year 2014. Net of blended (phon), currency rate that was a 11% lower on conversion as compared to the same quarter of 2014.

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Our gross profit for the second quarter was up to $4.9 million or an 18.6 gross margin percentage compared to $4.2 million of gross profit or a 19.9% gross margin in the second quarter of 2014.

The decrease in gross margin was driven mostly by an unfavorable sales mix within our larger T&D Solutions segment, as well as in our Critical Power Solutions segment, which included lower sales of paralleling switchgear in 2015, as compared to the second quarter of 2014.

For the quarter, our selling, general and administrative expense, excluding depreciation and amortization of acquisition intangibles increased 48.4% on an absolute dollar basis to $5 million, as compared to $3.4 million in the second quarter of 2014.

Most of this increase is attributable to our Critical Power segment which accounted for approximately 60% of the overall increase, as a result of the acquisition and inclusion of Titan in our results.

T&D Segment, selling, general and administrative expense increased by $637,000, up 24.8% over last year, as a result of higher salary and benefits expense due to the expansion of our corporate selling group and switchgear manufacturing operations, as well as higher professional fees, bad debt expense and freight expenses.

As a percentage of our revenue, SG&A expenses, including depreciation and amortization increased from 16.7% of revenue in the second quarter of 2014 to 20.9% of revenue in the second quarter of 2015.

Our operating loss for the quarter was approximately $687,000 compared to operating income of approximately $571,000 in the second quarter of 2014. The decrease is primarily as a result of lower sales and gross profit from the company's Canadian businesses; particularly in short cycle distribution transformer product lines where the economic down turn and adverse affect of a stronger US dollar has been felt hardest. Operating loss was also negatively impacted by non-cash amortization expense related to intangible assets arising from the Titan acquisition and a modest increase in general corporate expense, primarily due to higher staffing and information technology expense.

Net loss for the quarter was approximately $817,000, compared to net income of $302,000 in the prior year's quarter. Adjusted EBITDA was $95,000 during the quarter, compared to $1.1 million in the second quarter of 2014. Non-GAAP diluted EPS was a loss of $0.05 for the quarter, down from $0.06 in earnings in the prior year.

Turning now to our six months financial results for the period ended June 30, 2015. Our revenues for the six months were $55.3 million, up 31.9% or $13.4 million from $42 million in the comparable period of 2014. Breaking this down by segment, T&D Solutions revenue increased by $4 million, up 9.8% compared to the first six months of last year. The increase was driven primarily by $2.3 million in revenue growth from our transformer product categories and a $1.6 million increase in sales of our T&D switchgear related revenue, reflecting an increase in market share in the California market and surrounding regions for our switchgear offerings.

Revenue from our Critical Power Solutions segment increased to $10.8 million or by approximately 700% for the six months ended June 30, 2015, again due to the acquisition of Titan.

Segment revenue consisted of $6.6 million in power generation equipment and $4.1 million in service revenue, a very different mix as compared to $1.4 million of revenue during the six months ended June 30, 2014, which consisted almost entirely of two significant paralleling switchgear projects.

For the six months ended June 30, 2015, our gross profit increased 13.4% or $10.3 million, at an 18.7% gross margin, compared to $9.1 million of gross profit or a 21.7% gross margin for the year ago period. The decrease in gross margin percentage was driven mostly by an unfavorable sales mix within our T&D

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Solutions segment, as well as in our Critical Power Solutions segment which included lower sales of paralleling switchgear in 2015 as compared to the same periods of 2014.

For the six months our SG&A expenses, including depreciation and amortization, were $11.2 million or 20.2% of revenues compared to $7.5 million or 17.8% of revenues in the year ago period. The 49.6% increase in our SG&A dollars was driven primarily by our Critical Power segment which accounted again for approximately 60% of the overall year-over-year increase, resulting from the acquisition and inclusion of Titan in our 2015 results.

T&D segment SG&A expense increased by approximately $931,000, reflecting higher salary and benefits expense due to the expansion of our Corporate Selling Group and switchgear manufacturing operations, as well as higher professional fees, bad debt, and freight expense. Our general corporate SG&A expense increased marginally due to higher headcount, salary, and benefits cost and again information technology expenses.

Our six-month operating income decreased to a loss of $770,000, down from operating income of $1.6 million in the year-ago period. Net earnings decreased to a loss of approximately $1 million down from net earnings of approximately $892,000 in the prior year period. Our Adjusted EBITDA for the six months was $931,000 compared to $2.5 million in the first six months of 2014. Lastly, our non-GAAP diluted EPS was a loss of $0.02 for the six months, down from earnings of $0.16 per share in the comparable period of 2014.

