

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



FORM 10-Q

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

For the quarterly period ended September 30, 2024

or

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

For the transition period from _____ to _____
Commission file number 001-35944

POWER SOLUTIONS INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

201 Mittel Drive, Wood Dale, IL

(Address of Principal Executive Offices)

33-0963637

(I.R.S. Employer Identification No.)

60191

(Zip Code)

(630) 350-9400

(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

None

Trading Symbol(s)

—

Name of Each Exchange on Which Registered

—

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.001 per share

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 31, 2024, there were 22,999,616 outstanding shares of the Common Stock of the registrant.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q for the three months ended September 30, 2024, (the “Quarterly Report”) that are not historical facts are intended to constitute “forward-looking statements” entitled to the safe-harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements may involve risks and uncertainties. These statements often include words such as “anticipate,” “believe,” “budgeted,” “contemplate,” “estimate,” “expect,” “forecast,” “guidance,” “may,” “outlook,” “plan,” “projection,” “should,” “target,” “will,” “would” or similar expressions, but these words are not the exclusive means for identifying such statements. These forward-looking statements include statements regarding Power Solutions International, Inc.’s, a Delaware corporation (“Power Solutions,” “PSI” or the “Company”), projected sales, potential profitability and liquidity, strategic initiatives, future business strategies, warranty mitigation efforts and market opportunities, improvements in its business, improvement of product margins, and product market conditions and trends. These statements are not guarantees of performance or results, and they involve risks, uncertainties and assumptions. Although the Company believes that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect the Company’s results of operations and liquidity and could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the Company’s forward-looking statements.

The Company cautions that the risks, uncertainties and other factors that could cause its actual results to differ materially from those expressed in, or implied by, the forward-looking statements include, without limitation, the factors discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023, and from time to time in the Company’s subsequent filings with the United States Securities and Exchange Commission (the “SEC”); the impact of the macro-economic environment in both the U.S. and internationally on our business and expectations regarding growth of the industry; uncertainties arising from global events (including the Russia-Ukraine and Israel-Hamas conflicts), natural disasters or pandemics, and their impact on material prices; the effects of strategic investments on our operations, including our efforts to expand our global market share and actions taken to increase sales growth; the ability to develop and successfully launch new products; labor costs and other employment-related costs; loss of suppliers and disruptions in the supply of raw materials; the Company’s ability to continue as a going concern; the Company’s ability to raise additional capital when needed and its liquidity; uncertainties around the Company’s ability to meet funding conditions under its financing arrangements and access to capital thereunder; the potential acceleration of the maturity at any time of the loans under the Company’s uncommitted revolving credit agreement through the exercise by any lender of its demand right in its Revolving Credit Agreement; the impact of rising interest rates; changes in economic conditions, including inflationary trends in the price of raw materials; our reliance on information technology and the associated risk involving potential security lapses and/or cyber-attacks; the ability of the Company to accurately forecast sales, and the extent to which sales result in recorded revenues; changes in customer demand for the Company’s products; volatility in oil and gas prices; the impact of U.S. tariffs on imports; the impact of supply chain interruptions and raw material shortages, including compliance disruptions such as the Uyghur Forced Labor Prevention Act (the “UFLPA”) delaying goods from China; the potential impact of higher warranty costs and the Company’s ability to mitigate such costs; any delays and challenges in recruiting and retaining key employees consistent with the Company’s plans; the potential effects of damage to our reputation or other adverse consequences if our employees, suppliers, sub-suppliers or other contract parties, agents or business partners violate anti-bribery, competition, export and import, trade sanctions, data privacy, environmental, human rights or other laws; any negative impacts from the trading of the Company’s common stock, par value \$0.001 per share (the “Common Stock”) on the OTC Pink Market and any delays and challenges in re-listing on the Nasdaq Stock Market (“Nasdaq”); and the impact of unanticipated changes in our effective tax rate, the adoption of new tax legislation or exposure to additional income tax liabilities.

