PIONEER
POWER SOLUTIONS

PIONEER POWER SOLUTIONS, INC.

ANNUAL REPORT TO STOCKHOLDERS

2019

PIONEER POWER SOLUTIONS, INC.

Form 10-K

For the Fiscal Year Ended December 31, 2019

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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,” “future,” “intends,” “plans,” “believes,” “estimates,” and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and may not be accurate indications of when such performance or results will be achieved. Forward-looking statements are based on information we have when those statements are made or management’s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- General economic conditions and their effect on demand for electrical equipment, particularly in the commercial construction market, but also in the power generation, industrial production, data center, oil and gas, marine and infrastructure industries.
- The effects of fluctuations in sales on our business, revenues, expenses, net income, income (loss) per share, margins and profitability.
- Many of our competitors are better established and have significantly greater resources, and may subsidize their competitive offerings with other products and services, which may make it difficult for us to attract and retain customers.
- We depend on Verizon Inc (“Verizon”) and CleanSpark, Inc (“CleanSpark”) for a large portion of our business, and any change in the level of orders from Verizon or CleanSpark could have a significant impact on results of operations. We have been advised the agreement with Verizon for their preventative maintenance service will not be renewed, and the current term expires on March 31, 2020.
- The potential loss or departure of key personnel, including Nathan J. Mazurek, our chairman, president and chief executive officer.
- Our ability to generate internal growth, maintain market acceptance of our existing products and gain acceptance for our new products.
- Unanticipated increases in raw material prices or disruptions in supply could increase production costs and adversely affect our profitability.
- 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.
- The impact of geopolitical activity on the economy, changes in government regulations such as income taxes, duties and tariffs on the importation of products we sell into the United States, climate control initiatives, the timing or strength of an economic recovery in our markets and our ability to access capital markets.
- Our chairman controls a majority of our voting power, and may have, or may develop in the future, interests that may diverge from yours.
- Future sales of large blocks of our common stock may adversely impact our stock price.
- The liquidity and trading volume of our common stock.
- Our business could be adversely affected by an outbreak of disease, epidemic or pandemic, such as the global coronavirus pandemic, or similar public threat, or fear of such an event.

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

PART I

ITEM 1. BUSINESS

Overview

Pioneer Power Solutions, Inc. and its wholly owned subsidiaries (referred to herein as the "Company," "Pioneer," "we," "our" and "us") manufacture, sell and service a broad range of specialty distribution and on-site power generation equipment for applications in the industrial, commercial and backup power markets. The Company is headquartered in Fort Lee, New Jersey and operates from five (5) additional locations in the U.S. for manufacturing, sales and administration.

Our largest customers include a number of recognized national and regional industrial companies and engineering, procurement and construction firms located in North America. We intend to grow our business through internal product development, and expansion of our sales force coverage to increase the scope and relevance of highly-engineered solutions and technical service we offer our customers for their specific electrical applications.

Description of Business Segments

We have 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. These solutions are marketed principally through our Pioneer Custom Electric Products, Inc. ("PCEP") brand name.
- Our Critical Power business performs service on our customer's sophisticated power generation equipment. These solutions are marketed by our operations headquartered in Minnesota, currently doing business under the Titan Energy Systems Inc. ("Titan") brand name.

Disposition of Business Units

Sale of PCPI

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

At the effective date of the Merger, all of the issued and outstanding shares of common stock of PCPI, par value $0.01 per share, were converted into the right to receive (i) 175,000 shares of common stock, par value $0.001 per share, of CleanSpark ("CleanSpark Common Stock"), (ii) a five-year warrant to purchase 50,000 shares of CleanSpark Common Stock at an exercise price of $16.00 per share, and (iii) a five-year warrant to purchase 50,000 shares of CleanSpark Common Stock at an exercise price of $20.00 per share. The share quantities and exercise prices of warrants reflect the 10:1 stock split completed by CleanSpark in December 2019.

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

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

In connection with entry into the Merger Agreement, the Company and CleanSpark entered into a Contract Manufacturing Agreement (the “Contract Manufacturing Agreement”), dated as of January 22, 2019, pursuant to which the Company agreed to manufacture paralleling switchgear, automatic transfer switches and related control and circuit protective equipment (collectively, “Products”) exclusively for purchase by CleanSpark. CleanSpark agreed to purchase the Products via purchase orders issued to the Company at any time and from time to time. Pursuant to the Contract Manufacturing Agreement, the price for the Products payable by CleanSpark to the Company are negotiated on a case by case basis, but all purchases of Products have a target price of 91% of the CleanSpark customer’s purchase order price and are not to be more than 109% of the Company’s cost. The Contract Manufacturing Agreement has a term of 18 months and may be extended by mutual agreement of the Company and CleanSpark.

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

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

The Merger resulted in the deconsolidation of PCPI and a gain of $4.2 million in the first quarter of 2019. The fair value of the investment in the common stock of CleanSpark was determined using quoted market prices and warrants were established using a Black Scholes model.

From the date of sale through December 31, 2019, the estimated fair value of the warrants and common stock decreased to $1.4 million and an unrealized mark to market loss of $2.8 million was recognized within other expense for the year ended December 31, 2019.

Sale of Transformer Business Units

On June 28, 2019, the Company entered into the Stock Purchase Agreement (the “Stock Purchase Agreement”), by and among the Company, Electrogroup Canada, Inc., a wholly owned subsidiary of the Company (“Electrogroup”), Jefferson Electric, Inc., a wholly owned subsidiary of the Company (“Jefferson”), JE Mexican Holdings, Inc., a wholly owned subsidiary of the Company (“JE Mexico,” and together with Electrogroup and Jefferson, the “Disposed Companies”), Nathan Mazurek, Pioneer Transformers L.P. (the “US Buyer”) and Pioneer Acquireco ULC (the “Canadian Buyer,” and together with the US Buyer, the “Buyer”). Pursuant to the Stock Purchase Agreement, the Company agreed to sell (i) all of the issued and outstanding equity interests of Electrogroup to the Canadian Buyer and (ii) all of the issued and outstanding equity interests of Jefferson and JE Mexico to the US Buyer (collectively, the “Equity Transaction”).

Under the terms of the Stock Purchase Agreement, the consideration for the Equity Transaction consisted of a base cash purchase price of $60.5 million, as well as the issuance by the Buyer of a subordinated promissory note to Pioneer Power in the aggregate principal amount of $5.0 million, in each case subject to adjustment pursuant to the terms of the Stock Purchase Agreement. The Buyer was to have the right to set-off amounts owed to Pioneer Power under the Seller Note in the aggregate principal amount of $5.0 million on a dollar-for-dollar basis by the amount of any indemnifiable losses Buyer suffers as a result of certain actions or omissions by Pioneer Power or the Disposed Companies.

On August 13, 2019, Pioneer Power, the Buyer and the Disposed Companies entered into Amendment No. 1 to the Stock Purchase Agreement (the “Amendment”). Pursuant to the Amendment, (i) the base purchase price was increased from $65.5 million to $68.0 million, (ii) the target working capital amount of the Disposed Companies was increased from $21.2 million to $29.6 million, (iii) the parties agreed to an estimated closing net working capital amount of $23.6 million, (iv) the increase in the base purchase price was to be paid in the form of an additional Seller Note in the aggregate principal amount of $2.5 million to be issued to Pioneer Power at the closing, (v) a $150 deductible was added with respect to the indemnification obligations of Pioneer Power and the Disposed Companies concerning certain legal matters, (vi) Pioneer Power agreed to pay any difference between the final net purchase price and the closing date net purchase price in immediately available funds rather than causing the Buyer to set off the amount of such difference against any amounts due and payable to Pioneer Power under the Seller Note, subject to certain exceptions, (vii) the definition of Applicable Adverse Event was amended to exclude certain events related to Pioneer Power’s financial performance through the second quarter (subject to certain exceptions, such items were also excluded from the post-closing indemnity under the Stock Purchase Agreement) and (viii) the parties agreed to the allocation of the $1.8 million insurance proceeds still to be received from the June 2019 flood at Pioneer Power’s facility in Reynosa, Mexico. The Buyer is only required to set-off any indemnifiable losses the Buyer suffers as a result of certain actions, omissions, or misrepresentations by Pioneer Power or the Disposed Companies against the first Seller Note in the aggregate principal amount of $5.0 million.

On August 16, 2019, the Company completed the Equity Transaction pursuant to the terms and conditions of the Stock Purchase Agreement, as amended by the Amendment. As consideration for the Disposed Companies, Buyer paid the Company a base aggregate purchase price of $68.0 million, consisting of (i) $60.5 million of cash, (ii) the issuance by the Buyer of a subordinated promissory note to Pioneer Power in the aggregate principal amount of $5.0 million and (iii) the issuance by the Buyer of a subordinated promissory note to Pioneer Power in the aggregate principal amount of $2.5 million. The subordinated promissory notes accrue interest at a rate of 4.0% per annum with a final payment of all unpaid principal and interest becoming fully due and payable at December 31, 2022. During the fourth quarter of 2019, the Company and the Buyer, pursuant to the Stock Purchase Agreement, completed the net working capital adjustment, which resulted in the Company paying the Buyer $1.7 million in cash and reducing the principal amount of the $5.0 million Seller Note to $3.3 million. After these adjustments, and expenses of sale, we received net proceeds from the sale of $45.2 million. Subsequent to finalizing the working capital adjustment during the fourth quarter of 2019 the gain recognized on the Equity Transaction amounted to $13.7 million and is reflected within discontinued operations.

Upon completion of the Equity Transaction, Pioneer Power sold to the Buyer all of the assets and liabilities associated with its liquid-filled transformer and dry-type transformer manufacturing businesses within the Company's T&D Solutions segment. The transformer business units are being presented as discontinued operations for all periods presented in this report. The Company retained its switchgear manufacturing business within the T&D Solutions segment, as well as all of the operations associated with its Critical Power segment.

T&D Solutions Segment

We design, develop, manufacture and sell a wide range of distribution equipment and our emphasis is to provide custom engineered, manufactured-to-order solutions, which we estimate currently represents all of our T&D revenue. We believe that demand for our 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.

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

Summary of T&D Solutions Segment Offerings

Product Category	Solutions
Switchgear	▪ Traditional low voltage panel boards, switchboards and switchgear, using electrical components from major manufacturers ▪ Custom manufactured and U.L. approved NEMA electrical equipment ▪ Other equipment: controls, load banks, surge protection and related equipment for power conditioning and reliability

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

We design and manufacture low voltage electric power distribution panel boards, low voltage switchgear and switchboards manufactured at our facility in Southern California. This location specializes in quick-turn, manufactured-to-order circuit protection and control equipment, primarily serving electrical distributors in the region.

Critical Power Segment

Our Critical Power business performs service on our customer's sophisticated power generation equipment. These systems are used to maintain reliable emergency standby power at facilities where it is either required or where the potential consequences of a power outage make it necessary – such as at data centers, hospitals, communications facilities, factories, national retailers, military sites, office complexes and other critical operations.

Summary of Critical Power Segment Offerings

Product Category	Solutions
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 and Florida ▪ National service: provided by our technicians and network of field service providers throughout the United States for multi-site, multi-state power generation equipment owners ▪ UPS systems from major manufacturers

Service

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

We recognize discrete revenue streams from service contracts, installation and maintenance services, and we offer service contracts to all owners of power generation and related equipment, whether or not the equipment was originally sold by us. Our service agreements have terms ranging from one to five years in duration, providing us with a recurring revenue stream, and generally yield higher margins as compared to genset equipment sales.

Business Strategy

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

During 2019, the Company completed the sales of the transformer and the PCPI business units. The Company continues to explore strategic alternatives for its remaining business units.

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

- Evolving from a product-oriented to a customer and market-centric, solutions-oriented organization;
- Establishing a scalable organizational infrastructure to support our expected growth;
- Investing in our capabilities to provide progressively more advanced equipment and service solutions;
- Continuously applying our manufacturing and service resources to their highest and best uses;
- Capitalizing on inter-segment manufacturing efficiencies and shared utilization of our facilities;
- Expanding our margins through outsourcing production for our products;
- Combining and streamlining our business unit supply chains and administrative functions;
- Improving business processes to deliver consistency, quality and value to our customers.

T&D Solutions Segment

We intend to accomplish our growth objectives within our T&D Solutions business by emphasizing our capabilities in OEM equipment solutions, by continuing to invest in engineering resources and product development to increase our pipeline of recurring order customers that integrate our magnetic subassemblies and/or components into the products they sell. Our key focus areas for this solution category include providers of motor control/drive systems, factory automation equipment, power distribution units and UPS systems for data centers, HVAC systems, and power quality and conditioning equipment.

Critical Power Segment

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

Our Industry

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

The 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.

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

- ***Aging and Overburdened North American Power Grid*** **—** The aging and overburdened North American power grid is expected to require significant capital expenditures to upgrade the existing infrastructure over the next several years to maintain adequate levels of reliability and efficiency. Significant capital investment will be required to relieve congestion, meet growing demand, achieve targets for efficiency, emissions and use of renewable sources, and to replace components of the U.S. power grid operating at, near or past their planned service lives.
- ***Increasing Long-Term Demand for Electricity and Reliable Power*** — The Department of Energy's Energy Information Administration, or EIA, forecasts that total electricity use in the U.S. will increase by approximately 28% from 2011 to 2040. This increase is driven by anticipated population growth, economic expansion, increasing dependence on computing power throughout the economy and the increased use of electrical devices in the home. In order to meet growing demand for electricity in North America, substantial investment in increased electrical grid capacity and efficiency will be required, as well as the addition of specialized equipment to help ensure the reliability and quality of electricity for critical applications. In response to these challenges, there is an increasing trend among commercial and industrial companies to invest in on-site power sources, both for standby purposes in the event of a catastrophic power outage, or to reduce the amount of electricity they draw from the utility grid during peak periods.
- ***Growth in Critical Power Applications and the Data Center Market*** **—** The number of mission-critical facilities, sites where a power disturbance or outage could cause failure of business operations, safety concerns or regulatory non-compliance, continues to grow exponentially worldwide. In the U.S., the single largest driver for demand in critical power applications is the data center market, followed by the health care industry. The amount of information managed by data centers is expected to grow, fueled by increasing needs for data storage (for corporate data, content delivery, social networking, handheld devices, online retail and gaming) and the information technology evolution (cloud computing and outsourced hosting). Coinciding with demand for mission-critical facilities is the need for efficient, reliable primary power to support their essential applications, and for backup generator plants in case the utility feed becomes unavailable. Electricity is the highest operating cost of a data center, a factor supporting investment in on-site alternative energy systems to reduce peak-demand expenses.

Customers

For the year ended December 31, 2019, 100% of our sales in 2019 were to U.S. customers, represented in large part by companies involved in commercial construction. During the year ended December 31, 2019, we sold our electrical equipment and services to over 900 individual customers and our twenty largest customers represented approximately 75% of our consolidated revenue.

For the year ended December 31, 2018, 100% of our sales in 2018 were to U.S. customers, represented in large part by companies involved in commercial construction. During the year ended December 31, 2018, we sold our electrical equipment and services to over 1,000 individual customers and our twenty largest customers represented approximately 70% of our consolidated revenue.

Approximately 13% and 15% of our sales in the years ended December 31, 2019 and 2018, respectively, were made to Verizon and its affiliated companies. Our agreement with Verizon outlines the services to be provided for their equipment and frequently results in additional sales opportunities for service work that is outside the scope of the agreement. This agreement represents the majority of the sales and profits the Company received from Verizon. The agreement with Verizon for their preventative maintenance service will not be renewed, and the current term expires on March 31, 2020. If we cannot find alternative sources of business or reduce our expenses, the loss of the Verizon business is expected to have a material adverse impact on our results of operations. We are seeking an opportunity to reclaim this portion of the business after March 31, 2021; however, there is no assurance that we will be able to reclaim any portion of the business after March 31, 2021.

Approximately 18% of our sales in the year ended December 31, 2019 were made to CleanSpark Inc. The majority of our sales to CleanSpark are made pursuant to the Contract Manufacturing Agreement that was entered into as part of the sale of PCPI. The agreement continues until July 22, 2020. The Company anticipates negotiating an extension of this agreement before it expires, but there is no assurance that the Company will be able to extend the agreement with CleanSpark.

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

Marketing, Sales and Distribution

A substantial portion of the products we offer are sold directly to customers by our 3 full-time marketing and sales personnel operating from our office locations in the U.S. Following the sale of the transformer business units, we no longer have office locations or employees in Canada. 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, 2019 was approximately $15.9 million, as compared to $15.7 million as of December 31, 2018 for our continuing operations. We anticipate that most of our current backlog will be delivered during 2020. 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 Crown Electric Engineering and Manufacturing, LLC, Industrial Electric Machinery, LLC, RESA Power, LLC, Powell Industries, Inc. and Eaton Corporation.

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. 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 copper, cells, sensors, breakers, meters and relays. We also purchase certain electrical components from a variety of suppliers including switches, fuses, protectors and circuit breakers. These raw materials and components are available from and supplied by numerous sources at competitive prices. Unanticipated increases in raw material prices or disruptions in supply could increase production costs and adversely affect our profitability. We do not anticipate any significant difficulty in satisfying our raw material requirements on reasonable terms and have not experienced any such difficulty in the past several years. Our largest suppliers during the year ended December 31, 2019 included Eaton Corporation, Industrial Connections &

Solutions, LLC, Thyssenkrupp Materials NA, ABB, Inc. and Schweitzer Engineering Laboratories, Inc.

Employees

As of December 31, 2019, we had 95 employees consisting of 25 salaried staff and 70 hourly workers. Certain of our hourly employees located at our manufacturing facility in Santa Fe Springs, California are covered by a collective bargaining agreement with Local Union 1710 of the International Brotherhood of Electrical Workers, AFL-CIO that expires in June 2022.

Environmental

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

Corporate History

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

Available Information

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

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

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. Before investing in our common stock you should carefully consider the following risks, together with the financial and other information contained in this Annual Report on Form 10–K for the year ended December 31, 2019 and our other periodic filings with the Securities and Exchange Commission. Additional risks and uncertainties that we are unaware of may become important factors that affect us. If any of the following events occur, our business, financial conditions and operating results may be materially and adversely affected. In that event, the trading price of our common stock may decline, and you could lose all or part of your investment.