Moving on to the balance sheet. Our total debt at the end of the quarter was down to $16.2 million, as compared to $18.9 million at the end of 2014. As of June 30, we had net working capital of $4.3 million and no cash on the balance sheet, compared to net working capital of $9.7 million that included $3.8 million of cash and equivalents on the balance sheet as at December 31, 2014. Our ratio of current assets to liabilities stands at 1.2 to 1 as compared to 1.4 times at December 31, 2014.

We had $3.8 million of available and unused borrowing capacity from our revolving credit facilities as of June 30, 2015. The availability of this capacity under our revolving credit facilities is subject to restrictions on the use of proceeds and is dependent upon our continuing ability to satisfy certain financial and operating covenants, including financial ratios.

Lastly, as Nathan mentioned today, we are revising our full year Adjusted EBITDA and non-GAAP EPS guidance for 2015, while our expectations for 2015 revenue remain unchanged. More specifically, we expect revenue, again between $110 million and $120 million of which $85 million to $95 million is expected to be derived from the T&D Solutions segment and $20 million to $25 million of revenue from our Critical Power Solutions reporting segment. Our revised Adjusted EBITDA guidance is between $4 million and $4.5 million, non-GAAP diluted EPS between $0.15 and $0.20.

Our 2015 guidance is based on the following key assumptions; that there will be no future acquisitions, a continuing downward revision in our foreign exchange rate assumption for the remainder of the year, down from $0.82 to $0.75 to one Canadian dollar, we are assuming an effective rate at or above 28%, a constant share count of approximately 7.4 million shares, and we also exclude the effect of any restructuring or non-cash charges arising out of our cost optimization plans.

We are also providing preliminary guidance for full year 2016 which includes; revenue between $130 million and $140 million representing growth of approximately 17% compared to the mid-point of our 2015 full-year revenue (inaudible), Adjusted EBITDA of between $7 million and $9 million, and lastly, non-GAAP diluted EPS between $0.55 and $0.65.

This 2016 directional guidance is based on the following key assumptions; that there will be no future acquisitions, we assume stability in the Canadian exchange rate at $0.75, the exclusion of any

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restructuring and non-cash charges, an effective tax rate of approximately 35%, and diluted shares outstanding of approximately 7.4 million.

Our 2016 preliminary guidance is driven mostly by growth among our US-based businesses and is based on the strength of our sales pipeline, expected production cost savings, facility consolidations, and external factors which may or may not materialize in a way favorable to us. In Canada, we have assumed no meaningful improvement in business conditions and that the performance of our liquid-filled transformer business will remain stable at its currently depressed level, and that losses by our dry-type transformer business in Canada can be curtailed.

This concludes my remarks and now I'd like to turn the call back over to Nathan.

Nathan J. Mazurek:

Thank you, Andrew and thank you for—thank you everyone. Operator, I'd like to now open the call for questions.

Operator:

Thank you. At this time, if you would like to queue up for a question you can signal by pressing the star key followed by the digit one on your telephone keypad. If you're using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Once again that is star one to signal for a question and we'll go first to Matt Koranda with ROTH Capital Partners.

Matt Koranda:

Good afternoon, Nathan. Good afternoon, Andrew. Thanks for taking the question.

Nathan J. Mazurek:

Yes. Hey, Matt.

Matt Koranda:

So, I just wanted to dig into the T&D Solutions segment for a bit if we could, and particularly with the focus on the top line. So, just so I understand it correctly, it sounds like most of the weakness kind of beyond large headwind you guys are facing in terms of FX in Canada, would be coming from Bemag and Pioneer, those two divisions? I mean, can we get a little bit more granular with some of the weakness in end-markets that you are guys are seeing in Canada. I mean, what do you hear from distributors? Is it mainly oil and gas; is it weakness across the board with utility and general industrial as well? Are there any bright spots or is it just all challenging at the moment there?

Nathan J. Mazurek:

Right. So, for us the weakness—and the only real systemic weakness that we have is in Bemag in particular. Pioneer, the original liquid-filled business, will hit its budget for the year and despite the recessive—the recessionary conditions in Canada, still have an excellent year of profitability. It is indeed of course is facing headwinds. It's much harder, much more difficult, less margin than we had two years ago because primarily due to the decline that we're—elimination of oil and gas type projects in Canada.