The Company’s forward-looking statements are presented as of the date hereof. Except as required by law, the Company expressly disclaims any intention or obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

AVAILABLE INFORMATION

The Company is subject to the reporting and information requirements of the Exchange Act, and as a result, it is obligated to file annual, quarterly and current reports on Form 8-K, proxy and information statements and other information with the SEC. The Company makes these filings available free of charge on its website (<http://www.psiengines.com>) as soon as reasonably practicable after it electronically files them with, or furnishes them to, the SEC. Information on the Company’s website does not constitute part of this Quarterly Report. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains the annual, quarterly and current reports on Form 8-K, proxy and information statements, and other information the Company electronically files with, or furnishes to, the SEC.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

**POWER SOLUTIONS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par values)

	As of September 30, 2024 (unaudited)	As of December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 40,456	\$ 22,758
Restricted cash	3,217	3,836
Accounts receivable, net of allowances of \$3,890 and \$5,975 as of September 30, 2024 and December 31, 2023, respectively; (from related parties \$550 and \$777 as of September 30, 2024 and December 31, 2023, respectively)	77,493	66,979
Income tax receivable	666	550
Inventories, net	104,889	84,947
Prepaid expenses	15,786	8,518
Contract assets	20,006	15,554
Other current assets	2,655	2,240
Total current assets	265,168	205,382
Property, plant and equipment, net	14,100	14,928
Right-of-use assets, net	24,319	27,145
Intangible assets, net	2,819	3,914
Goodwill	29,835	29,835
Other noncurrent assets	2,894	3,099
TOTAL ASSETS	\$ 339,135	\$ 284,303
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable (to related parties \$24,192 and \$24,496 as of September 30, 2024 and December 31, 2023, respectively)	\$ 76,615	\$ 67,355
Current maturities of long-term debt	74	139
Revolving line of credit	100,000	50,000
Finance lease liability, current	78	76
Operating lease liability, current	4,373	3,912
Other short-term financing (from related parties \$35,000 and \$94,820 as of September 30, 2024 and December 31, 2023, respectively)	35,000	94,820
Other accrued liabilities (to related parties \$1,829 and \$1,833 as of September 30, 2024 and December 31, 2023, respectively)	43,080	31,999
Total current liabilities	259,220	248,301
Deferred income taxes	1,640	1,478
Long-term debt, net of current maturities	51	90
Finance lease liability, long-term	35	94
Operating lease liability, long-term	21,845	25,070
Noncurrent contract liabilities	1,949	2,401
Other noncurrent liabilities	12,289	10,786
TOTAL LIABILITIES	\$ 297,029	\$ 288,220
Commitments and Contingencies (Note 10)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock – \$0.001 par value. Shares authorized: 5,000. No shares issued and outstanding at all dates.	\$ —	\$ —
Common stock – \$0.001 par value; 50,000 shares authorized; 23,117 shares issued; 22,990 and 22,968 shares outstanding at September 30, 2024 and December 31, 2023, respectively	23	23
Additional paid-in capital	157,741	157,770
Accumulated deficit	(114,798)	(160,790)
Treasury stock, at cost, 127 and 149 shares at September 30, 2024 and December 31, 2023, respectively	(860)	(920)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	42,106	(3,917)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 339,135	\$ 284,303