Risks Relating to Our Business and Industry

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

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

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

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

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

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

Our industry is highly competitive.

The electrical equipment manufacturing industry is highly competitive. Principal competitors in our markets in the T&D Solutions segment include Crown Electric Engineering and Manufacturing, LLC, Industrial Electric Machinery, LLC, RESA Power, LLC, Powell Industries, Inc. and Eaton Corporation. 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.

We currently derive a significant portion of our revenues from two customers, agreements with whom are expiring in 2020. Loss of business from these customers could have an adverse effect on our business, financial condition and operating results.

We depend on Verizon and CleanSpark for a large portion of our business, and any change in the level of orders from these customers has, in the past, had a significant impact on our results of operations. In particular, Verizon accounted for 13% and 15% of our net sales in the years ended December 31, 2019 and 2018, respectively. CleanSpark accounted for 18% of our net sales in the year ended December 31, 2019. Loss of business from these customers could have an adverse effect on our business, financial condition and operating results. Our long-term supply agreement with Verizon expires on March 31, 2020 and we have been notified by Verizon that the agreement will not be renewed with us. If we cannot find alternative sources of business or reduce our expenses, the loss of the Verizon business is expected to have a material adverse impact on our results of operations. We are seeking an opportunity to reclaim this portion of the business after March 31, 2021; however, there is no assurance that we will be able to reclaim any portion of the business after March 31, 2021.

The majority of our sales to CleanSpark are made pursuant to the Contract Manufacturing Agreement that was entered into as part of the sale of PCPI. The agreement continues until July 22, 2020. The Company anticipates negotiating an extension of this agreement before it expires, but there is no assurance that the Company will be able to extend the agreement with CleanSpark.

Our operations have been curtailed following the closing of the Equity Transaction, and we have limited sources of revenue following the Equity Transaction, which may negatively impact the value and liquidity of our common stock.

The Equity Transaction has reduced the size of our business operations, and our sources of revenue are limited to our Critical Power segment and the switchgear manufacturing business of our T&D Solutions segment following the closing of the Equity Transaction. Although our board of directors may use a portion of the proceeds from the Equity Transaction to support the business operations remaining following the Equity Transaction, there can be no assurance that we will be successful at carrying out the operations of our remaining businesses or that we will be successful at generating revenue. A failure by us to secure additional sources of revenue following the closing of the Equity Transaction could negatively impact the value and liquidity of our common stock.

Our remaining business units have historically generated operating losses and negative cash flows, which may result in the usage of our cash and cash equivalents.

After the completion of the Equity Transaction, we have two business units remaining (PCEP and TESI). These two units have been unable to earn positive income and generate positive cash flow in their recent history. With $8.2 million of cash and cash equivalents as of December 31, 2019, these losses will negatively impact our cash and cash equivalents.

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

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

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

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

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

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

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

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

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

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

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 55% and 52% of our revenues for the years ended December 31, 2019 and 2018, respectively. The principal raw materials purchased by us are switches, fuses, circuit breakers, and protectors. These raw materials and components are available from, and supplied by, numerous sources at competitive prices. Unanticipated increases in raw material prices or disruptions in supply could increase production costs and adversely affect our profitability. We cannot provide any assurances that we will not experience difficulties sourcing our raw materials in the future.

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

We routinely have a backlog of work to be completed on contracts representing a significant portion of our annual sales. As of December 31, 2019, our order backlog was $15.9 million. Orders included in our backlog are represented by customer purchase orders and service contracts that we believe to be firm. Backlog consists of customer orders that either (1) have not yet been started or (2) are in progress and are not yet completed. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been billed. From time to time, customer orders are canceled that appeared to have a high certainty of going forward at the time they were recorded as new business taken. In the event of a customer order cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenue reflected in our backlog. In addition to us being unable to recover certain direct costs, canceled customer orders may also result in additional unrecoverable costs due to the resulting underutilization of our assets.

We are subject to pricing pressure from our larger customers.

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

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

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

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

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

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

Our business, and our industry as a whole, could be adversely affected by an outbreak of disease, epidemic or pandemic, such as the global coronavirus pandemic, or similar public threat, or fear of such an event.

The recent global outbreak of the coronavirus pandemic could have a negative impact on our revenues and operating results. This outbreak could result in disruptions and damage to our business, caused by both the negative impact to our ability to obtain cost effective raw materials, supplies and component parts necessary to operate our business and the negative impact on our ability to operate our facility should the coronavirus spread more broadly in the regions we are located, thereby creating an increased risk of exposure to our workforce which cannot operate our facility remotely. Mitigation efforts will not completely prevent our business from being adversely affected, and the longer the pandemic impacts supply and demand and the more broadly the pandemic spreads, it is more likely that the impact on our business, revenues and operating results will become increasingly negative. Also, global or national health concerns, including the outbreak of pandemic or contagious disease such as the recent coronavirus outbreak, can negatively impact the global economy and demand for our services.

Per the guidance issued from the Cybersecurity and Infrastructure Security Agency ("CISA"), part of the United States Department of Homeland Security, the Company and its subsidiaries, are considered "essential businesses". We fall into multiple categories within the guidance but specifically within 1) Energy & Electricity Industry and 2) Critical Manufacturing as we provide essential products for the energy sector.

The guidance issued by CISA can be found at: https://www.cisa.gov/publication/guidance-essential-critical-infrastructure-workforce.

While we cannot guarantee that we will continue to be considered an "essential business", this guidance and exception allow work at our facilities to continue in order to provide critical infrastructure products that enable the safe and reliable delivery of electricity into millions of homes at this time.

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

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

- receive, process and ship orders on a timely basis;
- manage the accurate billing and collections from our customers.

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

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

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

- future results could be materially affected due to theft, destruction, loss, misappropriation or release of confidential data or intellectual property;
- operational or business delays resulting from the disruption of information systems and subsequent clean-up and mitigation activities;
- we may incur claims, fines and penalties, and costs for remediation, or substantial defense and settlement expenses; and
- negative publicity resulting in reputation or brand damage with our customers, partners or industry peers.

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

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

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

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

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

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

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

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

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

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

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

There are also two appeals pending in the California Court of Appeal for the Second Appellate District as referenced in Item 3 - Legal Proceedings, which includes an appeal of an order modifying a previously issued preliminary injunction and an order enjoining us to obtain and post a $12 million bond in connection with the modified preliminary injunction. Due to the uncertainties of litigation, we can give no assurance that we will prevail on the appeals. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results. Adverse outcomes in some or all of these claims may result in significant monetary damages that could adversely affect our ability to conduct our business. These appeals are currently scheduled to be heard later in calendar year 2021, after the underlying case is likely to be heard and decided; we expect that the results of the case will be known before the appeals are heard and decided.

Risks Relating to Our Organization

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

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

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

Our board of directors is authorized to issue shares of preferred stock in one or more series and to fix the voting powers, preferences and other rights and limitations of the preferred stock. Accordingly, we may issue shares of preferred stock with a preference over our common stock with respect to dividends or distributions on liquidation or dissolution, or that may otherwise adversely affect the voting or other rights of the holders of common stock. Issuances of preferred stock, depending upon the rights, preferences and designations of the preferred stock, may have the effect of delaying, deterring or preventing a change of control, even if that change of control might benefit our stockholders. In addition, we are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless (i) prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; (ii) the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

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

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

Provident Pioneer Partners, L.P., which is controlled by Nathan J. Mazurek, our chief executive officer, president and chairman of the board of directors, beneficially owns approximately 52.4% of our outstanding common stock as of March 30, 2020. As a result of this stock ownership, Provident Pioneer Partners, L.P. and Mr. Mazurek can control all matters submitted to our stockholders for approval, including the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire. In addition, as the interests of Provident Pioneer Partners, L.P. and our minority stockholders may not always be the same, this large concentration of voting power may lead to stockholder votes that are inconsistent with the best interests of our minority stockholders.

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

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

In addition, our internal controls will also include those of any company or business that we may acquire in the future. Acquired companies or businesses are likely to have different standards, controls, contracts, procedures and policies, making it more difficult to implement and harmonize company-wide financial, accounting, information and other systems. As a result, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, either in our existing business or in businesses that we may acquire, could harm our operating results or cause us to fail to meet our reporting obligations.

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

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

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

Risks Relating to our Common Stock

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

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

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

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

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

- technological innovations or new products and services by us or our competitors;
- additions or departures of key personnel, including Nathan J. Mazurek, our chairman, president and chief executive officer;
- sales of our common stock, including management shares;
- limited availability of freely-tradable “unrestricted” shares of our common stock to satisfy purchase orders and demand;
- our ability to execute our business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- industry developments;
- economic and other external factors;
- our ability to manage the costs of maintaining adequate internal financial controls and procedures in connection with the acquisition of additional businesses;
- period-to-period fluctuations in our financial results; and
- announcements of acquisitions.

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

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

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

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

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

We do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on our net income, financial condition and other business and economic factors as our board of directors may consider relevant. Moreover, on October 4, 2019, the dividend that was payable by the Company was enjoined by court order of the Superior Court of California related to a pending litigation, and as a result, the Company cancelled the dividend as the result of such court order. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

We will continue to incur the expense of complying with public company reporting requirements following the closing of the Equity Transaction.

After the Equity Transaction, Pioneer Power will continue to be required to comply with the applicable reporting requirements of the Securities Exchange Act of 1934, as amended, even though compliance with such reporting requirements is economically burdensome.

In the event that we fail to satisfy any of the listing requirements of the NASDAQ Capital Market, our common stock may be delisted, which could affect our market price and liquidity.

Our common stock is listed on the NASDAQ Capital Market. In order to maintain the listing of Pioneer Power’s common stock on NASDAQ, Pioneer Power’s common stock must comply with certain continued listing requirements, including having:

- at least two registered and active market makers, one of which may be a market maker entering a stabilizing bid;
- a minimum bid price of at least $1.00 per share;

- at least 300 total holders (including both beneficial holders and holders of record, but excluding any holder who is directly or indirectly an executive officer, director or the beneficial holder of more than 10% of the total shares outstanding); and
- at least 500,000 publicly held shares with a market value of at least $1.0 million (excluding any shares held directly or indirectly by officers, directors or any person who is the beneficial owner of more than 10% of the total shares outstanding).
- Pioneer Power must also meet at least one of the following continued listing standards:
- stockholders' equity of at least $2.5 million;
- market value of Pioneer Power's common stock of at least $35 million; or
- net income from continuing operations of $500,000 in the most recently completed fiscal year or in two of the three most recently completed fiscal years.

No assurances can be given that Pioneer Power will continue to satisfy these requirements as some of these requirements are outside of Pioneer Power's direct control, such as the bid price of its common stock, the number of holders of its common stock and the value of its publicly held shares. If Pioneer Power is unable to meet these requirements, NASDAQ may take action to delist Pioneer Power's common stock. In such a case, Pioneer Power may appeal NASDAQ's determination to delist its common stock, but such appeal may not be successful.

If Pioneer Power's common stock is delisted from NASDAQ, Pioneer Power expects that its common stock would begin trading on the over-the-counter markets. The delisting of Pioneer Power's common stock could result in a reduction in its trading price and would substantially limit the liquidity of Pioneer Power's common stock. In addition, delisting could materially adversely impact Pioneer Power's ability to raise capital or pursue strategic restructuring, refinancing or other transactions. Delisting from NASDAQ could also have other negative results, including the potential loss of confidence by institutional investors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Location	Description	Approximate Square Footage	Owned or Lease Expiration Date
Santa Fe Springs, California	Manufacturing, sales, engineering and administration	40,000	September 2021
Brooklyn Park, Minnesota	Manufacturing, sales, engineering and administration	16,000	December 2020
Omaha, Nebraska	Sales and service	6,800	December 2020
Duluth, Minnesota	Sale, service and warehouse	4,600	July 2020
Miami, Florida	Sales and service	3,600	December 2021
Fort Lee, New Jersey	Corporate management and sales office	2,700	November 2022

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

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in lawsuits, investigations and claims that arise in the ordinary course of business.

On January 11, 2016, Myers Power Products, Inc., a specialty electrical products manufacturer, filed suit with the Superior Court of the State of California, County of Los Angeles, against us, PCEP and two PCEP employees who are former employees of Myers Power Products, Inc., Geo Murickan, the president of PCEP ("Murickan"), and Brett DeChellis ("DeChellis"), alleging, among other things, that Murickan wrongly used and retained confidential business information of Myers Power Products, Inc. for the benefit of us and PCEP, in breach of their confidentiality agreement and/or employment agreement entered into with Myers Power Products, Inc., and that we and PCEP knowingly received and used such confidential business information. Myers Power Products, Inc. is seeking injunctive relief enjoining us, PCEP and our employees from using its confidential business information and compensatory damages of an unspecified unlimited amount (exceeding $25,000); however, the Company has recognized approximately $1.2 million for expected costs related to this litigation. On March 18, 2016, we filed an answer to the complaint, denying generally each and every allegation and relief sought by Myers Power Products, Inc. and seeking dismissal based on, among other things, failure to state facts sufficient to constitute a cause of action. We intend to contest the matter vigorously. Due to the uncertainties of litigation, however, we can give no assurance that we, PCEP and our employees will prevail on any claims made against us, PCEP and our employees in any such lawsuit. As of the filing of this report, this action is scheduled for trial in the second quarter of 2020. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results. We cannot execute the sale of PCEP until the lawsuit has been resolved.

On October 4, 2019, the dividend that was payable by the Company was enjoined by court order of the Superior Court of California related to the foregoing case. The Company continues to contest the order. As of the date of this filing, this court order remains in place. On October 16, 2019, Myers Power Products, Inc. filed an ex parte application arguing the Company had violated, or intended to violate the modified preliminary injunction and sought order from the court for the Company to post a bond in an amount of $20,000 or more. The court has not taken any action on this request and the Company intends to vigorously defend its rights in the event the order is granted. The Company cancelled the dividend as the result of this court order.

There are also two appeals pending in the California Court of Appeal for the Second Appellate District ("Court of Appeal"). Case no. B301494 is an appeal of the October 4, 2019 Modified Preliminary Injunction. Case no. B302943 is an appeal of the November 26, 2019 order enjoining Pioneer Power Solutions, Inc. and Pioneer Custom Electrical Products Corp. to obtain and post a $12 million bond. Pioneer's opening brief in case no. B301494 is due March 30, 2020. On March 23, 2020 we filed a stipulated request for a 60-day extension. Pursuant to a March 20 Implement Order for Emergency Order issued by the Court of Appeal (available at http://www.courts.ca.gov/documents/Administrative-order-re-OA.pdf), all deadlines in the Court of Appeal are automatically extended by 30 days without the need for any other action. The Court of Appeal also has suspended all in-person oral argument, temporarily transitioning to video conferencing. (Order available at http://www.courts.ca.gov/documents/Administrative-order-re-OA.pdf.)

With respect to all such lawsuits, claims and proceedings, the Company records a reserve when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. However, the outcomes of any currently pending lawsuits, claims and proceedings cannot be predicted, and therefore, there can be no assurance that this will be the case.

As of the date hereof, we are not aware of or a party to any legal proceedings to which we or any of our subsidiaries is a party or to which any of our property is subject, nor are we aware of any such threatened or pending litigation or any such proceedings known to be contemplated by governmental authorities other than the forgoing suit filed by Myers Power Products, Inc. that we believe could have a material adverse effect on our business, financial condition or operating results. See Note 12 – Commitments and Contingencies included in the notes to our consolidated financial statements included in this Annual Report on Form 10-K.

We are not aware of any material proceedings in which any of our directors, officers or affiliates or any registered or beneficial shareholder of more than 5% of our common stock is an adverse party or has a material interest adverse to our interest.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock has been listed on the Nasdaq Capital Market under the symbol "PPSI" since September 19, 2013. Prior to that time, it was quoted on the OTCQB. The last reported sales price of our common stock on the Nasdaq Capital Market on March 27, 2020, was $1.67 per share. As of March 27, 2020, there were 22 holders of record of our common stock.

During the quarter ended September 30, 2019 the Company declared a cash dividend of approximately $12 million in aggregate which was subsequently enjoined by ruling of the courts in connection with the litigation with Myers Power Products, Inc., (see Note 13). As a result of the court order, the cash dividend was cancelled by the Company during the fourth quarter of 2019. However, the timing and amount of future dividends could require the Company to seek capital funding to support its ongoing operations as the Company's historical credit arrangements were terminated in connection with the Equity Transaction.

We did not repurchase any of our equity securities during the fourth quarter of the fiscal year ended December 31, 2019.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing elsewhere in this prospectus. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in the sections entitled "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements."

Overview

We manufacture, sell and service a broad range of specialty electrical transmission, distribution and on-site power generation equipment for applications in the utility, industrial, commercial and backup power markets. We are headquartered in Fort Lee, New Jersey and operate from five (5) additional locations in the U.S. for manufacturing, sales and administration.

Our operations are divided into two reportable segments: T&D Solutions segment and Critical Power segment. Our T&D Solutions business provides equipment solutions that help customers effectively and efficiently manage their electrical power distribution systems to desired specifications. These solutions are marketed principally through our PCEP brand name. Our Critical Power business provides customers with services for their sophisticated power generation equipment to ensure smooth, uninterrupted power to operations during times of emergency. This solution is marketed by our operations headquartered in Minnesota, currently doing business under the Titan brand name.

Disposition of Business Units

Sale of PCPI

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

At the effective date of the Merger, all of the issued and outstanding shares of common stock of PCPI, par value $0.01 per share, were converted into the right to receive (i) 175,000 shares of common stock, par value $0.001 per share, of CleanSpark ("CleanSpark Common Stock"), (ii) a five-year warrant to purchase 50,000 shares of CleanSpark Common Stock at an exercise price of $16.00 per share, and (iii) a five-year warrant to purchase 50,000 shares of CleanSpark Common Stock at an exercise price of $20.00 per share. The share quantities and exercise prices of warrants reflect the 10:1 stock split completed by CleanSpark in December 2019.