Bemag is a more construction—commercial construction oriented business, and depending on the province across Canada, they are facing severe, this is the year of terrible decline for whatever the combination of reasons. Overall, recession, oil and gas of course impacts the Western part of Canada.

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Metals and mining are subterranean or non-existent, and that's affecting parts of Quebec and Saskatchewan and others. So, there's really systemic weakness all across Canada and Bemag is feeling it in a way that it cannot without or in our opinion, it cannot without a severe elimination of redundant overhead and taking a very hard tax to it, you know, survive in a profitable way and we just can't bear (phon) anymore loss.

Matt Koranda:

Okay. Got it. Very helpful. When we think about the fixed cost improvements that you guys mentioned in the release and then you talked about a little bit in your prepared remarks as well, so about 800,000, I think today and then sources of incremental, it sounds like another incremental $1.7 million to come. If we kind of had to break that out into where you're going to see the most improvements, I mean, maybe you could talk about either between headcount, facility consolidation, outsourcing non-value add activities, I mean where are we getting that sort of, that incremental $1.7 million in savings?

Andrew Minkow:

Sure. Right. I mean, that $2.5 million of which $0.8 million is already done, that's all headcount and really that headcount only reflects a portion of the whole basket of heads that we will look at and consider; which the full boat if you will, could exceed $4 million. So, we're holding ourselves to task at $2.5 million which we expect to be in place and done by the end of this year, and the components of it skew a little bit, only a little bit, about one third to our US operations really pruning at the edges of the tree whereas some of the operational changes we are intending to make with facility, will more—will be more impactful at the shop floor level, and that's where the other two thirds of the potential savings is expected to come from and it will take more time.

Matt Koranda:

Okay. Got it. So, it's fair to say if that happens roughly mid 2016, so by maybe the end of Q2 of 2016?

Andrew Minkow:

That's the very end of it, that's the very end. I think the biggest pieces will be in place at the end of the fourth quarter beginning of the first quarter.

Matt Koranda:

Okay. Got it. All right. Just moving on to the outlook, so it looks like in terms of the—what you guys are looking at in 2015, especially from an EPS perspective, could you just talk to me about the gross margins that are embedded in the assumptions that you are making for your EPS outlook in 2015? It seems like that's probably the primary delta between the where you are and kind of where I was in terms of estimates.

Andrew Minkow:

Yes. I mean, it really comes down to—again I hate to say it, it's Canada. I mean, this is the first I've ever seen of it for example, if you take dry-type transformers which with the steady mid to high teens gross margin business for us when we originally took it on and the market place was much healthier, that's now in the low single digits through actually in this quarter negative, but still above water for the year-to-date. So, that was quite a large component of it. I would also add that some of the major growth we've had in the US also again in transformers has been in an OEM channel that doesn't look so good from a gross margin standpoint. It's in the mid to high teens but it's much better than a lot of other business that we

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have. It doesn't involve any selling costs in terms of freight and commissions. So, that's been dampener our gross margin, but a very good contributor to our operating margin.

Our switchgear business in LA is performing at above plan in terms of gross margin. So, that's not the issue there, and I think we were perhaps a little aggressive on how fast we expected our generator sales and service business to scale to 20% plus gross margin. It's tracking there and it has a great sales backlog to convert through the end of the year and I think we're going to get to target. So, those are the pieces up and down.

Matt Koranda:

Okay. That's great. Looking at 2016, the preliminary outlook that you guys provided is very helpful. I just wanted to make sure I was clarifying something; what was the tax rate, the effective tax rate, that you guys were using for that outlook in 2016?

Andrew Minkow:

Thirty five percent. Historically we've been in the 20-ish range which reflects a blend of lower Canada rates and lower earnings from the US. Next year, we expect to turn this thing on its head and be much more a US based, not only in terms of revenue but profit which explains the higher effective tax rate.

Matt Koranda:

Okay. Got it. Very helpful. That helps to explain a lot of the outlook to me. Okay. A couple more here just in Critical Power, I know—I thought you guys did a good job of calling out the Services segment in the release and it was helpful to see kind of that broken out as a percent of revs. Maybe you could just talk about the pipeline of opportunities within the Service segment; what that looks like and maybe where you think service revenues could be in terms of percent of revenues by maybe 2016 or beyond, what's the internal target that you could maybe share?