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Net sales (from related parties \$50 and \$340 for the three months ended September 30, 2024 and September 30, 2023, respectively, \$500 and \$2,400 for the nine months ended September 30, 2024 and September 30, 2023, respectively)	\$ 125,842	\$ 115,884	\$ 331,668	\$ 354,218
Cost of sales (from related parties \$40 and \$245 for the three months ended September 30, 2024 and September 30, 2023, respectively, and \$370 and \$1,755 for the nine months ended September 30, 2024 and September 30, 2023, respectively)	89,418	87,979	234,300	275,890
Gross profit	<u>36,424</u>	<u>27,905</u>	<u>97,368</u>	<u>78,328</u>
Operating expenses:				
Research and development expenses	4,651	4,762	14,807	14,028
Selling, general and administrative expenses	10,957	10,595	25,009	31,050
Amortization of intangible assets	365	436	1,095	1,309
Total operating expenses	<u>15,973</u>	<u>15,793</u>	<u>40,911</u>	<u>46,387</u>
Operating income	<u>20,451</u>	<u>12,112</u>	<u>56,457</u>	<u>31,941</u>
Interest expense (from related parties \$1,800 and \$2,000 for the three months ended September 30, 2024 and 2023, respectively, and \$6,300 and \$5,800 for the nine months ended September 30, 2024 and September 30, 2023, respectively)	2,837	4,164	9,092	13,474
Income before income taxes	<u>17,614</u>	<u>7,948</u>	<u>47,365</u>	<u>18,467</u>
Income tax expense	277	153	1,373	531
Net income	<u>\$ 17,337</u>	<u>\$ 7,795</u>	<u>\$ 45,992</u>	<u>\$ 17,936</u>
Weighted-average common shares outstanding:				
Basic	22,990	22,967	22,977	22,957
Diluted	23,044	22,974	23,003	22,969
Earnings per common share:				
Basic	\$ 0.75	\$ 0.34	\$ 2.00	\$ 0.78
Diluted	\$ 0.75	\$ 0.34	\$ 2.00	\$ 0.78

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(UNAUDITED)

(in thousands)

For the Three Months Ended

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity (Deficit)
Balance at June 30, 2024	\$ 23	\$ 157,737	\$ (132,135)	\$ (860)	\$ 24,765
Net income	—	—	17,337	—	17,337
Stock Appreciation Rights ("SAR") awards	—	(81)	—	81	—
Stock-based compensation expense	—	64	—	(60)	4
Tax benefit from exercise of stock based compensation	—	21	—	(21)	—
Balance at September 30, 2024	<u>\$ 23</u>	<u>\$ 157,741</u>	<u>\$ (114,798)</u>	<u>\$ (860)</u>	<u>\$ 42,106</u>
Balance at June 30, 2023	23	157,831	(176,955)	(1,024)	(20,125)
Net income	—	—	7,795	—	7,795
Stock-based compensation expense	—	26	—	—	26
Balance at September 30, 2023	<u>\$ 23</u>	<u>\$ 157,857</u>	<u>\$ (169,160)</u>	<u>\$ (1,024)</u>	<u>\$ (12,304)</u>

(in thousands)

For the Nine Months Ended

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity (Deficit)
Balance at December 31, 2023	\$ 23	\$ 157,770	\$ (160,790)	\$ (920)	\$ (3,917)
Net income	—	—	45,992	—	45,992
SAR awards	—	(81)	—	81	—
Stock-based compensation expense	—	52	—	—	52
Tax benefit from exercise of stock based compensation	—	—	—	(21)	(21)
Balance at September 30, 2024	<u>\$ 23</u>	<u>\$ 157,741</u>	<u>\$ (114,798)</u>	<u>\$ (860)</u>	<u>\$ 42,106</u>
Balance at December 31, 2022	\$ 23	\$ 157,673	\$ (187,096)	\$ (972)	\$ (30,372)
Net income	—	—	17,936	—	17,936
Stock-based compensation expense	—	184	—	(52)	132
Balance at September 30, 2023	<u>\$ 23</u>	<u>\$ 157,857</u>	<u>\$ (169,160)</u>	<u>\$ (1,024)</u>	<u>\$ (12,304)</u>

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)