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

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

In connection with entry into the Merger Agreement, the Company and CleanSpark entered into a Contract Manufacturing Agreement (the "Contract Manufacturing Agreement"), dated as of January 22, 2019, pursuant to which the Company agreed to manufacture paralleling switchgear, automatic transfer switches and related control and circuit protective equipment (collectively, "Products") exclusively for purchase by CleanSpark. CleanSpark agreed to purchase the Products via purchase orders issued to the Company at any time and from time to time. Pursuant to the Contract Manufacturing Agreement, the price for the Products payable by CleanSpark to the Company are negotiated on a case by case basis, but all purchases of Products have a target price of 91% of the CleanSpark customer's purchase order price and are not to be more than 109% of the Company's cost. The Contract Manufacturing Agreement has a term of 18 months and may be extended by mutual agreement of the Company and CleanSpark.

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

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

The Merger resulted in the deconsolidation of PCPI and a gain of $4.2 million in the first quarter of 2019. The fair value of the investment in the common stock of CleanSpark was determined using quoted market prices and warrants were established using a Black Scholes model.

From the date of sale through December 31, 2019, the estimated fair value of the warrants and common stock decreased to $1.4 million and an unrealized mark to market loss of $2.8 million was recognized within other expense for the year ended December 31, 2019.

Sale of Transformer Business Units

On June 28, 2019, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement"), by and among the Company, Electrogroup Canada, Inc., a wholly owned subsidiary of the Company ("Electrogroup"), Jefferson Electric, Inc., a wholly owned subsidiary of the Company ("Jefferson"), JE Mexican Holdings, Inc., a wholly owned subsidiary of the Company ("JE Mexico," and together with Electrogroup and Jefferson, the "Disposed Companies"), Nathan Mazurek (Chief Executive Officer of the Company), Pioneer Transformers L.P. (the "US Buyer") and Pioneer Acquireco ULC (the "Canadian Buyer," and together with the US Buyer, the "Buyer"). Pursuant to the terms of the Stock Purchase Agreement, the Company agreed to sell (i) all of the issued and outstanding equity interests of Electrogroup to the Canadian Buyer and (ii) all of the issued and outstanding equity interests of Jefferson and JE Mexico to the US Buyer (the "Equity Transaction"), for a purchase price of $68.0 million. Included in the purchases price, the Company received two subordinated promissory notes, issued by the Buyer, in the aggregate principal amount of $5.0 million and $2.5 million, for a total aggregate principal amount of $7.5 million. During the fourth quarter of 2019, the Company and the Buyer, pursuant to the Stock Purchase Agreement, completed the net working capital adjustment, which resulted in the Company paying the Buyer $1.7 million in cash and reducing the principal amount of the $5.0 million Seller Note to $3.3 million. The Company has revalued the notes for an appropriate imputed interest rate, resulting in a reduction to the value of the notes at December 31, 2019 of $651, for a carrying value of $5.1 million, which is included within other long term assets. After certain adjustments and expenses of sale, the Company received net consideration from the sale of $45.2 million. Subsequent to finalizing the working capital adjustment during the fourth quarter of 2019 the gain recognized on the Equity Transaction amounted to $13.7 million and is reflected within discontinued operations.

The transaction was consummated on August 16, 2019. Pioneer sold to the Buyer all of the assets and liabilities associated with its liquid-filled transformer and dry-type transformer manufacturing businesses within the Company's T&D Solutions segment. Pioneer Power retained its switchgear manufacturing business within the T&D Solutions segment, as well as all of the operations associated with its Critical Power segment.

For presentation within these statements, the Disposed Companies are being presented as discontinued operations for all periods presented.

Critical Accounting Policies

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

Revenue Recognition. Revenue is recognized when (1) a contract with a customer exists, (2) performance obligations promised in a contract are identified based on the products or services that will be transferred to the customer, (3) the transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products or services to the customer, (4) the transaction price is allocated to the performance obligations in the contract and (5) the Company satisfies performance obligations. Substantially all of our product revenue is recognized at a point of time, as the promised product passes to the customer. Service revenues include maintenance contracts that are recognized over time based on the contract term and repair services which are recognized as services are delivered.

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

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

Goodwill and Indefinite lived intangible Assets. Goodwill and other intangible assets with indefinite useful lives are not amortized, but are evaluated for impairment annually, or immediately if conditions indicate that impairment could exist. The evaluation requires an impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss. The test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the Company measures the amount of the impairment loss. The goodwill impairment testing involves significant estimates. The Company recorded an impairment charge of $3.0 million to the goodwill at the TESI business unit in 2019, based in part by the loss of the Verizon agreement, which is recorded in continuing operations within selling, general, and administrative expense. The Company recorded a $1.4 million impairment to intangible assets during the year ended December 31, 2018 at the PCEP business unit. At December 31, 2019 the Company reported no intangible assets.

Income Taxes. We account for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities using expected rates in effect for the tax year in which the differences are expected to reverse. Developing the provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. A valuation allowance was recorded to reduce our deferred tax assets to zero at December 31, 2019. If we were to subsequently determine that we would be able to realize deferred tax assets in the future in excess of its net recorded amount, an adjustment to deferred tax assets would increase net income for the period in which such determination was made. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Our judgments and tax strategies are subject to audit by various taxing authorities.

Changes in Accounting Principles

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

Rounding

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

RESULTS OF OPERATIONS

Overview of 2019 Operating Results

Selected financial and operating data for our reportable business segments for the most recent two years is summarized below. This information, as well as the selected financial data provided in Note 17 and our Consolidated Financial Statements and related notes included in this Annual Report on Form 10-K, should be referred to when reading our discussion and analysis of results of operations below. Our summary of operating results during the years ended 2019 and 2018 are as follows:

	For the Year Ended December 31,	
	2019	2018
Revenues		
T&D Solutions	$ 8,985	$ 8,747
Critical Power Solutions	11,597	11,380
Consolidated	20,582	20,127
Cost of goods sold		
T&D Solutions	9,522	8,374
Critical Power Solutions	9,895	9,859
Consolidated	19,417	18,233
Gross profit	1,165	1,894
Selling, general and administrative expenses	12,681	9,494
Depreciation and amortization expense	237	1,525
Total operating expenses	12,918	11,019
Operating loss from continuing operations	(11,753)	(9,125)
Interest expense	396	916
Gain on sale of subsidiaries	4,207	-
Other expense	2,817	64
Loss before taxes	(10,759)	(10,105)
Income tax expense (benefit)	1,278	(796)
Net loss from continuing operations	(12,037)	(9,309)
Discontinued operations (Note 7)		
(Loss) income from operations of discontinued business units	(2,351)	4,744
Gain on sale of discontinued subsidiaries	13,686	-
Income tax expense	737	1,099
Income from discontinued operations, net of income taxes	10,598	3,645
Net loss	$ (1,439)	$ (5,664)

Backlog. Our order backlog at December 31, 2019 was $15.9 million, as compared to $15.7 million at December 31, 2018 for continuing operations. Our backlog is based on orders expected to be delivered in the future, most of which is expected to occur during 2020. The following table represents the progression of our backlog, by reporting segment, for the periods ended as indicated:

	December 31,	
	2019	2018
T&D Solutions	$ 6,450	$ 9,486
Critical Power Solutions	9,406	6,171
Order backlog	$ 15,856	$ 15,657
Discountinued Operation	-	31,834
Total order backlog	$ 15,856	$ 47,491

Revenue

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

	For the Year Ended December 31,			
	2019	2018	Variance	%
T&D Solutions				
Switchgear	$ 8,985	$ 8,747	$ 238	2.7
	8,985	8,747	238	2.7
Critical Power Solutions				
Equipment	1,416	1,580	(164)	(10.4)
Service	10,181	9,800	381	3.9
	11,597	11,380	217	1.9
Total revenue	$ 20,582	$ 20,127	$ 455	2.3

For the year ended December 31, 2019, our consolidated revenue increased by $455, or 2.3% to $20.6 million, up from $20.1 million during the year ended December 31, 2018.

T&D Solutions. Revenue from our switchgear product lines increased by $238, or 2.7%, as result of increased sales of our transfer switches.

Critical Power. Revenue for our equipment sales decreased by $164, or 10.4%, driven by our decision to concentrate our efforts on service revenue, which provides higher profit margins. The increase in service revenue of $381, or 3.9% is further confirmation of this strategy.

Gross Profit and Gross Margin

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

	For the Year Ended December 31,			
	2019	2018	Variance	%
T&D Solutions				
Gross profit	$ (537)	$ 373	$ (910)	(244.0)
Gross margin %	(6.0)	4.3	(10.3)	
Critical Power Solutions				
Gross profit	1,702	1,521	181	11.9
Gross margin %	14.7	13.4	1.3	
Consolidated gross profit	$ 1,165	$ 1,894	$ (729)	(38.5)
Consolidated gross margin %	5.7	9.4	(3.7)	

For the year ended December 31, 2019, our gross margin percentage was 5.7% of revenues, compared to 9.4% during the year ended December 31, 2018. The 3.7% reduction in our consolidated gross margin percentage is explained predominantly by the results of our T&D Solutions segment.

T&D Solutions. The reduction in our T&D Solutions gross margin resulted primarily from taking on lower margin jobs, providing customer discounts and an increase in wage rates for our skilled labor force. Gross profit for the year ended December 31, 2019 also includes write downs of inventory amounting to $414.

Critical Power. The 11.9% increase in our Critical Power segment gross margin was driven primarily by increased sales of service which provide higher margins than our equipment sales.

Operating Expenses

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

	For the Year Ended December 31,			
	2019	**2018**	**Variance**	**%**
T&D Solutions				
Selling, general and administrative expense	$ 2,539	$ 4,225	$ (1,686)	(39.9)
Depreciation and amortization expense	67	241	(174)	(72.2)
Segment operating expense	$ 2,606	$ 4,466	$ (1,860)	(41.6)
Critical Power Solutions				
Selling, general and administrative expense	$ 5,161	$ 1,625	$ 3,536	217.6
Depreciation and amortization expense	122	1,222	(1,100)	(90.0)
Segment operating expense	$ 5,283	$ 2,847	$ 2,436	85.6
Unallocated Corporate Overhead Expenses				
Selling, general and administrative expense	$ 4,981	$ 3,644	$ 1,337	36.7
Depreciation expense	48	62	(14)	(22.6)
Segment operating expense	$ 5,029	$ 3,706	$ 1,323	35.7
Consolidated				
Selling, general and administrative expense	$ 12,681	$ 9,494	$ 3,187	33.6
Depreciation and amortization expense	237	1,525	(1,288)	(84.5)
Consolidated operating expense	$ 12,918	$ 11,019	$ 1,899	17.2

Selling, General and Administrative Expense. For the year ended December 31, 2019, consolidated selling, general and administrative expense, before depreciation and amortization, increased by approximately $3.2 million, or 33.6%, to $12.7 million, as compared to $9.5 million during the year ended December 31, 2018. As a percentage of our consolidated revenue, selling, general and administrative expense increased to 61.6% in 2019, as compared to 47.2% in 2018.

The selling, general and administrative expense in our T&D Solutions segment decreased by $1.7 million, or 39.9%, during the year ended December 31, 2019, as compared to 2018 primarily due to lower intangible impairment write-offs and payroll related costs.

The selling, general and administrative expense in our Critical Power segment increased by $3.5 million, or 217.6% as compared to 2018 primarily due to an increase in intangible impairment write-offs and legal costs.

Depreciation and Amortization Expenses. Depreciation and amortization expense consists primarily of depreciation of fixed assets and amortization of definite-lived intangible assets and right-of-use assets related to our finance leases and excludes amounts included in cost of sales. Depreciation and amortization expense decreased by $1.3 million during the year ended December 31, 2019 compared to the year ended December 31, 2018 primarily due to an intangible asset becoming fully amortized in our Critical Power segment.

Operating Loss

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

	For the Year Ended December 31,			
	2019	**2018**	**Variance**	**%**
T&D Solutions	$ (3,143)	$ (4,093)	$ 950	(23.2)
Critical Power Solutions	(3,581)	(1,326)	(2,255)	(170.1)
Unallocated Corporate Overhead Expenses	(5,029)	(3,706)	(1,323)	(35.7)
Total operating loss	$ (11,753)	$ (9,125)	$ (2,628)	28.8

T&D Solutions. Operating loss from this segment decreased by $950 in 2019 compared to 2018, due to a decrease in intangible impairment expense of $1.4 million, offset by an increase in legal expense in 2019.

Critical Power. The Critical Power segment operating loss increased by $2.3 million during 2019 from 2018 due primarily to a goodwill impairment of $3.0 million, offset by lower amortization of intangible assets in 2019.

General Corporate Expense. Our general corporate expenses consist primarily of executive management, corporate accounting and human resources personnel, office expenses, financing and corporate development activities, payroll and benefits administration, treasury, tax compliance, legal, stock-based compensation and public reporting costs, and costs not specifically allocated to reportable business segments. During the year ended December 31, 2019, our unallocated corporate overhead expense increased by $1.3 million, primarily from increased payroll related expenses.

Non-Operating Expense

Interest Expense. For the year ended December 31, 2019, our interest expense was $396, as compared to $916 for the year ended December 31, 2018. The net decrease in our interest expense was due to the retirement of our bank indebtedness with the proceeds from the sale of the transformer business units in August 2019.

Other Expense. Other expense in the consolidated statements of operations reports certain gains and losses associated with activities not directly related to our core operations. For the year ended December 31, 2019, other non-operating expense was $2.8 million, as compared to $64 during the year ended December 31, 2018. For the year ended December 31, 2019, included in other non-operating expense was a loss of $2.8 million related to the mark to market adjustment on the fair value of common stock and warrants received in connection with the Merger of PCPI, CleanSpark and the Merger Sub.

Provision for Income Taxes. Our provision reflects an effective tax rate on loss before taxes of (11.9)% in 2019, as compared to 7.9% in 2018, as set forth below:

	For the Year Ended December 31,		
	2019	**2018**	**Variance**
Loss before income taxes	$ (10,759)	$ (10,105)	$ (654)
Income tax expense (benefit)	1,278	(796)	2,074
Effective income tax rate %	(11.9)	7.9	(19.8)

Net Loss per Share from Continuing Operations

We generated a net loss from continuing operations of $12.0 million for the year ended December 31, 2019, as compared to net loss from continuing operations of $9.3 million during the year ended December 31, 2018. In 2019, our net loss from continuing operations per basic and diluted share was $1.38, as compared to a net loss from continuing operations per basic and diluted share of $1.07 during the year ended December 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

General. As of December 31, 2019, we had $8.2 million of cash and cash equivalents on hand. We have historically met our cash needs through a combination of cash flows from operating activities, bank borrowings under our revolving credit facilities and distributions between our U.S. and foreign subsidiaries. Our cash requirements have been generally for operating activities, capital improvements and acquisitions.

Cash (Used in)/ Provided by Operating Activities. Cash used in our operating activities was $5.6 million during the year ended December 31, 2019, as compared to cash provided of $2.2 million during the year ended December 31, 2018. The increase in cash used in operations during the year ended December 31, 2019 occurred as a result of an increase of cash used for working capital when compared to the year ended December 31, 2018.

Cash Provided by Investing Activities. Cash provided by investing activities during the year ended December 31, 2019 was $39.8 million generated primarily from the completion of the Equity Transaction, as compared to cash provided by investing activities of $173 during the year ended December 31, 2018. During the year ended December 31, 2019, additions to our property, plant and equipment were $153.

Cash Used in Financing Activities. Cash used in our financing activities was $26.2 million during the year ended December 31, 2019, as compared to $3.4 million of cash used in financing activities during the year ended December 31, 2018. The primary use of cash in financing activities for the year ended December 31, 2019 was for repayment of debt.

Working Capital/ (Deficit). As of December 31, 2019, we had working capital of $10.1 million, including $8.2 million of cash and cash equivalents, compared to a working capital deficit of $5.5 million, including $211 of cash and cash equivalents at December 31, 2018. At December 31, 2019, we no longer had a revolving credit facility as it was paid in full in August 2019 with the proceeds from the sale of the transformer business units. At December 31, 2018, we had $388 of available and unused borrowing capacity from our revolving credit facilities.

Assessment of Liquidity. At December 31, 2019, we had $8.2 million of cash and cash equivalents on hand generated primarily from the completion of the Equity Transaction. We have historically met our cash needs through a combination of cash flows from operating activities and bank borrowings under our revolving credit facilities. Our cash requirements historically were generally for operating activities, debt repayment, capital improvements and acquisitions. As all outstanding amounts under our credit facilities have been paid in full with the proceeds from the Equity Transaction during the year ended December 31, 2019, we expect to meet our cash needs with our working capital and cash flows from our operating activities. We expect our cash requirements to be generally for operating activities and capital improvements.

Credit Facilities and Long-Term Debt

Canadian Credit Facilities

In April 2016, our wholly owned subsidiary, Pioneer Electrogroup Canada Inc., entered into an Amended and Restated Credit Agreement ("CAD ARCA") with Bank of Montreal ("BMO") with respect to our existing Canadian credit facilities (as amended and restated, the "Canadian Facilities") that replaced and superseded all of our businesses' prior financing arrangements with the bank. This CAD ARCA extended the maturity date of our Canadian Facilities to July 31, 2017. The CAD ARCA was further amended (the "2017 CAD ARCA Amendment") on March 15, 2017, and again on March 28, 2018 (the "2018 CAD ARCA Amendment"). The 2018 CAD ARCA Amendment extended the term of our Canadian Facilities to April 1, 2020. On August 8, 2019, BMO agreed to a temporary borrowing base increase until the earlier of the (i) closing of the Equity Transaction and repayment in full of all amounts owned under the Canadian Facilities and the U.S. Facilities, and (ii) August 31, 2019.

Our Canadian Facilities provided for up to $8.2 million Canadian dollars ("CAD") (approximately $6.3 million expressed in U.S. dollars) consisting of a revolving $7.0 million CAD revolving credit facility ("Facility A") to finance ongoing operations, a $471 CAD term credit facility ("Facility B") that financed a plant expansion, and a $712 USD Facility ("Facility C") that financed a business acquisition and the purchase and expansion of its manufacturing facilities. The 2017 CAD ARCA Amendment increased the Facility A to $8.0 million CAD, increasing the total amount of loans available under the Canadian Facilities to $9.2 million CAD. We made the final principal payment under Facility B on April 30, 2018, and the outstanding principal balance under Facility C with proceeds received from the sale of the Farnham, Quebec, Canada, building in December 2018. All outstanding amounts under Facility A were paid in full on August 16, 2019, using proceeds from the Equity Transaction, and the underlying debt agreements were terminated.