Nathan J. Mazurek:

Yes. The pipeline is super strong. They are stronger earlier than frankly I expected. They got some big wins and some high profile marquee type projects. They've got 1,400 locations now for the third and fourth quarter and the ensuing years; from a large cellular provider, a large international airport, and continued growth with the key national customer, more business and more locations for Target. The pipeline is super strong. Most of it is relating to telecommunications type applications or similar to Target retail type applications. That's where we seem to have the most success, that's where our solutions and monitoring and I guess experience make us a better competitor. So, that's the sort of pipeline that's working in service.

Andrew Minkow:

In terms of—as a percent of sales, we're expecting significant growth in service sales as compared to 2015. But as a percent of our whole, it's still probably—it'll be close to 10% of the whole. If not for all the growth we're expecting in our T&D business, which just raises the bar higher, but around 10% is a good figure to go with.

Matt Koranda:

Got it.

Nathan J. Mazurek:

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Well, are you asking as a percentage of the Company's revenue, or of Critical Power's revenue?

Matt Koranda:

Yes, more as a percent of the Company's entire…

Nathan J. Mazurek:

Okay.

Matt Koranda:

I think that's great. That's very helpful, and remind me again the gross margin profile of service business versus some of the more standard products you are guys are doing.

Nathan J. Mazurek:

Andy, yours.

Andrew Minkow:

Yes. We look at it by location, some locations have more equipment sales and are doing other activity so it becomes a matter of how you look at the overhead there and what its allocated to. But, we do have two locations that are pure service, okay, and those gross margins outstrip anything else we do anywhere in the Company – in the range of double our blended overall gross margin percentage.

Matt Koranda:

Okay. Got it, very helpful. Last couple in terms of the recent acquisition, Pacific you guys alluded to it I think in the prepared remarks, I think but maybe you could just talk about more granularly, how this sort of changes the conversations you had with customers where you were previously bidding only transformers. I mean now it seems that you can bid a more comprehensive suite of products, are there cross-selling opportunities from this and what lift do you kind of expect to get from that?

Nathan J. Mazurek:

Yes, I think it's more than cross-selling I mean it really takes our—the original LA switchgear business that we bought a couple of years ago that we bought at zero, it was zero, it was doing nothing and built that business up from just a low-voltage—provider of special low voltage equipment to a fully lifted provider of medium voltage solutions, which really opens up the big utility and industrial markets for gear and drags along of course low voltage equipment with it. But the medium voltage solution becomes—that's what wags the dog, that's the higher ticket, that's what's special and that's where you get the value add and you get the better price accordingly. You know, an order that—we alluded, at least I alluded to it, that's been committed but we don't have it in our backlog yet, and part of the reason we're still optimistic going forward for that business, is a fairly large solar farm-oriented electrical equipment order, that we really wouldn't have even been in the conversation to get without Pacific.

In fact, it was in anticipation of our closing of Pacific that the customer and the developer went ahead and committed to us. So, hopefully in next few months we'll be able to flush that out a little bit more but it's probably the largest single order that we at Pioneer have ever taken.

Matt Koranda:

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That's great, very encouraging. Last month, just looking at the balance sheet, maybe we could just talk really quickly in terms of any concerns regarding debt to EBITDA covenants, just what the revised outlook you're providing and maybe you could just talk about the cash situation and some of the options for cash management here. Looks like you guys do have the option to draw a bit of the revolver but just talk cash for us for a moment as well.

Andrew Minkow:

Sure. Clearly maybe you read the 10Q while we went on so long with the earnings script, but there's lot of disclosures there. We redid our bank agreement officially today to provide more room on covenants. So, we're in good shape. From the liquidity standpoint, we have enough for our needs either from internal cash flow purposes or our borrowing capacity to get us through these next few quarters. That being said, we are tight on covenants. It's not the sort of thing where we're feeling cash starved, where we're really considering doing anything about managing payables differently or being more aggressive about our AR. That's not what we are feeling at the moment. But, some of the projects we are undertaking require significant investments and we'll consider all options internally and externally for securing the cash or financing for what we need.

Matt Koranda:

Got it. Okay, guys. I'll jump back in queue. Thanks a lot.

Andrew Minkow:

Thank you.

Operator:

Once again, that is star one to signal for a question at this time. We'll go next to William Bremer with Maxim Group.

Unidentified Conference Participant:

Hey guys.

Nathan J. Mazurek:

Hey William.

Male Speaker:

This is Charles (inaudible) speaking on behalf of Bill.

Nathan J. Mazurek:

All right.