	For the Nine Months Ended September 30,	
	2024	2023
Cash provided by operating activities		
Net income	\$ 45,992	\$ 17,936
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	1,095	1,309
Depreciation	2,836	2,925
Amortization of right-of-use assets	3,967	3,494
Stock-based compensation expense	52	132
Amortization of financing fees	348	938
Deferred income taxes	162	131
(Credit) provision for losses in accounts receivable	(2,085)	2,998
Increase in allowance for inventory obsolescence	2,498	2,560
Other adjustments, net	45	3
Changes in operating assets and liabilities:		
Accounts receivable	(8,428)	15,476
Inventories	(19,133)	23,611
Prepaid expenses	(7,268)	4,097
Contract assets	(4,452)	(12,048)
Other assets	149	(1,184)
Accounts payable	9,164	(1,268)
Income taxes receivable	(116)	—
Accrued expenses	7,694	2,638
Other noncurrent liabilities	(2,781)	(1,631)
Net cash provided by operating activities	29,739	62,117
Cash used in investing activities		
Capital expenditures	(1,957)	(2,678)
Net cash used in investing activities	(1,957)	(2,678)
Cash used in financing activities		
Repayment of long-term debt and lease liabilities	(153)	(161)
Proceeds from short-term financings	100,000	—
Repayment of short-term financings	(109,820)	(50,593)
Payments of deferred financing costs	(709)	(983)
Tax benefit from exercise of stock based compensation	(21)	—
Other financing activities, net	—	(2)
Net cash used in financing activities	(10,703)	(51,739)
Net increase in cash, cash equivalents, and restricted cash	17,079	7,700
Cash, cash equivalents, and restricted cash at beginning of the period	26,594	27,900
Cash, cash equivalents, and restricted cash at end of the period	\$ 43,673	\$ 35,600

(in thousands)

	As of September 30,	
	2024	2023
Reconciliation of cash, cash equivalents, and restricted cash to the Consolidated Balance Sheets		
Cash and cash equivalents	\$ 40,456	\$ 31,793
Restricted cash	3,217	3,807
Total cash, cash equivalents, and restricted cash	\$ 43,673	\$ 35,600

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies and Other Information

Nature of Business Operations

Power Solutions International, Inc. (“Power Solutions,” “PSI” or the “Company”), a Delaware corporation, is a global producer and distributor of a broad range of high-performance, certified, low-emission power systems, including alternative-fueled power systems for original equipment manufacturers (“OEMs”) of off-highway industrial equipment and certain on-road vehicles and large custom-engineered integrated electrical power generation systems.

The Company’s customers include large, industry-leading and multinational organizations. The Company’s products and services are sold predominantly to customers throughout North America as well as to customers located throughout the Pacific Rim and Europe. The Company’s power systems are highly engineered, comprehensive systems which, through the Company’s technologically sophisticated development and manufacturing processes, including its in-house design, prototyping, testing and engineering capabilities and its analysis and determination of the specific components to be integrated into a given power system (driven in large part by emission standards and cost considerations), allow the Company to provide its customers with power systems customized to meet specific OEM application requirements, other customers’ technical specifications and requirements imposed by environmental regulatory bodies.

The Company’s power system configurations range from a basic engine integrated with appropriate fuel system components to completely packaged power systems that include any combination of cooling systems, electronic systems, air intake systems, fuel systems, housings, power takeoff systems, exhaust systems, hydraulic systems, enclosures, brackets, hoses, tubes and other assembled componentry. The Company also designs and manufactures large, custom-engineered integrated electrical power generation systems for both standby and prime power applications. The Company purchases engines from third-party suppliers and produces internally designed engines, all of which are then integrated into its power systems.

Of the other components that the Company integrates into its power systems, a substantial portion consist of internally designed components and components for which it coordinates significant design efforts with third-party suppliers, with the remainder consisting largely of parts that are sourced off-the-shelf from third-party suppliers. Some of the key components (including purchased engines) embody proprietary intellectual property of the Company’s suppliers. As a result of its design and manufacturing capabilities, the Company is able to provide its customers with a power system that can be incorporated into a customer’s specified application. In addition to the certified products described above, the Company sells diesel, gasoline and non-certified power systems and aftermarket components.