United States Credit Facilities

In April 2016, we entered into an Amended and Restated Credit Agreement ("US ARCA") with BMO with respect to our existing U.S. facilities that replaced and superseded all of our businesses' prior financing arrangements with the bank (the "U.S. Facilities").The US ARCA was further amended (the "2017 US ARCA Amendment") on March 15, 2017, and again on March 28, 2018 (the "2018 US ARCA Amendment"). The 2018 US ARCA Amendment extended the term of our US Facilities to April 1, 2020.

Our U.S. Facilities, as amended and restated, provided for up to $19.1 million USD consisting of a $14.0 million USD demand revolving credit facility ("USD Facility A") to finance ongoing operations, a $5.0 million USD term loan facility ("USD Facility B") that financed the acquisition of Titan, and a new $100 revolving credit facility provided pursuant to a MasterCard is to be used to pay for and temporarily finance our day-to-day business expenses and for no other purpose. The 2017 US ARCA Amendment increased the USD Facility A to $15.0 million, increasing the total amount of loans available under the U.S. Facilities to $20.1 million USD. All outstanding amounts under USD Facilities A and B were paid in full on August 16, 2019, using proceeds from the Equity Transaction, and the underlying debt agreements were terminated.

Capital Expenditures

Our additions to property, plant and equipment were $153 during the year ended December 31, 2019, as compared to $589 during the year ended December 31, 2018. We have no major future capital projects planned, or significant replacement spending anticipated during the rest of 2019. Additions were a result of supporting the day to day needs of the Company.

Capital Lease Obligations

As of December 31, 2019 and December 31, 2018, we had an immaterial amount of capital lease obligations outstanding that were assumed in connection with the acquisition of Titan.

Factors That May Affect Future Operations

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

Off Balance Sheet Transactions and Related Matters

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

New Accounting Pronouncements

The information required by this Item is provided in "Note 2. Summary of Significant Accounting Policies" to our audited financial statements for the year ended December 31, 2019 included in this Annual Report on Form 10-K.

Recent Accounting Pronouncements

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

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), or ASU 2014-09, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. Since then, the FASB has also issued ASU 2016-08, *Revenue from Contracts with Customers* (Topic 606), *Principals versus Agent Considerations,* ASU 2016-04, *Revenue from Contracts with Customers* (Topic 606), *Identifying Performance Obligations and Licensing*, and ASU 2017-13 *Revenue Recognition* (Topic 605), *Revenue from Contracts with Customers* (Topic 606), *Leases* (Topic 840), and *Leases* (Topic 842), *Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Recession of Prior SEC Staff Announcements and Observer Comments,* which further elaborate on the original ASU No. 2014-09. The core principle of these updates is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgments and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. In July 2015, the FASB approved a one-year deferral of the effective date to January 1, 2018, with early adoption to be permitted as of the original effective date of January 1, 2017. Once this standard becomes effective, companies may use either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients; or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures) (the "modified retrospective approach"). We completed a review of our various revenue streams within our two reportable segments, T&D Solutions and Critical Power. We have gathered data to quantify the amount of sales by type of revenue stream and categorized the types of sales for our business units for the purpose of comparing how we currently recognize revenue to the new standard in order to quantify the impact of this ASU. We have made policy elections within the amended standard that are consistent with our current accounting. We adopted ASU 2014-09 in our first quarter of 2018 using the modified retrospective approach. We have performed a quantitative assessment of adopting ASU 2014-09 and concluded that there was no material impact to our financial statements other than enhanced disclosures and no changes to the opening retained earnings.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)"*, which requires, among other things, a lessee to recognize a liability representing future lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For operating leases, a lessee will be required to recognize at inception a right-of-use asset and a lease liability equal to the net present value of the lease payments, with lease expense recognized over the lease term on a straight-line basis. For leases with a term of twelve months or less, ASU 2016-02 allows a reporting entity to make an accounting policy election to not recognize a right-of-use asset and a lease liability, and to recognize lease expense on a straight-line basis. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Upon adoption, a reporting entity should apply the provisions of ASU 2016-02 at the beginning of the earliest period presented using a modified retrospective approach, which includes certain optional practical expedients that an entity may elect to apply. We adopted this standard in our first quarter of 2018 using the modified retrospective approach.

In August 2016, the FASB issued ASU No. 2016-15, "*Statement of Cash Flows* (Topic 230)*: Classification of Certain Cash Receipts and Cash Payments"*. The purpose of Update No. 2016-15 is to reduce the diversity in practice in presentation and classification of the following items within the statement of cash flows: debt prepayments or debt extinguishment costs, settlement of zero coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investments and beneficial interests in securitization transactions. It also addresses classification of transactions that have characteristics of more than one class of cash flows. Update No. 2016-15 is effective for annual periods beginning after December 15, 2017, and a retrospective transition method is required. We adopted ASU 2016-15 in our first quarter of 2018 using the retrospective approach. The adoption of ASU 2016-15 did not have a material impact on our consolidated statements of cash flows.

In October 2016, the FASB issued ASU No. 2016-16, "*Income Taxes (Topic 740)": Intra-Entity Transfers of Assets Other Than Inventory*. ASU No. 2016-16 requires the income tax consequences of intra-entity transfers of assets other than inventory to be recognized when the intra-entity transfer occurs rather than deferring recognition of income tax consequences until the transfer was made with an outside party. We adopted ASU 2016-16 in the first quarter of 2018 using a modified retrospective approach. Adoption of the new standard did not have a material impact on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-04, "*Simplifying the Test for Goodwill Impairment*". This standard was established to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The Company recorded an impairment charge of $3.0 million to the goodwill at the TESI business unit in 2019, partially as a result of the loss of the Verizon agreement, which is recorded in continuing operations within selling, general, and administrative expense.

In June 2018, the FASB issued ASU No. 2018-07, "*Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting"*. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The updated standard is effective for the Company beginning after December 15, 2018, including interim periods within that fiscal year.

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement"* that eliminates, amends, and adds certain disclosure requirements for fair value measurements. The ASU is effective for all annual and interim periods beginning January 1, 2020, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"*, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The ASU is effective for all annual and interim periods beginning December 15, 2020, with early adoption permitted. The Company is currently evaluating the potential impact but does not anticipate there will be an impact of the adoption of this standard on its results of a material impact to the consolidated financial statements once implemented.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements for the Years Ended December 31, 2019 and 2018

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Pioneer Power Solutions, Inc.
Fort Lee, New Jersey

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Pioneer Power Solutions, Inc. (the "Company") and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ BDO USA, LLP

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

New York, New York
March 30, 2020

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

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018
Revenues	$ 20,582	$ 20,127
Cost of goods sold	19,417	18,233
Gross profit	1,165	1,894
Operating expenses		
Selling, general and administrative	12,918	11,019
Total operating expenses	12,918	11,019
Loss from continuing operations	(11,753)	(9,125)
Interest expense	396	916
Gain on sale of subsidiaries	4,207	-
Other expense	2,817	64
Loss before taxes	(10,759)	(10,105)
Income tax expense (benefit)	1,278	(796)
Net loss from continuing operations	(12,037)	(9,309)
Discontinued operations (Note 7)		
(Loss) income from operations of discontinued business units	(2,351)	4,744
Gain on sale of discontinued subsidiaries	13,686	-
Income tax expense	737	1,099
Income from discontinued operations, net of income taxes	10,598	3,645
Net loss	$ (1,439)	$ (5,664)
Earnings (loss) per share:		
Basic		
Loss from continuing operations	$ (1.38)	$ (1.07)
Income from discontinued operations	1.21	0.42
Net loss	$ (0.17)	$ (0.65)
Diluted		
Loss from continuing operations	$ (1.38)	$ (1.07)
Income from discontinued operations	1.21	0.42
Net loss	$ (0.17)	$ (0.65)
Weighted average common shares outstanding:		
Basic	8,726	8,726
Diluted	8,726	8,726

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

PIONEER POWER SOLUTIONS, INC.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	For the Year Ended December 31,	
	2019	**2018**
Net loss	$ (1,439)	$ (5,664)
Other comprehensive income (loss)		
Foreign currency translation adjustments	4,766	(161)
Amortization of net prior service costs and net actuarial losses, net of tax	1,145	62
Other comprehensive income (loss)	5,911	(99)
Comprehensive income (loss)	$ 4,472	$ (5,763)

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

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

	December 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 8,213	$ 211
Short term investments	936	-
Accounts receivable, net	3,716	3,384
Insurance receivable	1,800	-
Inventories, net	4,554	3,678
Prepaid expenses and other current assets	795	1,996
Current assets of discontinued operations	-	37,656
Total current assets	20,014	46,925
Property, plant and equipment, net	640	878
Deferred income taxes	-	2,837
Other assets	7,465	3,098
Intangible assets, net	-	124
Goodwill	-	2,969
Assets of discontinued operations	-	15,681
Total assets	$ 28,119	$ 72,512
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Bank overdrafts	$ 374	$ 78
Revolving credit facilities	-	20,755
Accounts payable and accrued liabilities	7,533	7,257
Deferred revenue	1,441	1,695
Current maturities of long-term debt	-	1,174
Income taxes payable	543	95
Current liabilities of discontinued operations	-	21,362
Total current liabilities	9,891	52,416
Long-term debt, net of current maturities	-	2,619
Other long-term liabilities	1,793	1,599
Deferred income taxes	-	1,592
Long-term liabilities of discontinued operations	-	2,335
Total liabilities	11,684	60,561
Stockholders' equity		
Preferred stock, $0.001 par value, 5,000,000 shares authorized; none issued	-	-
Common stock, $0.001 par value, 30,000,000 shares authorized; 8,726,045 shares issued and outstanding on December 31, 2019 and 2018	9	9
Additional paid-in capital	23,978	23,966
Accumulated other comprehensive income (loss)	14	(5,897)
Retained earnings (accumulated deficit)	(7,566)	(6,127)
Total stockholders' equity	16,435	11,951
Total liabilities and stockholders' equity	$ 28,119	$ 72,512

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

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

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018
Operating activities		
Net loss	$ (1,439)	$ (5,664)
Depreciation	607	1,222
Amortization of intangible assets	150	1,460
Amortization of right-of-use assets	680	622
Amortization of debt issuance cost	43	75
Amortization of imputed interest	(166)	-
Deferred income tax expense (benefit)	1,245	(329)
Change in receivable reserves	3,093	(350)
Change in inventory reserves	361	241
Inventory write-off from flood damage	2,688	-
Gain on sale of subsidiaries	(17,893)	-
Insurance receivable	(1,800)	-
Unrealized loss on short term investments	2,750	-
Accrued pension	114	(55)
Stock-based compensation	12	165
Other	-	21
Intangible asset impairment	83	1,350
Goodwill impairment	2,969	-
Foreign currency remeasurement loss	(100)	42
Changes in current operating assets and liabilities:		
Accounts receivable	1,855	(1,373)
Inventories	(1,145)	(2,118)
Prepaid expenses and other assets	(250)	(708)
Income taxes	827	(93)
Accounts payable and accrued liabilities	(3)	8,323
Customer deposits and deferred revenue	(254)	(678)
Net cash (used in)/provided by operating activities	(5,573)	2,153
Investing activities		
Additions to property, plant and equipment	(153)	(589)
Proceeds from sale of subsidiairies, net	39,923	-
Proceeds from sale of fixed assets	-	762
Net cash provided by investing activities	39,770	173
Financing activities		
Bank overdrafts	(1,439)	699
Short term borrowings	-	(5,430)
Borrowing under debt agreement	15,329	40,599
Repayment of debt	(40,070)	(38,848)
Payment of debt issuance cost	(15)	(18)
Write-off of notes receivable	600	-
Principal repayments of financing leases	(635)	(414)
Net cash used in financing activities	(26,230)	(3,412)
Increase (decrease) in cash and cash equivalents	7,966	(1,086)
Effect of foreign exchange on cash and cash equivalents	36	1,079
Cash and cash equivalents		
Beginning of period	211	218
End of period	$ 8,213	$ 211
Supplemental cash flow information:		
Interest paid	1,106	2,603
Income taxes paid, net of refunds	477	587
Non-cash investing and financing activities:		
Securities received for sale of subsidiary	4,207	-
Notes receivable recognized upon Equity Transaction	4,929	-

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

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

	Common Stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Cash Dividend Declared	Accumulated deficit/ Retained Earnings	Total stockholders' equity
	Shares	Amount					
Balance - December 31, 2017	8,726,045	$ 9	$ 23,801	$ (5,798)	$ -	$ (463)	$ 17,549
Net loss	-	-	-	-	-	(5,664)	(5,664)
Stock-based compensation	-	-	165	-	-	-	165
Foreign currency translation adjustment	-	-	-	(161)	-	-	(161)
Pension adjustment, net of taxes	-	-	-	62	-	-	62
Balance - December 31, 2018	8,726,045	$ 9	$ 23,966	$ (5,897)	$ -	$ (6,127)	$ 11,951
Balance - December 31, 2018	8,726,045	9	23,966	(5,897)	-	(6,127)	11,951
Net loss	-	-	-	-	-	(1,439)	(1,439)
Stock-based compensation	-	-	12	-	-	-	12
Foreign currency translation adjustment	-	-	-	4,766	-	-	4,766
Pension adjustment, net of taxes	-	-	-	1,145	-	-	1,145
Balance - December 31, 2019	8,726,045	$ 9	$ 23,978	$ 14	$ -	$ (7,566)	$ 16,435

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

1. BASIS OF PRESENTATION

Pioneer Power Solutions, Inc. and its wholly owned subsidiaries (referred to herein as the "Company," "Pioneer," "Pioneer Power," "we," "our" and "us") manufacture, sell and service a broad range of specialty electrical transmission, distribution and on-site power generation equipment for applications in the utility, industrial, commercial and backup power markets. The Company is headquartered in Fort Lee, New Jersey and operates from five (5) additional locations in the U.S. for manufacturing, centralized distribution, engineering, sales and administration.

NASDAQ Listing

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

Segments

In determining operating and reportable segments in accordance with ASC 280, Segment Reporting ("ASC 280"), the Company concluded that it has two reportable segments, which are also our operating segments: Transmission & Distribution Solutions ("T&D Solutions") and Critical Power Solutions. Financial information about the Company's segments is presented in Note 17 – Business Segment, Geographic and Customer Information.

Sale of Transformer Business Units

On June 28, 2019, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement"), by and among the Company, Electrogroup Canada, Inc., a wholly owned subsidiary of the Company ("Electrogroup"), Jefferson Electric, Inc., a wholly owned subsidiary of the Company ("Jefferson"), JE Mexican Holdings, Inc., a wholly owned subsidiary of the Company ("JE Mexico," and together with Electrogroup and Jefferson, the "Disposed Companies"), Nathan Mazurek (Chief Executive Officer of the Company), Pioneer Transformers L.P. (the "US Buyer") and Pioneer Acquireco ULC (the "Canadian Buyer," and together with the US Buyer, the "Buyer"). Pursuant to the terms of the Stock Purchase Agreement, the Company agreed to sell (i) all of the issued and outstanding equity interests of Electrogroup to the Canadian Buyer and (ii) all of the issued and outstanding equity interests of Jefferson and JE Mexico to the US Buyer (the "Equity Transaction"), for a purchase price of $68.0 million. Included in the purchases price, the Company received two subordinated promissory notes, issued by the Buyer, in the aggregate principal amount of $5.0 million and $2.5 million, for a total aggregate principal amount of $7.5 million. During the fourth quarter of 2019, the Company and the Buyer, pursuant to the Stock Purchase Agreement, completed the net working capital adjustment, which resulted in the Company paying the Buyer $1.7 million in cash and reducing the principal amount of the $5.0 million Seller Note to $3.3 million. The Company has revalued the notes for an appropriate imputed interest rate, resulting in a reduction to the value of the notes at December 31, 2019 of $651, for a carrying value of $5.1 million, which is included within other long term assets as of December 31, 2019. After certain adjustments and expenses of sale, the Company received net consideration from the sale of $45.2 million. Subsequent to finalizing the working capital adjustment during the fourth quarter of 2019 the gain recognized on the Equity Transaction amounted to $13.7 million and is reflected within discontinued operations.

The transaction was consummated on August 16, 2019. Pioneer sold to the Buyer all of the assets and liabilities associated with its liquid-filled transformer and dry-type transformer manufacturing businesses within the Company's T&D Solutions segment. Pioneer Power retained its switchgear manufacturing business within the T&D Solutions segment, as well as all of the operations associated with its Critical Power segment.

For presentation within these statements, the Disposed Companies are being presented as discontinued operations for all periods presented.

Presentation

The accompanying audited consolidated financial statements of the Company have been prepared pursuant to the rules of the SEC and reflect the accounts of the Company as of December 31, 2019. 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 to the reader. 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 audited consolidated financial statements have been included.

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

Liquidity

The accompanying financial statements have been prepared on a basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. At December 31, 2019, we had $8.2 million of cash and cash equivalents on hand, generated primarily from the completion of the Equity Transaction, and working capital of $10.1 million. We have historically met our cash needs through a combination of cash flows from operating activities and bank borrowings under our revolving credit facilities. Our cash requirements historically were generally for operating activities, debt repayment, capital improvements and acquisitions. As all outstanding amounts under our credit facilities have been paid in full with the proceeds from the Equity Transaction during the year ended December 31, 2019, we expect to meet our cash needs with our working capital and cash flows from our operating activities. We expect our cash requirements to be generally for operating activities and capital improvements.

During the quarter ended September 30, 2019 the Company declared a cash dividend of approximately $12 million in the aggregate which was subsequently enjoined by ruling of the courts in connection with the litigation with Myers Power Products, Inc. As a result of the court order, the cash dividend was cancelled by the Company during the fourth quarter of 2019. However, the timing and amount of future dividends could require the Company to seek capital funding to support its ongoing operations as the Company’s historical credit arrangements were terminated in connection with the Equity Transaction.