Male Speaker:

First and foremost—oh, sorry. First and foremost, I would like to focus on Canada; we've seen a lot of deferrals in there especially their channel checks. Have customers voiced to you when they might see the spending turnaround again?

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Nathan J. Mazurek:

I don't think they know. First of all, they just like to complain in general, so I don't know if they want to—they only want lower prices and more discounts and more freight allowance; but no, they don't see—you know seasonally in Canada this gets a little bit better, but systemically it's just weak. I mean, they're about to have national elections in October and people are kind of focused on that as well as to what its going to do for the economy, but it's truly a referendum on what they should be doing. The loss of oil and gas and the decrease in commodities pricing which has killed their mining—but mining sector as well has left them sort of, look, where do we go from here. So, I don't really—I don't know of any answers right now.

Male Speaker:

Okay. That brings me into my next question is, have you seen success in maintaining customer relationships and with that the impact on pricing pressure?

Nathan J. Mazurek:

We've—we're maintaining all the customers and the relationships are strong. We even did a little bit of a price increase at Bemag in the face of all this to do something to stem the loss, we were the lone wolf doing that and everything is status quo. But, without some deep cost cuts, we can't—if it's not contributing money for a business our size and for everything else that we do, we can't just sit around and wait for the economy to turn around. I can't wait for oil to go to $100 a barrel. So, we've decided in the case of Bemag to be very aggressive on the cost side.

Male Speaker:

Okay.

Andrew Minkow:

All this talk of Canada, I would add that the Canadian dollar as it is, (inaudible) in Canada but it has been helpful and we are seeing more traction in our sales into the US from our Canadian operations.

Male Speaker:

Okay. That's good to know, and my last question is more in regards to the consolidation of production lines.

Nathan J. Mazurek:

Right.

Male Speaker:

What locations are you specifically targeting and are the—we do expect any material one-time charges in the second half.

Andrew Minkow:

Yes, I think you can expect some charges. That's for certain. We've talked quite a bit about our Canadian dry-type transformer business, but that business essentially is in the same business as our US

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dry-type transformer business, and so there will be opportunities there to consolidate facilities for efficiency. So, that I expect this will be the biggest piece of any charges you see. There will also be some charges related to the consolidation of our Pacific acquisition into our existing location in LA, five miles down the road and any others would be minor.

Nathan J. Mazurek:

Yes.

Male Speaker:

Okay, great. Thanks guys. I'll hop back in.

Nathan J. Mazurek:

Thanks (inaudible).

Andrew Minkow:

All right, (inaudible).

Operator:

We'll go next to Michael Epstein with Northeast Securities.

Michael Epstein:

Gentlemen, I wish to compliment you on your extensive analysis of your products compared to Titan industry. I'm walking away with a much better understanding of your Company. In light of Titan, how do you analyze that acquisition and what percentage of volume and is that your major focus area, on service?

Nathan J. Mazurek:

Okay. So, I'll go backwards. Service is a major focus area for us. I think it's exclusively the service business. As we discussed Michael, maybe publicly and with you as well, is that the impetus for buying Titan was the service business and it's definitely been—it's been a good business for us and we continue to put a lot of effort into growing that business. The surprise—the positive surprise in Titan has been after in January, especially after we sort of realigned and rebooted the management team there and realigned sales incentives for the sales people and so forth, so it's been cleaned up a little bit to our liking, and the equipment part of the business is a – albeit not as high of a gross margin proposition but a very simple and steadily profitable business.

So, we had certain internal projections for profit for Titan - for what we call Titan - this year and I'm pretty sure that they will be one of the real positives that—one of the few positive surprises we have this year. So, Titan will continue to exceed and we continue to—the mandate is to grow the service business. It grows and it grows profitably and it scales and it becomes recurring, and at the same time, we are constantly looking for opportunities to grow our footprint with the industrial engine business. We have it down. We are—it cooks. From a working capital point of view, it's amazing. We book the order, Generac ships it. We invoice it and we never hold it. So, I mean it can't be much better.

Michael Epstein:

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Thank you, Nathan, and Andrew, thank you for your explanation of the financials. I think you did a spectacular job. Thank you.

Nathan J. Mazurek:

Thank you, Michael.

Operator:

At this time, we have no further questions. I'd like to turn the call back over to Management for any additional or closing remarks.

Nathan J. Mazurek:

Thank you for your time and support and we look forward to updating you again on our next call. Have a very, very good evening.

Operator:

This does conclude today's conference. Thank you for your participation.

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