Stock Ownership and Control

Weichai America Corp., a wholly-owned subsidiary of Weichai Power Co., Ltd. (HK2338, SZ000338) (herein collectively referred to as “Weichai”) owns a majority of the outstanding shares of the Company’s Common Stock. As a result, Weichai is able to exercise control over matters requiring stockholders’ approval, including the election of directors, amendment of the Company’s Certificate of Incorporation (the “Charter”) and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of the Company or changes in management and will make the approval of certain transactions impractical without the support of Weichai.

Weichai has entered into an Investor Rights Agreement (the “Rights Agreement”). The Rights Agreement provides Weichai with representation on the Company’s Board of Directors (the “Board”) and management representation rights. Weichai currently has four representatives on the Board, which constitutes the majority of the directors serving on the Board. According to the Rights Agreement, during any period when the Company is a “controlled company” within the meaning of the Nasdaq Listing Rules, it will take such measures as to avail itself of the “controlled company” exemptions available under Rule 5615 of the Nasdaq Listing Rules from Rules 5605(b), (d) and (e) to the extent applicable.

Going Concern Considerations

During the first nine months of 2024, the Company reported net income of \$46.0 million and generated \$29.7 million in cash flow from operating activities. In August 2024, the Company refinanced its debt through a new short-term credit facility with three banks. Additionally, the Company entered into a new Shareholder’s Loan Agreement with Weichai. The new credit facility and the Shareholder’s Loan Agreement mature on August 30, 2025 and August 31, 2025, respectively, and have borrowing capacity of \$120.0 million and \$105.0 million, respectively.

While the Company has achieved profitability and generated positive cash flows from operating activities in 2024, uncertainties exist about the Company’s ability to refinance, extend, or repay its outstanding indebtedness. As of September 30, 2024, the Company held \$40.5 million in cash and cash equivalents and its short-term debt obligations under the credit facility and Shareholder’s Loan Agreement totaled \$100.0 million and \$35.0 million, respectively.

See Note 6. *Debt*, for further information regarding the terms and conditions of the Company’s debt arrangements.

Due to these uncertainties, the Company’s management has concluded that, substantial doubt exists as to its ability to continue as a going concern within one year after the date that these financial statements are issued. The Company’s plans to alleviate the substantial doubt about its ability to continue as a going concern may not be successful, and it may be forced to limit its business activities or be unable to continue as a going concern, which would have a material adverse effect on its results of operations and financial condition.

The consolidated financial statements included herein have been prepared assuming that the Company will continue as a going concern and contemplating the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company’s ability to continue as a going concern is dependent on extending and amending, refinancing or repaying the indebtedness outstanding under the Company’s existing debt arrangements. Without additional financing, the Company anticipates that it will not have sufficient cash and cash equivalents to repay amounts owed under its existing debt arrangements as they become due. In order to provide the Company with a more permanent source of liquidity, management plans to seek an extension and amendment and/or replacement of its existing debt agreements or seek additional liquidity from its current or other lenders before the maturity dates in 2025. There can be no assurance that the Company’s management will be able to successfully complete an extension and amendment of its existing debt agreements or obtain new financing on acceptable terms, when required or if at all. These consolidated financial statements do not include any adjustments that might result from the outcome of the Company’s efforts to address these issues.

Basis of Presentation and Consolidation

The Company is filing this Form 10-Q for the quarterly period ended September 30, 2024, which contains unaudited condensed consolidated financial statements as of September 30, 2024 and for the three and nine months ended September 30, 2024 and 2023.

The condensed consolidated financial statements include the accounts of Power Solutions International, Inc. and its wholly-owned subsidiaries and majority-owned subsidiaries in which the Company exercises control. The condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and rules and regulations of the SEC for interim financial reporting. All intercompany balances and transactions have been eliminated in consolidation.

Certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X and include all of the information and disclosures required by U.S. GAAP for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Company and related footnotes for the year ended December 31, 2023, included in the 2023 Annual Report on Form 10-K, filed with the SEC on March 14, 2024 (the “2023 Annual Report”). The Company’s significant accounting policies are described in the aforementioned 2023 Annual Report. The accompanying interim financial information is unaudited; however, the Company believes the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of its financial position, results of operations and cash flows in conformity with U.S. GAAP. Operating results for interim periods are not necessarily indicative of annual operating results.