There are two appeals pending in the California Court of Appeals for the Second Appellate District in connection with the litigation with Myers Power Products, Inc., which includes an appeal of an order modifying a previously issued preliminary injunction and an order enjoining the Company to obtain and post a $12 million bond in connection with the modified preliminary injunction. While the Company intends to defend itself vigorously, due to the uncertainties of litigation, the Company can give no assurance that it will prevail on the appeals which could have an adverse impact on the Company’s financial position. These appeals are currently scheduled to be heard later in calendar year 2021, after the underlying case is likely to be heard and decided. See Note 13 for further discussion.

Rounding

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

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

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

Revenue Recognition

Revenue is recognized when (1) a contract with a customer exists, (2) performance obligations promised in a contract are identified based on the products or services that will be transferred to the customer, (3) the transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products or services to the customer, (4) the transaction price is allocated to the performance obligations in the contract and (5) the Company satisfies performance obligations. Substantially all of our revenue is recognized at a point of time, as the promised product passes to the customer. Service revenues include maintenance contracts that are recognized over time based on the contract term and repair services which are recognized as services are delivered.

Cost of Goods Sold

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

Financial Instruments

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

The carrying amount reported in the consolidated balance sheet for shares held in CleanSpark, Inc., which are accounted for in accordance with the adoption of ASU 2016-01, of $936 included within short term investment approximates fair value as the asset has a readily determinable market value and as such it is considered a Level 1 asset. The estimated fair value of the warrants held in CleanSpark, Inc. of approximately $531 is considered a Level 3 asset due to unobservable inputs.

Cash and Cash Equivalents

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

Accounts Receivable

The Company accounts for trade receivables at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. The Company writes off trade receivables when they are deemed uncollectible. The Company records recoveries of trade receivables previously written off when it receives them. Management considers the Company’s allowance for doubtful accounts, which was $77 and $123 as of December 31, 2019 and 2018, respectively, sufficient to cover any exposure to loss in its accounts receivable.

Long-Lived Assets

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

Finite life intangible assets consist primarily of customer relationships in multiple categories that are specific to the businesses acquired and for which estimated useful lives were determined based on actual historical customer attrition rates. The Company’s other finite life intangible assets consist of non-compete agreements, which have defined terms, certain trademarks which the Company has elected to gradually discontinue, and internally-developed software. These finite life intangible assets are amortized by the Company over periods ranging from four to ten years.

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

Goodwill and Indefinite Life Intangible Assets

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

The Company tests its goodwill and indefinite-lived intangible asset for impairment at least annually (as of October 1) and whenever events or circumstances change that indicate impairment may have occurred. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in the Company's expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate of its segments; unanticipated competition; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of goodwill, the indefinite-lived intangible assets and the Company's consolidated financial results. As described in Note 11, the Company recorded impairment charges of $83 for intangible assets and $3.0 million against goodwill in 2019 and $870, $377 and $103 against technology-related industry accreditation, customer relationships and non-complete agreements, respectively, in 2018.

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

As of December 31, 2019, the Company has written the value of all of its goodwill and intangible assets to zero because the Company determined they were impaired.

Income Taxes

The Company accounts for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing the provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company believes that the deferred tax asset recorded as of December 31, 2019 and 2018 is realizable through future reversals of existing taxable temporary differences and future taxable income. If the Company was to subsequently determine that it would be able to realize deferred tax assets in the future in excess of its net recorded amount, an adjustment to deferred tax assets would increase net income for the period in which such determination was made. The Company will continue to assess the adequacy of the valuation allowance on a quarterly basis. The Company's tax filings are subject to audit by various taxing authorities.

The objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences or events that have been recognized in the Company's financial statements or tax returns. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position (see "Unrecognized Tax Benefits" below).

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

Unrecognized Tax Benefits

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

Additionally, ASC 740 requires the Company to accrue interest and related penalties, if applicable, on all tax positions for which reserves have been established consistent with jurisdictional tax laws. See Note 16 – Income Taxes.

Share-Based Payments

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

Inventories

Inventories are stated at the lower of cost or net realizable value using first-in, first-out (FIFO) or weighted-average methods and include the cost of materials, labor and manufacturing overhead. The Company uses estimates in determining the level of reserves required to state inventory at the lower of cost or market. The Company estimates are based on market activity levels, production requirements, the physical condition of products and technological innovation. Changes in any of these factors may result in adjustments to the carrying value of inventory. See Note 8 - Inventories.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed by dividing the income (loss) for the period by the weighted average number of common and common equivalent shares outstanding during the period. (See Note 18 – Basic and Diluted Net Loss Per Share).

Fair Value Measurements

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

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

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

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

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

The carrying amount reported in the consolidated balance sheet for shares held in CleanSpark, Inc. of $936 included within short term investment approximates fair value as the asset has a readily determinable market value and as such it is considered a Level 1 asset. The estimated fair value of the warrants held in CleanSpark, Inc. of approximately $531 is considered a Level 3 asset due to unobservable inputs.

Recent Accounting Pronouncements

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

Income Taxes. In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)*, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The ASU is effective for all annual and interim periods beginning December 15, 2020, with early adoption permitted. The Company is currently evaluating the potential impact but does not anticipate there will be an impact of the adoption of this standard on its results of a material impact to the consolidated financial statements once implemented.

Leases. In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires, among other things, a lessee to recognize a liability representing future lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For operating leases, a lessee will be required to recognize at inception a right-of-use asset and a lease liability equal to the net present value of the lease payments, with lease expense recognized over the lease term on a straight-line basis. For leases with a term of twelve months or less, ASU 2016-02 allows a reporting entity to make an accounting policy election to not recognize a right-of-use asset and a lease liability, and to recognize lease expense on a straight-line basis. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Upon adoption, a reporting entity should apply the provisions of ASU 2016-02 at the beginning of the earliest period presented using a modified retrospective approach, which includes certain optional practical expedients that an entity may elect to apply. We adopted this standard in our first quarter of 2018 using the modified retrospective approach.

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. Since then, the FASB has also issued ASU 2016-08, *Revenue from Contracts with Customers* (Topic 606), *Principals versus Agent Considerations*, ASU 2016-04, *Revenue from Contracts with Customers* (Topic 606), *Identifying Performance Obligations and Licensing*, and ASU 2017-13 *Revenue Recognition* (Topic 605), *Revenue from Contracts with Customers* (Topic 606), *Leases* (Topic 840), and *Leases* (Topic 842), *Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Recession of Prior SEC Staff Announcements and Observer Comments,* which further elaborate on the original ASU No. 2014-09. The core principle of these updates is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgments and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. In July 2015, the FASB approved a one-year deferral of the effective date to January 1, 2018, with early adoption to be permitted as of the original effective date of January 1, 2017. Once this standard becomes effective, companies may use either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients; or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures) (the "modified retrospective approach"). We completed a review of our various revenue streams within our two reportable segments, T&D Solutions and Critical Power. We have gathered data to quantify the amount of sales by type of revenue stream and categorized the types of sales for our business units for the purpose of comparing how we currently recognize revenue to the new standard in order to quantify the impact of this ASU. We have made policy elections within the amended standard that are consistent with our current accounting. We adopted ASU 2014-09 in our first quarter of 2018 using the modified retrospective approach. We have performed a quantitative assessment of adopting ASU 2014-09 and concluded that there was no material impact to our financial statements other than enhanced disclosures and no changes to the opening retained earnings.

Stock Compensation. In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718):*

Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The updated standard is effective for the Company beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption of the new guidance is permitted, but no earlier than an entity's adoption date of Topic 606. The Company adopted this guidance on January 1, 2019. The adoption of this ASU did not have a material impact on the consolidated financial statements.

Fair Value Measurement. In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* that eliminates, amends, and adds certain disclosure requirements for fair value measurements. The ASU is effective for all annual and interim periods beginning January 1, 2020, with early adoption permitted. The Company does not anticipate material impact of adopting this ASU on its consolidated financial statements.

Measurement of Credit Losses on Financial Instrument. In June 2016, the FASB issued amended guidance to ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* that changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that will replace today's "incurred loss" model and generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. This amended guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first effective reporting period. We do not expect that the amended guidance will have a material effect on our consolidated financial statements and related disclosures.

3. DIVESTITURES

Pioneer Critical Power, Inc.

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

At the effective date of the Merger, all of the issued and outstanding shares of common stock of PCPI, par value $0.01 per share, were converted into the right to receive (i) 175,000 shares of common stock, par value $0.001 per share ("CleanSpark Common Stock"), of CleanSpark, (ii) a five-year warrant to purchase 50,000 shares of CleanSpark Common Stock at an exercise price of $16.00 per share, and (iii) a five-year warrant to purchase 50,000 shares of CleanSpark Common Stock at an exercise price of $20.00 per share.
The Merger Agreement also contains representations, warranties and covenants of the parties customary for transactions similar to those entered into by the Merger Agreement. Such representations and warranties are made solely for purposes of the Merger Agreement and, in some cases, may be subject to qualifications and limitations agreed to by the parties in connection with the negotiated terms of the Merger Agreement and may have been qualified by disclosures that were made in connection with the parties' entry into the Merger Agreement. The share quantities and exercise prices of warrants reflect the 10:1 stock split completed by CleanSpark in December 2019.

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

In connection with entry into the Merger Agreement, the Company and CleanSpark entered into a Contract Manufacturing Agreement (the "Contract Manufacturing Agreement"), dated as of January 22, 2019, pursuant to which the Company will manufacture paralleling switchgear, automatic transfer switches and related control and circuit protective equipment (collectively, "Products") exclusively for purchase by CleanSpark. CleanSpark will purchase the Products via purchase orders issued to the Company at any time and from time to time. The price for the Products payable by CleanSpark to the Company will be negotiated on a case by case basis, but all purchases of Products will have a target price of 91% of the CleanSpark customer's purchase order price and will not be more than 109% of the Company's cost. The Contract Manufacturing Agreement has a term of 18 months and may be extended by mutual agreement of the Company and CleanSpark.

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

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

The Merger resulted in the deconsolidation of PCPI and a gain of $4.2 million in the first quarter of 2019. The fair value of the investment in the common stock of CleanSpark was determined using quoted market prices and warrants were established using a Black Scholes model.

From the date of sale through December 31, 2019, the estimated fair value of the warrants and CleanSpark common stock decreased to $1.4 million and an unrealized mark to market loss of $2.8 million was recognized within other expense for the period ended December 31, 2019. The PCPI entity was a dormant business unit at the time of this sale; therefore this sale has no impact to the discontinued operations presented within the financial statements. See Note 1 for details related to the sale of the Transformer business.

4. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The fair value standard also establishes a three level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2 - inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

At December 31, 2019, the Company's financial instruments included the right to receive (i) 175,000 shares of common stock, par value $0.001 per share, of CleanSpark Common Stock, (ii) a five-year warrant to purchase 50,000 shares of CleanSpark Common Stock at an exercise price of $16.00 per share, and (iii) a five-year warrant to purchase 50,000 shares of CleanSpark Common Stock at an exercise price of $20.00 per share. The carrying amounts reported in the accompanying financial statements for cash and cash equivalents, receivables, inventories, accounts payable and accrued expenses and other current liabilities approximate their respective fair values because of the short-term nature of these accounts. The share quantities and exercise prices of warrants reflect the 10:1 stock split completed by CleanSpark in December 2019.

The following table presents, for each of the fair value hierarchy levels required under ASC 820, the Company's assets that are measured at fair value on a recurring basis:

	December 31, 2019 Fair Value Measurements Using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets			
Common shares	$ 936	$ -	$ -
Warrants	-	-	531

Level 3 Valuation

The warrant asset (which relates to warrants to purchase shares of common stock) is marked-to-market each reporting period with the change in fair value recorded to other income (expense) in the accompanying statements of operations until the warrants are exercised. The fair value of the warrant asset is estimated using a Black-Scholes option-pricing model. The significant assumptions used in preparing the option pricing model for valuing the warrant asset as of December 31, 2019, include (i) volatility of 282%, (ii) risk free interest rate of 1.66%, (iii) strike price ($16.00 and $20.00), (iv) fair value of common stock ($5.40), and (v) expected life of 4.07 years.

The table presented below is a summary of changes in the fair value of the Company's Level 3 valuation for the CleanSpark warrants for the year ended December 31, 2019:

	CleanSpark Warrants
Balance at December 31, 2018	$ -
Issuance of warrants	1,479
Change in fair value	(948)
Balance at December 31, 2019	$ 531

No other changes in valuation techniques or inputs occurred during the year ended December 31, 2019. No transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy occurred during the year ended December 31, 2019.

5. REVENUES

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606. There was no adjustment to opening retained earnings due to the impact of adopting Topic 606.

The Company adopted ASC 606 using the modified retrospective method.

Nature of our products and services

Our principal products and services include custom-engineered engine-generator sets and controls, complemented by a national field-service network to maintain and repair power generation assets.

Products

We provide switchgear that helps customers effectively and efficiently manage their electrical power distribution systems to desired specifications.

Services

Power generation systems represent considerable investments that require proper maintenance and service in order to operate reliably during a time of emergency. Our power maintenance programs provide preventative maintenance, repair and support service for our customers' power generation systems.

Our principal source of revenue is derived from sales of products and fees for services. We measure revenue based upon the consideration specified in the customer arrangement, and revenue is recognized when the performance obligations in the customer arrangement are satisfied. A performance obligation is a promise in a contract to transfer a distinct product or service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as, the customer receives the benefit of the performance obligation. Customers typically receive the benefit of our products when the risk of loss or control for the product transfers to the customer and for services as they are performed. Under ASC 606, revenue is recognized when a customer obtains control of promised products or services in an amount that reflects the consideration we expect to receive in exchange for those products or services. To achieve this core principal, the Company applies the following five steps:

1) *Identify the contract with a customer*

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the products or services to be transferred and identifies the payment terms related to these products or services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for products or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

2) *Identify the performance obligations in the contract*

Performance obligations promised in a contract are identified based on the products or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the products or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised products or services, the Company must apply judgment to determine whether promised products or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised products or services are accounted for as a combined performance obligation.

3) *Determine the transaction price*

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products or services to the customer. The customer payments are generally due in 30 days.

4) *Allocate the transaction price to performance obligations in the contract*

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis or cost of the product or service. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

5) *Recognize revenue when or as the Company satisfies a performance obligation*

The Company satisfies performance obligations either over time or at a point in time. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised product or service to a customer.

Substantially all of our revenue from the sale of switchgear and power generation equipment is recognized at a point of time. Revenues are recognized at the point in time that the customer obtains control of the good which is when it has taken title to the products and has assumed the risks and rewards of ownership specified in the purchase order or sales agreement. Service revenues include maintenance contracts that are recognized over time based on the contract term and repair services which are recognized as services are delivered.

The following table presents our revenues disaggregated by revenue discipline:

	For the Year Ended December 31,	
	2019	**2018**
Products	$ 10,401	$ 10,327
Services	10,181	9,800
Total revenue	$ 20,582	$ 20,127

See Note 17 – Business Segment, Geographic and Customer Information.

6. OTHER EXPENSE

Other expense in the consolidated statements of operations reports certain gains and losses associated with activities not directly related to our core operations. For the year ended December 31, 2019, other expense was $2.8 million, as compared to $64 during the year ended December 31, 2018. For the year ended December 31, 2019, included in other expense was a loss of $2.8 million related to the mark to market adjustment on the fair value of common stock and warrants received in connection with the Merger of PCPI, CleanSpark and the Merger Sub.

7. DISCONTINUED OPERATIONS

A discontinued operation is a component of the Company's business that represents a separate major line of business that had been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Consolidated Statement of Operations, Consolidated Statement of Cash Flows, and Consolidated Balance Sheets are presented as if the operation had been discontinued from the start of the comparative year. Based upon the authoritative guidance, the Company concluded that the operations of the liquid-filled and dry-type transformer business should be presented as discontinued operations as of December 31, 2019.

Overview

On August 16, 2019, the Company completed the Equity Transaction pursuant to the Stock Purchase Agreement, by and among the Company, the Disposed Companies, Nathan Mazurek, and the Buyer. Pursuant to the terms of the Stock Purchase Agreement, the Company sold (i) all of the issued and outstanding equity interests of Electrogroup to the Canadian Buyer and (ii) all of the issued and outstanding equity interests of Jefferson and JE Mexico to the US Buyer.

Upon completion of the Equity Transaction, Pioneer Power sold to the Buyer all of the assets and liabilities associated with its liquid-filled transformer and dry-type transformer manufacturing businesses within the Company's T&D Segment. Pioneer Power retained its switchgear manufacturing business within the T&D Solutions segment, as well as all of the operations associated with its Critical Power segment.

Consideration

The consideration paid by the Buyer in the Equity Transaction is a base cash purchase price of $60.5 million, as well as the issuance by the Buyer of two subordinated promissory notes to Pioneer Power in the principal amounts of $5.0 million and $2.5 million, for a total aggregate principal amount of $7.5 million (the "Seller Notes"), in each case subject to adjustment pursuant to the terms of the Stock Purchase Agreement. Pursuant to the terms of the Stock Purchase Agreement, the Seller Notes will bear interest at an annualized rate of 4.0%, to be paid-in-kind annually, and will have a maturity date of December 31, 2022. In addition, pursuant to the terms of the Stock Purchase Agreement, as amended, the Buyer may set-off on a dollar-for-dollar basis any indemnifiable losses the Buyer suffers as a result of certain actions or omissions by Pioneer Power or the Disposed Companies against the first Seller Note in the aggregate principal amount of $5.0 million, and such right of set-off is the Buyer's sole source of recovery with respect to losses resulting from inaccuracies or breaches of the Company's representations and warranties, except for breaches of certain fundamental warranties, claims of fraud and breaches of representations, warranties or covenants relating to taxes, and claims for certain specific indemnities. No such losses are expected as of December 31, 2019.