Segments

The Company operates as one business and geographic operating segment. Operating segments are defined as components of a business that can earn revenues and incur expenses for which discrete financial information is available that is evaluated on a regular basis by the chief operating decision maker (“CODM”). The Company’s CODM is its principal executive officer, who decides how to allocate resources and assess performance. A single management team reports to the CODM, who manages the entire business. The Company’s CODM reviews consolidated statements of income to make decisions, allocate resources and assess performance, and the CODM does not evaluate the profit or loss from any separate geography or product line.

Concentrations

The following table presents customers individually accounting for more than 10% of the Company’s net sales:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Customer A	**	15 %	10 %	15 %
Customer B	**	**	12 %	**
Customer C	13 %	**	**	**

The following table presents customers individually accounting for more than 10% of the Company's trade accounts receivable:

	<u>As of September 30, 2024</u>	<u>As of December 31, 2023</u>
Customer A	11 %	12 %
Customer C	**	13 %
Customer D	12 %	**

The following table presents suppliers individually accounting for more than 10% of the Company's purchases:

	<u>For the Three Months Ended September 30,</u>		<u>For the Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Supplier A	13 %	14 %	15 %	**

** Less than 10% of the total

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates and assumptions include the valuation of allowances for credit losses, inventory reserves, warranty reserves, stock-based compensation, evaluation of goodwill, other intangibles, property, plant and equipment for impairment, income tax valuation allowances and determination of useful lives of long-lived assets. Actual results could materially differ from those estimates.

Restricted Cash

Restricted cash consists of funds that are contractually restricted as to usage or withdrawal due to required minimum levels of cash collateral for letters of credits and contractual agreements with customers. As of September 30, 2024 and December 31, 2023, the Company had restricted cash of \$3.2 million and \$3.8 million, respectively, which includes \$1.4 million restricted cash held in escrow which could be required to be refunded to the customer if conditions occur as defined in such certain agreement with such customer. The Company has not recognized revenue associated with the restricted cash. The deferred revenue is included within *Noncurrent Contract Liabilities* on the Consolidated Balance Sheet.

Inventories

The Company's inventories consist primarily of engines and parts. Engines are valued at the lower of cost, including estimated freight-in, or net realizable value. Parts are valued at the lower of cost or net realizable value, except for integral parts provided by customers for installation on custom ordered engines. Such parts are accounted for as noncash consideration which is valued at fair value. Net realizable value approximates replacement cost. Cost is principally determined using the first-in, first-out method and includes material, labor and manufacturing overhead. It is the Company's policy to review inventories on a continuing basis for obsolete, excess and slow-moving items and to record valuation adjustments for such items in order to eliminate non-recoverable costs from inventory. Valuation adjustments are recorded in an inventory reserve account and reduce the cost basis of the inventory in the period in which the reduced valuation is determined. Inventory reserves are established based on quantities on hand, usage and sales history, customer orders, projected demand and utilization within a current or

future power system. Specific analysis of individual items or groups of items is performed based on these same criteria, as well as on changes in market conditions or any other identified conditions.

Inventories consisted of the following:

(in thousands)

Inventories	As of September 30, 2024	As of December 31, 2023
Raw materials	\$ 91,061	\$ 68,273
Work in process	1,408	1,166
Finished goods	20,648	21,238
Total inventories	113,117	90,677
Inventory allowance	(8,228)	(5,730)
Inventories, net	\$ 104,889	\$ 84,947

Activity in the Company's inventory allowance was as follows:

(in thousands)

Inventory Allowance	For the Nine Months Ended September 30,	
	2024	2023
Balance at beginning of period	\$ 5,730	\$ 3,904
Charged to expense	2,910	2,560
Write-offs	(412)	(682)
Balance at end of period	\$ 8,228	\$ 5,782

As of September 30, 2024, the Company's inventory included \$3.3 million of raw materials provided by its customers for installation in the fulfillment of its performance obligations to these customers and recorded an associated contract liability. See Note 2. *Revenue* for further information regarding contract assets and contract liabilities.

Other Accrued Liabilities

Other accrued liabilities consisted of the following:

(in thousands)

Other Accrued Liabilities	As of September 30, 2024	As of December 31, 2023
Accrued product warranty	\$ 10,455	\$ 11,290
Accrued litigation ¹	3,787	3,929
Contract liabilities	11,588	2,741
Accrued compensation and benefits	9,111	8,469
Accrued interest expense	2,389	1,913
Stock appreciation rights liability ²	1,080	41
Non-interest bearing note payable	681	—
Other	3,989	3,616
Total	\$ 43,080	\$ 31,999

¹ As of September 30, 2024 and December 31, 2023 accrued litigation includes accruals related to various ongoing legal matters including associated legal fees. See Note 10. *Commitments and Contingencies* for further information regarding the various ongoing legal matters.

² The Company has an incentive compensation plan, which authorizes the granting of a variety of different types of awards including, but not limited to, non-qualified stock options, incentive stock options, Stock Appreciation Rights ("SARs"), Restricted Stock Awards ("RSAs"), deferred stock and performance units to its executive officers, employees, consultants and Directors. The SAR awards granted for the year ended September 30, 2024 and December 31, 2023 were all liability classified awards and remained outstanding. See Note 13. *Stock-Based Compensation* in the Company's 2023 Annual Report for additional information on the SARs and RSAs.

Warranty Costs

The Company offers a standard limited warranty on the workmanship of its products that in most cases covers defects for a defined period. Warranties for certified emission products are mandated by the U.S. Environmental Protection Agency (the "EPA") and/or the California Air Resources Board (the "CARB") and are longer than the Company's standard warranty on certain emission-related products. The Company's products also carry limited warranties from suppliers. The Company's warranties generally apply to engines fully manufactured by the Company and to the modifications the Company makes to

supplier base products. Costs related to supplier warranty claims are generally borne by the supplier and passed through to the end customer.

Warranty estimates are based on historical experience and represent the projected cost associated with the product. A liability and related expense are recognized at the time products are sold. The Company adjusts estimates when it is determined that actual costs may differ from initial or previous estimates. The Company's warranty liability is generally affected by failure rates, repair costs and the timing of failures. Future events and circumstances related to these factors could materially change the estimates and require adjustments to the warranty liability. In addition, new product launches require a greater use of judgment in developing estimates until historical experience becomes available.

Accrued product warranty activities are presented below:

(in thousands)	For the Nine Months Ended September 30,	
	2024	2023
Accrued Product Warranty		
Balance at beginning of period	\$ 19,263	\$ 21,550
Current period provision *	4,398	6,588
Changes in estimates for preexisting warranties **	2,115	6,274
Payments made during the period	(10,413)	(13,418)
Balance at end of period	15,363	20,994
Less: current portion	10,455	11,564
Noncurrent accrued product warranty (included with Other Noncurrent liabilities)	\$ 4,908	\$ 9,430

* Warranty costs, net of supplier recoveries, and other adjustments, were \$5.8 million and \$12.0 million for the nine months ended September 30, 2024 and 2023, respectively. Supplier recoveries were \$0.7 million for both the nine months ended September 30, 2024 and 2023.

** Changes in estimates for preexisting warranties reflect changes in the Company's estimate of warranty costs for products sold in prior periods. Such adjustments typically occur when claims experience deviates from historical and expected trends. During the nine months ended September 30, 2024, the Company recorded a cost for changes in estimates of preexisting warranties of \$2.1 million, or \$0.09 per diluted share. During the nine months ended September 30, 2023, the Company recorded a cost of \$6.3 million, or \$0.27 per diluted share.