During the fourth quarter of 2019, the Company and the Buyer, pursuant to the Stock Purchase Agreement, completed the net working capital adjustment, which resulted in the Company paying the Buyer $1.7 million in cash and reducing the principal amount of the $5.0 million Seller Note to $3.3 million. The Company has revalued the notes for an appropriate imputed interest rate, resulting in a reduction to the value of the notes at December 31, 2019 of $651, for a carrying value of $5.1 million, which is included within other long term assets as of December 31, 2019. After certain adjustments and expenses of sale, the Company received net consideration from the sale of $45.2 million. Subsequent to finalizing the working capital adjustment during the fourth quarter of 2019 the gain recognized on the Equity Transaction amounted to $13.7 million and is reflected within discontinued operations.

Covenants

In addition, pursuant to the Stock Purchase Agreement, each of Pioneer Power, its affiliates and Nathan Mazurek, Pioneer Power's President, Chief Executive Officer and Chairman of the Board of Directors, have agreed to a non-solicitation provision that generally prohibits such persons, for a three-year period, from, among other things, soliciting or attempting to hire employees of the Disposed Companies or the Buyer or engaging in the business operated by the Disposed Companies within certain geographic areas, subject to certain limitations and exceptions.

Indemnification

Pursuant to the Stock Purchase Agreement, Pioneer Power and the Buyer have each agreed to indemnify one another for any and all liabilities, losses, damages, claims, demands, suits, actions, judgments, fines, penalties, deficiencies, awards, taxes, assessments, costs or expenses (including reasonable attorney's or other professional fees and expenses) ("Losses") resulting from any inaccuracy or breach of the respective party's representations and warranties or any breach or nonperformance of the respective party's covenants and agreements in the Stock Purchase Agreement or its related ancillary agreements.

In addition, Pioneer Power has agreed to indemnify the Buyer and its affiliated parties for Losses resulting from, among other things, certain pre-closing tax matters, debt held by the Disposed Companies, transaction expenses, breaches of representations and warranties that are not covered by the Buyer's representation and warranty insurance because the Buyer had knowledge of such breach (only to the extent such Losses would have been covered by the representation and warranty insurance had the Buyer not known of such breach) ("Interim Breaches"), certain matters related to Electrogroup's operations, certain legal proceedings, certain matters related to Nexus Custom Magnetics, L.L.C., a wholly owned subsidiary of Jefferson, and certain matters concerning end-user software utilized by the Disposed Companies.

The indemnification obligations of Pioneer Power with respect to Losses of the Buyer resulting from inaccuracies or breaches of the Company's representations and warranties, except for breaches of certain fundamental warranties, claims of fraud and breaches of representations, warranties or covenants relating to taxes, and claims for certain specific indemnities, are subject to (i) a true deductible equal to $330,000, (ii) a cap equal to $330,000, and (iii) a per-claim threshold amount of $50,000, and any such Losses shall be satisfied solely through a set-off to the first Seller Note with the principal amount of $3.3 million. In addition, the indemnification rights of the Buyer with respect to Interim Breaches are subject to a cap equal to $5.0 million, and the indemnification rights of the Buyer with respect to Losses resulting from certain legal matters are subject to a true deductible equal to $150,000 and a cap equal to $3.3 million.

The indemnification obligations of the Buyer, except with respect to breaches of certain fundamental representations and warranties and claims of fraud, are subject to a true deductible equal to $330,000 and a cap equal to $3.3 million. In addition, each party's total indemnification obligation is subject to a cap equal to the purchase price, except for claims of fraud.

The Buyer has obtained a customary representation and warranty insurance policy insuring the Buyer against losses resulting from a breach of representations and warranties by Pioneer Power and the Disposed Companies, and the Buyer is required to use commercially reasonable efforts to utilize the representation and warranty insurance to cover any Losses resulting from such a breach.

Other Provisions

The Stock Purchase Agreement also contains customary representations and warranties, and provisions governing certain other matters between the parties.

Operating results of the liquid-filled and dry-type transformer manufacturing businesses previously included in the T&D Solutions segment, have now been reclassified as discontinued operations for all periods presented.

The components of assets and liabilities that are attributable to discontinued operations are as follows (in thousands):

	December 31, 2019	December 31, 2018
Assets of discontinued operations:		
Accounts receivable - trade, net	$ -	$ 12,944
Inventories, net	-	23,632
Income taxes receivable	-	566
Prepaid expenses	-	514
Property, plant and equipment, net	-	4,406
Right of use asset	-	2,124
Deferred income taxes	-	134
Intangible assets, net	-	3,460
Goodwill	-	5,557
Assets of discontinued operations	$ -	$ 53,337
Liabilities of discontinued operations:		
Bank overdrafts	$ -	$ 1,690
Accounts payable and accrued liabilities	-	18,894
Income taxes payable	-	778
Pension deficit	-	148
Other long-term liabilities	-	2,187
Liabilities of discontinued operations	$ -	$ 23,697

During the quarter ended June 30, 2019 the Company's Reynosa Facility was damaged by a flood resulting in damages to inventory. This loss has been partially offset by $2.4 million of insurance proceeds that the Company expects to receive. The Company received $600 of these insurance proceeds during the year ended December 31, 2019, and $1.4 million of these insurance proceeds were received subsequent to year-end. While the net loss on inventory damaged amounting to approximately $782 has been reflected within the Cost of goods sold in discontinued operations, the corresponding insurance receivable of $1.8 million has been recognized as an asset from continuing operations as of December 31, 2019. The amount of damaged inventory and insurance proceeds are based upon management's best estimate, and the actual amount of damaged inventory and insurance proceeds may differ from such estimates.

During the year ended December 31, 2019, the Company determined that there was substantial doubt over our ability to collect $2.3 million due from our former Asian manufacturing partner as the Company no longer retains a relationship with this entity subsequent to the sale of the Transformer business. While the Company will continue to pursue collection of the amount, based upon discussions with the supplier during the year ended December 31, 2019, the recognition of a reserve was deemed appropriate.

The following table presents the discontinued operations of the liquid-filled and dry-type transformer manufacturing businesses in the Consolidated Statement of Operations (in thousands):

	Year Ended December 31,	
	2019	2018
Revenues	$ 46,631	$ 86,263
Costs and Expenses		
Cost of goods sold	39,915	68,906
Selling, general and administrative	9,207	10,445
Foreign exchange gain	(834)	(337)
Interest expense	653	1,745
Other expense	41	760
Total costs and expenses	48,982	81,519
Gain on sale of discontinued subsidiaries	13,686	-
Income before provision for income taxes	11,335	4,744
Income tax expense	737	1,099
Income from discontinued operations, net of income taxes	$ 10,598	$ 3,645

Depreciation, capital expenditures, and significant non cash items of the discontinued operations by period were as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Depreciation and amortization	$ 756	$ 1,207
Capital expenditures	117	432
Write-off of receivables	2,876	-

8. INVENTORIES

The components of inventories are summarized below:

	December 31,	
	2019	2018
Raw materials	$ 2,309	$ 2,049
Work in process	2,628	1,949
Finished goods	46	46
Provision for excess and obsolete inventory	(429)	(366)
Total inventories	$ 4,554	$ 3,678

Inventories are stated at the lower of cost or a net realizable value determined on a FIFO method. Included in work in process at December 31, 2019 and December 31, 2018 are goods in transit of approximately $0 and $120, respectively. Also included in work in process at December 31, 2019 and December 31, 2018 is a net realizable value reserve of approximately $418 and $0, respectively. The net realizable value adjustment of $418 was recognized through cost of goods sold of the T&D Solutions segment during the year ended December 31, 2019.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized below:

	December 31,	
	2019	2018
Machinery and equipment	$ 1,225	$ 1,219
Furniture and fixtures	205	205
Computer hardware and software	682	682
Leasehold improvements	337	312
	2,449	2,418
Less: Accumulated depreciation	(1,809)	(1,540)
Total property, plant and equipment, net	$ 640	$ 878

Depreciation expense was $269 and $352 for the period ended December 31, 2019 and 2018, respectively.

10. OTHER ASSETS

Included in other assets at December 31, 2019 and December 31, 2018 are right-of-use assets, net, of $1.8 million and $2.2 million, respectively, related to our lease obligations.

In December 2011 and January 2012, the Company made two secured loans, each in the amount of $300 to a developer of a renewable energy project in the U.S, secured by assets of the developer. The promissory notes accrue interest at a rate of 4.5% per annum with a final payment of all unpaid principal and interest becoming fully due and payable upon the earlier to occur of (i) the four year anniversary of the issuance date of the promissory notes, or (ii) an event of default. As defined in the promissory notes, an event of default includes, but is not limited to, the following: any bankruptcy, reorganization or similar proceeding involving the borrower, a sale or transfer of substantially all the assets of the borrower, a default by the borrower relating to any indebtedness due to third parties, the incurrence of additional indebtedness by the borrower without the Company’s written consent and failure of the borrower to perform its obligations pursuant to its other agreements with the Company, including its purchase order for pad mount transformers. The Company has determined that the probability of recovering the secured loans is unlikely, and has written-off the balance of $600 during the year ended December 31, 2019.

As a result of the Company entering into the Stock Purchase Agreement on June 28, 2019, as amended (see Note 3 – Divestitures), we have received two subordinated promissory notes in the aggregate principal amount of $7.5 million, subject to certain adjustments. The subordinated promissory notes accrue interests at a rate of 4.0% per annum with a final payment of all unpaid principal and interest becoming fully due and payable at December 31, 2022. The Company determined the fair value of the notes based on market conditions and prevailing interest rates. During the fourth quarter of 2019, the Company and the Buyer, pursuant to the Stock Purchase Agreement, completed the net working capital adjustment, which resulted in the Company paying the Buyer $1.7 million in cash and reducing the principal amount of the $5.0 million Seller Note to $3.3 million. The Company has revalued the notes for an appropriate imputed interest rate, resulting in a reduction to the value of the notes at December 31, 2019 of $651, for a carrying value of $5.1 million.

Other assets are summarized below:

	December 31,	
	2019	2018
Right of use assets	$ 1,806	$ 2,207
Notes receivable, net	5,096	865
CleanSpark warrants	531	-
Deposits	32	26
Other assets	$ 7,465	$ 3,098

11. GOODWILL AND OTHER INTANGIBLE ASSETS

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

In 2018, the Company determined certain definite lived intangible assets within the switchgear reporting unit had carrying values that exceeded its fair value. As a result, the Company recorded impairment charges of $870, $377 and $103 against technology-related industry accreditation, customer relationships and non-complete agreements, respectively. During 2019, the Company recorded impairment charges of $83 against internally developed software during 2019 in its Critical Power segment.

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

The goodwill impairment test was performed as of October 1, 2019 and involves significant estimates. The Company recorded an impairment charge of $3.0 million to the remaining goodwill at the TESI business unit in 2019, based in part by the loss of the Verizon agreement, which is recorded in continuing operations within selling, general, and administrative expense. The Company recorded no impairment to goodwill during the year ended December 31, 2018.

Changes in the carrying amount of goodwill by reportable segment during the years ended December 31, 2019 and 2018 are as follows:

	Critical Power Segment	Total Goodwill
Gross Goodwill:		
Balance as of January 1, 2018	$ 2,969	$ 2,969
No activity	-	-
Balance as of December 31, 2018	$ 2,969	$ 2,969
Accumulated impairment losses:		
Balance as of January 1, 2018	$ -	$ -
Impairment charges	-	-
Balance as of December 31, 2018	$ -	$ -
Net Goodwill	$ 2,969	$ 2,969
Gross Goodwill:		
Balance as of January 1, 2019	$ 2,969	$ 2,969
No activity	-	-
Balance as of December 31, 2019	$ 2,969	$ 2,969
Accumulated impairment losses:		
Balance as of January 1, 2019	$ -	$ -
Impairment charges	(2,969)	(2,969)
Balance as of December 31, 2019	$ (2,969)	$ (2,969)
Net Goodwill	$ -	$ -

Changes in intangible asset balances for the years ended December 31, 2019 and 2018 consisted of the following:

	Critical Power Solutions Segment	Total Intangible Assets
Balance as of January 1, 2018	$ 1,245	$ 1,245
Amortization	(1,121)	(1,121)
Foreign currency translation	-	-
Balance as of December 31, 2018	$ 124	$ 124
Amortization	(41)	(41)
Impairment charges	(83)	(83)
Foreign currency translation	-	-
Balance as of December 31, 2019	$ -	$ -

The components of intangible assets at December 31, 2019 are summarized below:

	Weighted Average Amortization Years	Gross Carrying Amount	Accumulated Amortization	Impairment Charges	Foreign Currency Translation	Net Book Value
Internally developed software	7	289	(206)	(83)	-	-
Total intangible assets		$ 289	$ (206)	$ (83)	$ -	$ -

(a) During 2019, the Company recorded impairment charges to internally developed software intangible asset of the Critical Power business upon determining that the carrying value of these assets was not recoverable.

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

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

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

12. DEBT

Canadian Credit Facilities

In April 2016, our wholly owned subsidiary, Pioneer Electrogroup Canada Inc., entered into an Amended and Restated Credit Agreement (“CAD ARCA”) with Bank of Montreal (“BMO”) with respect to our existing Canadian credit facilities (as amended and restated, the “Canadian Facilities”) that replaced and superseded all of our businesses’ prior financing arrangements with the bank. This CAD ARCA extended the maturity date of our Canadian Facilities to July 31, 2017. The CAD ARCA was further amended (the “2017 CAD ARCA Amendment”) on March 15, 2017, and again on March 28, 2018 (the “2018 CAD ARCA Amendment”). The 2018 CAD ARCA Amendment extended the term of our Canadian Facilities to April 1, 2020. On August 8, 2019, BMO agreed to a temporary borrowing base increase until the earlier of the (i) closing of the Equity Transaction and repayment in full of all amounts owned under the Canadian Facilities and the U.S. Facilities, and (ii) August 31, 2019.

Our Canadian Facilities provided for up to $8.2 million Canadian dollars (“CAD”) (approximately $6.3 million expressed in U.S. dollars) consisting of a revolving $7.0 million CAD revolving credit facility (“Facility A”) to finance ongoing operations, a $471 CAD term credit facility (“Facility B”) that financed a plant expansion, and a $712 USD Facility (“Facility C”) that financed a business acquisition and the purchase and expansion of its manufacturing facilities. The 2017 CAD ARCA Amendment increased the Facility A to $8.0 million CAD, increasing the total amount of loans available under the Canadian Facilities to $9.2 million CAD. We made the final principal payment under Facility B on April 30, 2018, and the outstanding principal balance under Facility C with proceeds received from the sale of the Farnham, Quebec, Canada, building in December 2018. All outstanding amounts under Facility A were paid in full on August 16, 2019, using proceeds from the Equity Transaction, and the underlying debt agreements were terminated.

United States Credit Facilities

In April 2016, we entered into an Amended and Restated Credit Agreement (“US ARCA”) with BMO with respect to our existing U.S. facilities that replaced and superseded all of our businesses’ prior financing arrangements with the bank (the “U.S. Facilities”).The US ARCA was further amended (the “2017 US ARCA Amendment”) on March 15, 2017, and again on March 28, 2018 (the “2018 US ARCA Amendment”). The 2018 US ARCA Amendment extended the term of our US Facilities to April 1, 2020.

Our U.S. Facilities, as amended and restated, provided for up to $19.1 million USD consisting of a $14.0 million USD demand revolving credit facility (“USD Facility A”) to finance ongoing operations, a $5.0 million USD term loan facility (“USD Facility B”) that financed the acquisition of Titan, and a new $100 revolving credit facility provided pursuant to a MasterCard is to be used to pay for and temporarily finance our day-to-day business expenses and for no other purpose. The 2017 US ARCA Amendment increased the USD Facility A to $15.0 million, increasing the total amount of loans available under the U.S. Facilities to $20.1 million USD. All outstanding amounts under USD Facilities A and B were paid in full on August 16, 2019, using proceeds from the Equity Transaction, and the underlying debt agreements were terminated.

13. COMMITMENTS AND CONTINGENCIES

Leases

The company leases certain offices, facilities and equipment under operating and financing leases. Our leases have remaining terms of 1 year to 7 years some of which contain options to extend up to 10 years. As of December 31, 2019 and 2018, assets recorded under finance leases were $1,253 and $864, respectively, and accumulated amortization associated with finance leases was $571 and $343, respectively.

The components of the lease expense were as follows:

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018
Operating lease cost	$ 677	$ 592
Finance lease cost		
Amortization of right-of-use asset	$ 284	$ 187
Interest on lease liabilities	53	40
Total finance lease cost	$ 337	$ 227

Other information related to leases was as follows:

Supplemental Cash Flows Information

	December 31, 2019	December 31, 2018
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 664	$ 598
Operating cash flows from finance leases	53	40
Financing cash flows from finance leases	281	170
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	599	515
Finance leases	62	54

Weighted Average Remaining Lease Term

	December 31, 2019	December 31, 2018
Operating leases	2 years	3 years
Finance leases	2 years	2 years

Weighted Average Discount Rate

	December 31, 2019	December 31, 2018
Operating leases	5.50%	5.50%
Finance leases	6.90%	6.50%

Future minimum lease payments under non-cancellable leases as of December 31, 2019 were as follows:

	Operating Leases	Finance Leases
2020	677	281
2021	401	330
2022	91	140
2023	-	124
Total future minmum lease payments	1,169	875
Less imputed interest	(62)	(93)
Total future minmum lease payments	$ 1,107	$ 782

Reported as of December 31, 2019:

		Operating Leases		Finance Leases
Accounts payable and accrued liabilities	$	632	$	236
Other long-term liabilities		475		546
Total	$	1,107	$	782

Litigation and Claims

The Company is from time to time party to various lawsuits, claims and other proceedings that arise in the ordinary course of our business.

On January 11, 2016, Myers Power Products, Inc., a specialty electrical products manufacturer, filed suit with the Superior Court of the State of California, County of Los Angeles, against us, PCEP and two PCEP employees who are former employees of Myers Power Products, Inc., Geo Murickan, the president of PCEP ("Murickan"), and Brett DeChellis ("DeChellis"), alleging, among other things, that Murickan wrongly used and retained confidential business information of Myers Power Products, Inc. for the benefit of us and PCEP, in breach of their confidentiality agreement and/or employment agreement entered into with Myers Power Products, Inc., and that we and PCEP knowingly received and used such confidential business information. Myers Power Products, Inc. is seeking injunctive relief enjoining us, PCEP and our employees from using its confidential business information and compensatory damages of an unspecified unlimited amount (exceeding $25,000); however, the Company has recognized approximately $1.2 million for expected costs related to this litigation. On March 18, 2016, we filed an answer to the complaint, denying generally each and every allegation and relief sought by Myers Power Products, Inc. and seeking dismissal based on, among other things, failure to state facts sufficient to constitute a cause of action. We intend to contest the matter vigorously. Due to the uncertainties of litigation, however, we can give no assurance that we, PCEP and our employees will prevail on any claims made against us, PCEP and our employees in any such lawsuit. As of the filing of this report, this action is scheduled for trial in the second quarter of 2020. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results. We cannot execute the sale of PCEP until the lawsuit has been resolved.

On October 4, 2019, the dividend that was payable by the Company was enjoined by court order of the Superior Court of California related to the foregoing case. The Company continues to contest the order. As of the date of this filing, this court order remains in place. On October 16, 2019, Myers Power Products, Inc. filed an ex parte application arguing the Company had violated, or intended to violate the modified preliminary injunction and sought order from the court for the Company to post a bond in an amount of $20,000 or more. The court has not taken any action on this request and the Company intends to vigorously defend its rights in the event the order is granted.

There are also two appeals pending in the California Court of Appeals for the Second Appellate District, which includes an appeal of an order modifying a previously issued preliminary injunction and an order enjoining us to obtain and post a $12 million bond in connection with the modified preliminary injunction. Due to the uncertainties of litigation, the Company can give no assurance that it will prevail on the appeals. These appeals are currently scheduled to be heard later in calendar year 2021, after the underlying case is likely to be heard and decided.

With respect to all such lawsuits, claims and proceedings, the Company records a reserve when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. However, the outcomes of any currently pending lawsuits, claims and proceedings cannot be predicted, and therefore, there can be no assurance that this will be the case.

14. STOCKHOLDERS' EQUITY

Common Stock

The Company had 8,726,045 shares of common stock, $0.001 par value per share, outstanding as of December 31, 2019 and December 31, 2018.

Preferred Stock

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

15. STOCK-BASED COMPENSATION

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

On May 11, 2011, the board of directors of the Company adopted the Pioneer Power Solutions, Inc. 2011 Long-Term Incentive Plan (the "2011 Plan") which was subsequently approved by stockholders of the Company on May 31, 2011. The 2011 Plan replaces and supersedes the 2009 Plan. The Company's outside directors and employees, including the Company's principal executive officer, principal financial officer and other named executive officers, and certain contractors are all eligible to participate in the 2011 Plan. The 2011 Plan allows for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards, which may be granted singly, in combination, or in tandem, and upon such terms as are determined by the Board or a committee of the Board that is designated to administer the Plan. Subject to certain adjustments, the maximum number of shares of the Company's common stock that may be delivered pursuant to awards under the 2011 Plan is 700,000 shares. As of December 31, 2019, 379,800 stock options had been granted and are considered outstanding, consisting of 21,000 incentive stock options and 358,800 non-qualified stock options.

Expense for stock-based compensation recorded for the years ended December 31, 2019 and 2018 was approximately $12 and $165, respectively. All of the stock-based compensation expense is included in selling, general and administrative expenses in the accompanying consolidated statements of operations. As of December 31, 2019, the Company had total stock-based compensation expense remaining to be recognized of approximately $2.

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

	Year Ended December 31,	
	2019	2018
Expected volatility	-	29%
Expected life in years	-	5.5
Risk-free interest rate	-	3%
Dividend yield	-	0%

A summary of stock option activity for the years ended December 31, 2019 and 2018, and changes during the years then ended is presented below:

	Stock Options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding as of January 1, 2018	435,800	$ 8.35	7.50	$ 216
Granted	7,000	5.60	-	-
Exercised	-	-		
Forfeited	(18,000)	8.54	-	
Outstanding as of January 1, 2019	424,800	$ 8.30	6.50	$ 22
Granted	-	-		
Exercised	-	-		
Forfeited	(45,000)	14.75		
Outstanding as of December 31, 2019	379,800	$ 7.54	6.10	$ -
Exercisable as of December 31, 2019	376,467	$ 7.54	6.10	$ -

The total number of shares reserved for the plan is 700,000 leaving a balance of 293,867 available for future grants.

Intrinsic value is the difference between the market value of the stock at December 31, 2019 and the exercise price which is aggregated for all options outstanding and exercisable. A summary of the weighted-average grant-date fair value of options, total intrinsic value of options exercised, and cash receipts from options exercised is shown below:

	Year Ended December 31,	
	2019	2018
Weighted-average fair value of options granted (per share)	$ -	$ 1.81
Intrinsic value gain of options exercised	-	-
Cash receipts from exercise of options	-	-

16. INCOME TAXES

The components of loss before income taxes are summarized below:

	Year Ended Decmber 31,	
	2019	2018
Loss before income taxes		
U.S. operations	$ (10,759)	$ (10,105)
Loss before income taxes	$ (10,759)	$ (10,105)

The components of the income tax provision were as follows**:**

	Year Ended Decmber 31,	
	2019	2018
Current		
Federal	$ -	$ -
State	31	58
Deferred	1,247	(854)
Total income tax provision	$ 1,278	$ (796)

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

	Year Ended Decmber 31,	
	2019	2018
Federal Income tax at statutory rate	$ (2,259)	$ (2,123)
State and local income tax, net	(452)	(424)
Other permanent items	54	(110)
Valuation allowance	3,859	1,568
True-up and other	76	293
Total	$ 1,278	$ (796)

The Company's provision for income taxes reflects an effective tax rate on loss before income taxes of (11.9)% in 2019, as compared to 7.9% in 2018. The increase in the Company's effective tax rate during 2019 primarily reflects the impact of the sale of its transformers business, the recognition of a valuation allowance and the utilization of its net operating losses.

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

	December 31,	
	2019	2018
Noncurrent deferred income taxes		
Total assets	$ 844	$ 2,837
Total liabilities	(844)	(1,592)
Net noncurrent deferred income tax asset	-	1,245
Net deferred income tax asset	$ -	$ 1,245

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

	December 31, 2019	December 31, 2018
Deferred tax assets		
U.S. net operating loss carry forward	$ -	$ 662
Non-deductible reserves	1,785	1,628
Tax credits	4,631	4,631
Intangibles	2,189	1,634
Other	-	442
Valuation allowance	(7,761)	(6,160)
Net deferred tax assets	844	2,837
Deferred tax liabilities		
Fixed assets	(64)	(313)
Intangibles	-	(723)
Other	(780)	(556)
Net deferred tax liabilities	(844)	(1,592)
Deferred asset, net	$ -	$ 1,245

The assessment of the amount of value assigned to our deferred tax assets under the applicable accounting rules is judgmental. We are required to consider all available positive and negative evidence in evaluating the likelihood that we will be able to realize the benefit of our deferred tax assets in the future. Such evidence includes scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and the results of recent operations. Since this evaluation requires consideration of events that may occur some years into the future, there is an element of judgment involved. Realization of our deferred tax assets is dependent on generating sufficient taxable income in future periods. We do not believe that it is more likely than not that future taxable income will be sufficient to allow us to recover any of the value assigned to our deferred tax assets. Accordingly, we have provided for a valuation allowance of the Company's foreign tax credits as we do not anticipate generating sufficient foreign source income. In addition, we have provided for a full valuation allowance on the domestic deferred tax assets as the combined effect of future domestic source income and the future reversals of future tax assets and liabilities will likely be insufficient to realize the full benefits of the assets.

As of December 31, 2019, the Company has no net operating loss carryforward. The company has approximately $4.6 million of foreign tax credits for which it has provided a full valuation allowance and $39 of research and development credits which expire in 2032.

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

	Uncertain Tax Position
Balance as of January 1, 2018	$ 218
Increases due to changes in foreign exchange	224
Balance as of December 31, 2018	$ 442
Decreases related to tax returns becoming statuted barred during the year	-
Balance as of December 31, 2019	$ 442

The Company’s policy is to recognize interest and penalties related to income tax matters as interest expense. Interest and penalties as they relate to the payroll tax issue are recorded as other expense.

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

The tax years subject to examination by major tax jurisdiction include the years 2013 and forward by the U.S. Internal Revenue Service and most state jurisdictions, and the years 2014 and forward for the Canadian jurisdiction.

17. BUSINESS SEGMENT, GEOGRAPHIC AND CUSTOMER INFORMATION

The Company follows ASC 280 - Segment Reporting in determining its reportable segments. The Company considered the way its management team, most notably its chief operating decision maker, makes operating decisions and assesses performance and considered which components of the Company's enterprise have discrete financial information available. As the Company makes decisions using a manufactured products vs. distributed products and services group focus, its analysis resulted in two reportable segments: T&D Solutions and Critical Power. The Critical Power reportable segment is the Company's Titan Energy Systems Inc. business unit. The T&D Solutions reportable segment is an aggregation of all other Company subsidiaries, together with sales and expenses attributable to strategic sales group for its T&D Solutions marketing activities.

The T&D Solutions segment is involved in the design, manufacture and distribution of switchgear used primarily by large industrial and commercial operations to manage their electrical power distribution needs. The Critical Power segment provides aftermarket field-services primarily to help customers ensure smooth, uninterrupted power to operations during times of emergency.

The following tables present information about segment income and loss:

	For the Year Ended December 31,	
	2019	**2018**
Revenues		
T&D Solutions		
Switchgear	$ 8,985	$ 8,747
	$ 8,985	$ 8,747
Critical Power Solutions		
Equipment	1,416	1,580
Service	10,181	9,800
	11,597	11,380
Consolidated	$ 20,582	$ 20,127

	For the Year Ended December 31,	
	2019	**2018**
Depreciation and Amortization		
T&D Solutions	$ 144	$ 318
Critical Power Solutions	162	1,718
Unallocated Corporate Overhead Expenses	48	62
Consolidated	$ 354	$ 2,098

	For the Year Ended December 31,	
	2019	**2018**
Operating Loss		
T&D Solutions	$ (3,143)	$ (4,093)
Critical Power Solutions	(3,581)	(1,326)
Unallocated Corporate Overhead Expenses	(5,029)	(3,706)
Consolidated	$ (11,753)	$ (9,125)

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

	December 31, 2019	December 31, 2018
Assets		
T&D Solutions	$ 6,075	$ 6,024
Critical Power Solutions	4,849	7,745
Corporate	17,147	5,335
Consolidated	$ 28,071	$ 19,104

Corporate assets consist primarily of cash and short term investment.

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

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018
Revenues		
United States	$ 20,582	$ 20,127
Total	$ 20,582	$ 20,127

Sales to CleanSpark, Verizon and Fluid Technologies accounted for approximately 18%, 13% and 12%, respectively, of the Company’s total sales in 2019.

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

	December 31, 2019	December 31, 2018
Property, plant and equipment		
United States	$ 640	$ 878
Total	$ 640	$ 878

18. BASIC AND DILUTED LOSS PER COMMON SHARE

Basic and diluted loss per common share is calculated based on the weighted average number of shares outstanding during the period. The Company's employee and director stock option awards, as well as incremental shares issuable upon exercise of warrants, are not considered in the calculations if the effect would be anti-dilutive. The following table sets forth the computation of basic and diluted loss per share (in thousands, except per share data):

	For the Year Ended December 31,			
	2019		2018	
Numerator:				
Net loss	$	(12,037)	$	(9,309)
Income from discontinued operations, net of income taxes		10,598		3,645
Net loss	$	(1,439)	$	(5,664)
Denominator:				
Weighted average basic shares outstanding		8,726		8,726
Denominator for diluted net income per common share		8,726		8,726
Loss per share:				
Basic				
Loss from continuing operations	$	(1.38)	$	(1.07)
Income from discontinued operations		1.21		0.42
Net loss	$	(0.17)	$	(0.65)
Diluted				
Loss from continuing operations	$	(1.38)	$	(1.07)
Income from discontinued operations		1.21		0.42
Net loss	$	(0.17)	$	(0.65)

19. SUBSEQUENT EVENTS

During the quarter ending March 31, 2020, the Company was notified by Verizon that it will not be renewing its contract with the Company for the period of April 1, 2020 through March 31, 2021.

During the quarter ending March 31, 2020, the Company received $1.4 million of the insurance proceeds due from the June 2019 flood at the Company's facility in Reynosa, Mexico.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak at this time, however if the pandemic continues it may have an adverse effect on the Company's results of operations, financial condition, or liquidity for fiscal year 2020..

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Management’s Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of our “disclosure controls and procedures” (“Disclosure Controls”), as defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of December 31, 2019, the end of the period covered by this Annual Report on Form 10-K. The Disclosure Controls evaluation was done in conjunction with an independent consulting firm and under the supervision and with the participation of management, including our chief executive officer and chief financial officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. As of December 31, 2019, based on the evaluation of these disclosure controls and procedures our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

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

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

Prior to the year ended December 31, 2019, our management had identified control deficiencies which constituted a material weakness in our internal control over financial reporting. Management has taken steps to strengthen our internal control over financial reporting. Specifically, we have implemented the following remediation items:

- We have executed a plan that provided for the recruitment of new senior personnel at our reporting unit locations, as well as additional training for existing accounting staff as it relates to our financial reporting requirements.
- Members of management and the accounting staff have received additional training related to policies, procedures and internal controls, including Pioneer’s policies regarding monthly reconciliations and supervisory review procedures for all significant accounts.
- Our corporate accounting group, assisted by an independent consulting firm that has been engaged, has reviewed and assessed progress on the remediation plan noted above.

Management, including our chief executive officer and our chief financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. In our assessment of the effectiveness of internal control over financial reporting as of December 31, 2019, we determined that our internal control over financial reporting of the December 31, 2019, is effective.

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

Changes in Internal Control over Financial Reporting

Other than the changes discussed above in the remediation items, there has been no change in our internal control over financial reporting during the quarter ended December 31, 2019 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers and Directors

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

Name	Age	Position with the Company
Nathan J. Mazurek	58	President, Chief Executive Officer and Chairman of the Board of Directors
Thomas Klink	57	Chief Financial Officer, Secretary, Treasurer and Director
Yossi Cohn	41	Director
Ian Ross	76	Director
David Tesler	46	Director
Jonathan Tulkoff	58	Director

The board of directors currently consists of six members. Following the death of our former director, David J. Landes, in September 2019, in an effort to reduce costs, we have determined not to fill his position and instead reduced the size of the board to six directors.

Our directors hold office until the earlier of their death, resignation or removal by stockholders or until their successors have been qualified. Our directors serve a term of office to expire at the annual meeting of stockholders in 2020. At each annual meeting of stockholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the next annual meeting of stockholders after their election, with each director to hold office until his or her successor shall have been duly elected and qualified.

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

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

Thomas Klink. Mr. Klink has served as a director since April 30, 2010 and as our chief financial officer, secretary and treasurer since January 7, 2016. Since 1996, he has served in various positions at Jefferson Electric, Inc., including as its chief executive officer, chief financial officer, vice president, treasurer, secretary and chairman of the board of directors. Previously, from 1994 to 1996, Mr. Klink served as a division controller at MagneTek, Inc., a company listed on NASDAQ, reporting to the corporate controller. Mr. Klink also previously served as a controller for U.S. Music Corporation, a manufacturer of musical instruments from 1990 through 1994. Mr. Klink received his BBA in Accounting from the University of Wisconsin – Milwaukee in 1984. Mr. Klink brings extensive industry and leadership experience to our board, including over 15 years of experience in the electrical equipment industry Mr. Klink continues to be the president of Jefferson Electric, which was sold as part of the Equity Transaction during 2019. Additionally, Mr. Klink is also employed by Pioneer Transformers L.P. as their president and CFO.

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

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

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

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

Family Relationships

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

To our knowledge, based solely on a review of the copies of such reports furnished to us, during the fiscal year ended December 31, 2019, each of our directors, officers and greater than ten percent stockholders complied with all Section 16(a) filing requirements applicable to our directors, officers and greater than ten percent stockholders.

Board Committees

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

Audit Committee. The audit committee consists of Messrs. Cohn, Ross and Tulkoff, each of whom our board has determined to be financially literate and qualify as an independent director under Section 5605(a)(2) of the rules of the Nasdaq Stock Market. In addition, Mr. Ross is the chairman of the audit committee and qualifies as a financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K. The audit committee's duties are to recommend to our board of directors the engagement of independent auditors to audit our financial statements and to review our accounting and auditing principles. The audit committee will review the scope, timing and fees for the annual audit and the results of audit examinations performed by internal auditors and independent public accountants, including their recommendations to improve the system of accounting and internal controls. The audit committee held a total of four meetings during the fiscal year ended December 31, 2019. The audit committee operates under a formal charter adopted by the board of directors that governs its duties and conduct. Copies of the charter can be obtained free of charge from the Company's web site, www.pioneerpowersolutions.com, by contacting the Company by mail at the address appearing on the first page of this Annual Report on Form 10-K to the attention of Investor Relations, or by telephone at (212) 867-0700.

Code of Business Conduct and Ethics

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

ITEM 11. EXECUTIVE COMPENSATION

Compensation Philosophy and Process

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

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

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

As a “controlled company” under the corporate governance rules of the Nasdaq stock market, we are not required to have a compensation committee, nor have we engaged any compensation consultants to determine or recommend the amount and form of executive and director compensation during and for 2019. At this time, our board of directors has determined that the financial and administrative burden of engaging compensation consultants is not justified in light of our Company’s size, its resources and our relatively small number of executive officers and directors. Rather, the recommended level, components and rationale for our compensation program are developed and presented each year by our principal executive officers to the board of directors for its consideration and approval. Our board of directors has specific authority to limit cash bonus awards to our named executive officers, as provided for in their employment agreements, which authority may not be delegated to other persons at this time.

2019 and 2018 Summary Compensation Table

The following table summarizes, for each of the last two fiscal years ended December 31, 2019 and 2018, the compensation paid to (i) Nathan J. Mazurek, our chief executive officer, president and chairman of the board of directors, and (ii) Thomas Klink, who has served as our chief financial officer, secretary and treasurer since January 7, 2016 and prior to that served as the president of Pioneer Transformer LP and a director, whom we refer to collectively herein as the "named executive officers".

Name and Principal Position	Year	Salary ($)	Bonus (4) ($)	Option Awards (1) ($)	All Other Compensation ($)	Total ($)
Nathan J. Mazurek	2019	490,000	900,000	0	27,000 (2)	1,417,000
President, Chief Executive Officer, Chairman of the Board of Directors	2018	465,000		1,814	15,000 (2)	481,814
Thomas Klink	2019	282,292	500,000	0	31,000 (3)	813,292
Chief Financial Officer, Secretary, Treasurer, and Director	2018	356,667		1,814	20,000 (3)	378,480

(1) Amounts represent the aggregate grant date fair value, as determined in accordance with FASB ASC Topic 718, with the exception that the amounts shown assume no forfeitures. The assumptions used to calculate the value of share based awards are set forth in "Item 8. Financial Statements and Supplementary Data – Note 15. Stock-Based Compensation" contained in this Annual Report. These amounts do not represent the actual value that may be realized by our named executive officers, as that is dependent on the long-term appreciation in our common stock.

(2) Comprised of board of directors meeting fees.

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

(4) The dollar value of bonus (cash) earned by the named executive officers during the year ended December 31, 2019.

Agreements with Executive Officers

Nathan J. Mazurek

We entered into an employment agreement with Mr. Mazurek, dated as of December 2, 2009, pursuant to which Mr. Mazurek was to serve as our chief executive officer for a term of three years. Pursuant to this employment agreement, Mr. Mazurek was entitled to receive an annual base salary of $250,000 from December 2, 2009 through December 2, 2010, which was increased to $275,000 on December 2, 2010 and to $300,000 on December 2, 2011. Mr. Mazurek was entitled to receive an annual cash bonus at the discretion of our board of directors, or a committee thereof, of up to 50% of his annual base salary, which percentage was permitted to be increased in the discretion of the board.

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

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

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

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

If Mr. Mazurek is terminated without cause, he is entitled to receive (i) any unpaid base salary accrued through the date of his termination, (ii) any unreimbursed expenses properly incurred prior to the date of his termination, and (iii) severance pay equal to the base salary that would have been payable to Mr. Mazurek for the remainder of the term of his executive employment agreement, which expires on March 31, 2021, less applicable withholdings and taxes. As a precondition to receiving severance pay, Mr. Mazurek is required to execute and deliver within sixty (60) days following his termination a general release of claims against the us and our subsidiaries and affiliates that may have arisen on or before the date of the release.

For purposes of Mr. Mazurek's executive employment agreement, "cause" generally means termination because of: (i) an act or acts of willful or material misrepresentation, fraud or willful dishonesty by Mr. Mazurek; (ii) any willful misconduct by Mr. Mazurek with regard to the Company; (iii) any violation by Mr. Mazurek of any fiduciary duties owed by him to the Company; (iv) Mr. Mazurek's conviction of, or pleading nolo contendere or guilty to, a felony (other than a traffic infraction) or (v) any other material breach by Mr. Mazurek of the executive employment agreement that is not cured by him within twenty (20) days after his receipt of a written notice from the Company of such breach specifying the details thereof.

As stated earlier, on June 28, 2019, we entered into the Stock Purchase Agreement by and among the Company, Electrogroup, Jefferson, JE Mexico, Nathan Mazurek, and the Buyer, which was subsequently amended as of August 13, 2019. Pursuant to the Stock Purchase Agreement, as amended by the Amendment, the Equity Transaction was completed on August 16, 2019. Pursuant to the Stock Purchase Agreement, Mr. Mazurek agreed to a non-solicitation provision that generally prohibits him, for a three-year period, from, among other things, soliciting or attempting to hire employees of the Disposed Companies or the Buyer or engaging in the business operated by the Disposed Companies within certain geographic areas, subject to certain limitations and exceptions. See the "Certain Related Transactions and Relationships" section of this Proxy Statement.

Thomas Klink

On April 30, 2010, in connection with our acquisition of Jefferson Electric, Inc., Jefferson Electric, Inc. entered into an employment agreement with Thomas Klink pursuant to which Mr. Klink is serving as Jefferson Electric, Inc.'s president, subject to the authority of our chief executive officer, Mr. Mazurek, for an original term of three years. Mr. Klink was initially entitled to receive an annual base salary of $312,000. Mr. Klink's employment may be terminated upon his death or disability, upon the occurrence of certain events that constitute "cause," and without cause. If terminated without cause, Mr. Klink will be entitled to receive as severance an amount equal to his base salary for the remainder of the employment period under the agreement, conditioned upon his execution of a release in form reasonably acceptable to counsel of Jefferson Electric, Inc. On April 30, 2013, Jefferson Electric, Inc. and Mr. Klink entered into an amendment to this employment agreement, pursuant to which the term was extended to April 30, 2016, unless terminated earlier in accordance with its terms, and Mr. Klink's annual base salary was reduced to $250,000.

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

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

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

Effective with the Equity Transaction, Mr. Klink's compensation was reduced to $125,000 annually.

Outstanding Equity Awards at Fiscal Year End

The following table provides information on stock options previously awarded to each of the named executive officers and which remained outstanding as of December 31, 2019. This table includes unexercised and unvested options awards. Each outstanding award is shown separately for each named officer.

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

(1) Incentive stock options granted for service as an executive officer. Vests in equal annual installments upon each of the first three anniversaries of the grant date.
(2) Non-qualified stock options granted for service as a director. Vests on the first anniversary of the grant date.
(3) Non-qualified stock options granted for service as an executive officer. Vests in equal annual installments upon each of the first three anniversaries of the grant date.
(4) Non-qualified stock options granted for service as an executive officer. Vests on the first anniversary of the grant date.

Change of Control Agreements

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

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

2009 Equity Incentive Plan

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

2011 Long-Term Incentive Plan

On May 11, 2011, our board of directors adopted the 2011 Long-Term Incentive Plan, subject to stockholder approval, which was obtained on May 31, 2011. The 2011 Long-Term Incentive Plan replaces and supersedes the 2009 Equity Incentive Plan. Our outside directors and our employees, including the principal executive officer, principal financial officer and other named executive officers, and certain contractors are all eligible to participate in the 2011 Long-Term Incentive Plan. The 2011 Long-Term Incentive Plan allows for the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards, which may be granted singly, in combination, or in tandem, and upon such terms as are determined by the board or a committee of the board that is designated to administer the 2011 Long-Term Incentive Plan. Subject to certain adjustments, the maximum number of shares of our common stock that may be delivered pursuant to awards under the 2011 Long-Term Incentive Plan is 700,000 shares, of which 293,867 were available for future issuances as of December 31, 2019. The 2011 Long-Term Incentive Plan is currently administered by our board of directors but may be subsequently administered by a compensation committee designated by our board of directors.

Equity Compensation Plan Information

The following table provides certain information as of December 31, 2019 with respect to our equity compensation plans under which our equity securities are authorized for issuance:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	379,800	$ 7.54	-
Equity compensation plans not approved by security holders	-	-	-
Total	379,800	$ 7.54	-

Director Compensation

The following table provides compensation information for the one year period ended December 31, 2019 for each non-employee member of our board of directors:

Name	Fees Earned or Paid in Cash ($)		Total ($)
Yossi Cohn	31,000	(1)	31,000
David J. Landes (3)	15,000	(2)	15,000
Ian Ross	31,000	(1)	31,000
David Tesler	24,000	(2)	24,000
Jonathan Tulkoff	31,000	(1)	31,000

(1) Comprised of board of directors and audit committee meeting fees.
(2) Comprised of board of directors meeting fees.
(3) Mr. Landes died on September 13, 2019.

All of our directors, including our employee directors, are paid cash compensation in connection with their attendance at the meetings of the board of directors. Our directors are also reimbursed for reasonable out-of-pocket expenses incurred in connection with their attendance at such meetings. For the year ended December 31, 2019, our directors were paid cash compensation of $3,000 per meeting for attendance. In addition, the members of our audit committee and our chief financial officer received a fee of $1,000 per meeting for attendance at a meeting of our audit committee for the year ended December 31, 2019.

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

The following table sets forth information with respect to the beneficial ownership of our common stock as of March 30, 2020 by:

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

The percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of the security, or investment power, which includes the power to dispose of or to direct the disposition of the security. Except as indicated in the footnotes to this table, each beneficial owner named in the table below has sole voting and sole investment power with respect to all shares beneficially owned and each person's address, unless otherwise specified in the notes below, is c/o Pioneer Power Solutions, Inc., 400 Kelby Street, 12th Floor, Fort Lee, New Jersey 07024. As of March 30, 2020, we had 8,726,045 shares outstanding.

Name of Beneficial Owner	Number of Shares Beneficially Owned (1)		Percentage Beneficially Owned (1)
5% Owners			
Estate of David J. Landes	4,567,800	(2)	52.3%
Provident Pioneer Partners, L.P.	4,560,000	(3)	52.3%
North Star Investment Management Corporation	2,515,820	(4)	28.8%
A. Lawrence Carroll Trust	975,000	(5)	11.2%
Kennedy Capital Management, Inc.	441,455	(6)	5.1%
Officers and Directors			
Nathan J. Mazurek	4,785,800	(7)	53.5%
Thomas Klink	214,400	(8)	2.4%
Yossi Cohn	7,800	(9)	*
Ian Ross	7,400	(9)	*
David Tesler	11,550	(10)	*
Jonathan Tulkoff	17,800	(11)	*
All directors and executive officers as a group (6 persons)	5,044,750		56.5%

* represents ownership of less than 1%.

(1) Shares of common stock beneficially owned and the respective percentages of beneficial ownership of common stock assumes the exercise of all options, warrants and other securities convertible into common stock beneficially owned by such person or entity currently exercisable or exercisable within 60 days of March 30, 2020. Shares issuable pursuant to the exercise of stock options and warrants exercisable within 60 days are deemed outstanding and held by the holder of such options or warrants for computing the percentage of outstanding common stock beneficially owned by such person, but are not deemed outstanding for computing the percentage of outstanding common stock beneficially owned by any other person.

(2) David J. Landes was our former director who died on September 13, 2019. Estate of David J. Landes is the minority stockholder and a control person of Provident Canada Corp., the general partner of Provident Pioneer Partners, L.P., and, as such, has beneficial ownership of the 4,560,000 shares of common stock held by Provident Pioneer Partners, L.P. In addition, includes 7,800 shares subject to stock options which are exercisable within 60 days of March 30, 2020.

(3) Includes 4,560,000 shares of common stock held by Provident Pioneer Partners, L.P. Nathan J. Mazurek is the majority stockholder and a control person of Provident Canada Corp., the general partner of Provident Pioneer Partners, L.P., and, as such, has sole voting and investment power over these shares.

(4) Beneficial ownership is based on information contained in Amendment No. 2 to Schedule 13G filed on January 8, 2020. The beneficial owner's address is 20 N. Wacker Drive, Suite 1416, Chicago, Illinois 60606.

(5) Beneficial ownership is based on information contained in Amendment No. 5 to Schedule 13G filed on January 31, 2020. A. Lawrence Carroll is the trustee of the A. Lawrence Carroll Trust and, in such capacity, has voting and dispositive power over the securities held for the account of this stockholder. The beneficial owner's address is 415 L'Ambiance Drive, #804, Longboat Key, FL 34228.

(6) Beneficial ownership is based on information contained in Amendment No. 1 to Schedule 13G filed on February 14, 2020. The beneficial owner's address is 10829 Olive Blvd St Louis, Missouri 63141.
(7) Nathan J. Mazurek is the majority stockholder and a control person of Provident Canada Corp., the general partner of Provident Pioneer Partners, L.P., and, as such, has sole voting and investment power over the 4,560,000 shares of common stock held by Provident Pioneer Partners, L.P. In addition, includes 212,800 shares subject to stock options which are exercisable within 60 days of March 30, 2020.
(8) Includes 100,000 shares of common stock and 114,400 shares subject to stock options which are exercisable within 60 days of March 30, 2020.
(9) Comprised of shares subject to stock options which are exercisable within 60 days of March 30, 2020.
(10) Includes 3,750 shares of common stock and 7,800 shares subject to stock options which are exercisable within 60 days of March 30, 2020.
(11) Includes 10,000 shares of common stock and 7,800 shares subject to stock options which are exercisable within 60 days of March 30, 2020.

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

Certain Related Transactions and Relationships

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

On June 28, 2019, we entered into a Stock Purchase Agreement, dated as of June 28, 2019 (the "Stock Purchase Agreement"), by and among the Company, Electrogroup Canada, Inc., a wholly owned subsidiary of the Company ("Electrogroup"), Jefferson Electric, Inc., a wholly owned subsidiary of the Company ("Jefferson"), JE Mexican Holdings, Inc., a wholly owned subsidiary of the Company ("JE Mexico," and together with Electrogroup and Jefferson, the "Disposed Companies"), Nathan Mazurek, Pioneer Transformers L.P. (the "US Buyer") and Pioneer Acquireco ULC (the "Canadian Buyer," and together with the US Buyer, the "Buyer"), which was subsequently amended by Amendment No. 1 to the Stock Purchase Agreement, dated as of August 13, 2019 (the "Amendment"). Pursuant to the Stock Purchase Agreement, as amended by the Amendment, the Company agreed to sell (i) all of the issued and outstanding equity interests of Electrogroup to the Canadian Buyer and (ii) all of the issued and outstanding equity interests of Jefferson and JE Mexico to the US Buyer (collectively, the "Equity Transaction").

On August 16, 2019, the Company completed the Equity Transaction pursuant to the terms and conditions of the Stock Purchase Agreement, as amended by the Amendment. As consideration for the Disposed Companies, Buyer paid the Company a base aggregate purchase price of $68.0 million, consisting of (i) $60.5 million of cash, (ii) the issuance by the Buyer of a subordinated promissory note to the Company in the aggregate principal amount of $5.0 million and (iii) the issuance by the Buyer of a subordinated promissory note to the Company in the aggregate principal amount of $2.5 million. The purchase price was subject to a customary working capital adjustment. During the fourth quarter of 2019, the Company and the Buyer, pursuant to the Stock Purchase Agreement, completed the net working capital adjustment, which resulted in the Company paying the Buyer $1.7 million in cash and reducing the principal amount of the $5.0 million note not to $3.3 million. After these adjustments, the Company' net consideration for this sale received was $45.2 million in net consideration for this sale. Nathan Mazurek, who is considered a related person due to his position as chairman, chief executive officer and president of the Company and is a holder of approximately 53.5% of the outstanding shares of our common stock, is a party to the Stock Purchase Agreement with respect to the non-solicitation, confidentiality and non-competition provisions.

In connection with the Stock Purchase Agreement, for a period of three years commencing on the closing date, except on behalf of the Buyer, the Disposed Companies or any of their respective affiliates in the ordinary scope of their respective duties, Nathan Mazurek has agreed not to (i) directly or indirectly engage, solicit, induce, hire or attempt to engage, solicit, induce or hire, whether or not for consideration, any employee or independent contractor of the Disposed Companies, certain direct or indirect subsidiaries of the Company, or the Buyer, who is (or was within seven (7) months prior to the date of the Stock Purchase Agreement) employed by any of the Disposed Companies, such subsidiaries of the Company or the Buyer, subject to certain limitations, (ii) disclose or use confidential information related to the Disposed Companies or certain subsidiaries of the Company, subject to certain limitations and exceptions, or (iii) engage in the design, manufacture and distribution of electric transformers from 5kva – 30mva in size and 110v-72kv in voltage in certain geographic areas or have any ownership of any business within those geographic areas conducting such business or solicit business away from the Buyer, the Disposed Companies or certain subsidiaries of the Company, in each case subject to certain limitations and exceptions.

Director Independence

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

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

BDO USA, LLP served as our independent registered public accounting firm for the fiscal years ended December 31, 2019 and 2018.

The following table presents aggregate fees for professional services rendered by BDO USA, LLP during the fiscal years ended December 31, 2019 and 2018:

	Year Ended December 31,	
	2019	2018
Audit fees (1)	$ 600	$ 490
Audit-related fees (2)	36	12
Tax fees (3)	-	5
Total fees	$ 636	$ 507

(1) Audit fees consisted primarily of fees for the annual audit of our consolidated financial statements, the interim reviews of the quarterly consolidated financial statements, review of a registration statement and normal, recurring accounting consultations.
(2) Audit-related fees consisted of fees related to an agreed upon procedures project related to the Equity Transaction during the year ended December 31, 2019 and the audit of an employee benefit plan during the year ended December 31, 2018.
(3) Tax fees consisted primarily of fees related for tax compliance.

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

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

CORPORATE INFORMATION

DIRECTORS AND EXECUTIVE OFFICERS

Nathan J. Mazurek
President, Chief Executive Officer and Chairman of the Board of Directors

Thomas Klink
Chief Financial Officer, Secretary, Treasurer, Director And President of Pioneer Transformer LP

Yossi Cohn
Director
Founder and Partner, L3C Capital Partners, LLC

Ian Ross
Director
Co-Founder and President, Omniverter Inc. - electrical power solutions; President, KIR Resources Inc. and KIR Technologies Inc. - management consulting and electrical equipment import/export

David Tesler
Director
President, Real Diligence, LLC and LeaseProbe, LLC - financial due diligence

Jonathan Tulkoff
Director
President, Game Creek Inc. - steel trading and marketing

CORPORATE HEADQUARTERS

400 Kelby Street, 12th Floor
Fort Lee, New Jersey 07024
Telephone: (212) 867-0700

STOCK LISTING

NASDAQ: PPSI

INDEPENDENT AUDITORS

BDO USA, LLP
100 Park Avenue
New York, New York 10017

TRANSFER AGENT AND REGISTRAR

Action Stock Transfer Corporation
2469 E. Fort Union Blvd., Suite 214
Salt Lake City, UT 84121

COMPANY WEBSITE

Please visit Pioneer Power Solutions, Inc. on the Internet at:
www.pioneerpowersolutions.com