Recently Issued Accounting Pronouncements – Adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). The standard replaces the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires the use of a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. The standard requires a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The new standard was effective for non-public companies, and public business entities that meet the definition of a smaller reporting company as defined by the SEC, for interim and annual periods beginning after December 15, 2022. The Company adopted this guidance effective January 1, 2023. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements – Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07, Improvements to Reportable Segment Disclosures – Segment Reporting (Topic 280). The amendments to this standard require public entities to disclose more detailed information about their reportable segments' significant expenses on an interim and annual basis. The amendments to this standard do not change how a public entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments. The amendments to this standard apply to all public entities that are required to report segment information in accordance with Topic 280, Segment Reporting and are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company plans to adopt this guidance in its annual reporting for the year ending December 31, 2024 and subsequent interim periods. The Company is continuing to assess the impact of the amendment to this standard on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Improvements to Income Tax Disclosures - Income Taxes (Topic 740). The amendments to this standard enhance the transparency and decision usefulness of income tax disclosures, primarily related to rate reconciliation and income taxes paid information as well as effectiveness of overall income tax disclosures. The new standard is effective for non-public companies, and public business entities that meet the definition of a smaller reporting company as defined by the SEC, for interim and annual periods beginning after December 15, 2024, although early adoption is permitted. The Company currently plans to adopt this guidance effective January 1, 2025. The Company is continuing to assess the impact of the amendment to this standard on its consolidated financial statements.

Note 2. Revenue

Disaggregation of Revenue

The following table summarizes net sales by end market:

(in thousands) End Market	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Power Systems	\$ 84,111	\$ 60,405	\$ 219,160	\$ 159,491
Industrial	32,774	40,354	93,031	128,819
Transportation	8,957	15,125	19,477	65,908
Total	\$ 125,842	\$ 115,884	\$ 331,668	\$ 354,218

The following table summarizes net sales by geographic area:

(in thousands) Geographic Area	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
United States	\$ 113,533	\$ 96,899	\$ 294,295	\$ 285,761
North America (outside of United States)	5,824	4,484	16,127	16,605
Pacific Rim	5,595	9,485	17,416	36,036
Europe	890	4,273	3,781	11,238
Other	—	743	49	4,578
Total	\$ 125,842	\$ 115,884	\$ 331,668	\$ 354,218

Contract Balances

Most of the Company's contracts are for a period of less than one year; however, extended warranty contracts extend beyond one year. The timing of revenue recognition may differ from the time of invoicing to customers and these timing differences result in contract assets, or contract liabilities on the Company's Consolidated Balance Sheet. Contract assets include amounts related to the contractual right to consideration for completed performance when the right to consideration is conditional. The Company records contract liabilities when cash payments are received or due in advance of performance. The fair value of noncash consideration of parts provided by customers is recorded in contract liabilities. Contract assets and contract liabilities are recognized at the contract level.

(in thousands)	As of September 30, 2024	As of December 31, 2023	As of December 31, 2022
Short-term contract assets (included in <i>Prepaid expenses and other current assets</i>)	\$ 20,006	\$ 15,554	\$ 3,620
Short-term contract liabilities (included in <i>Other accrued liabilities</i>)	(11,588)	(2,741)	(2,256)
Long-term contract liabilities (included in <i>Noncurrent contract liabilities</i>)	(1,949)	(2,401)	(3,199)
Net contract assets (liabilities)	\$ 6,469	\$ 10,412	\$ (1,835)

During the nine months ended September 30, 2024 and 2023, the Company recognized \$1.4 million and \$1.2 million, respectively, of revenue upon satisfaction of performance obligations related to amounts that were included in the net contract liabilities balance as of December 31, 2023 and 2022, respectively. During the three months ended September 30, 2024 and 2023, the Company recognized \$0.7 million and \$0.3 million, respectively, of revenue upon satisfaction of performance obligations related to amounts that were included in the net contract liabilities balance as of June 30, 2024 and 2023, respectively.

Remaining Performance Obligations

The Company has elected the practical expedient to not disclose remaining performance obligations that have expected original durations of one year or less. For performance obligations that extend beyond one year, the Company had \$3.5 million of remaining performance obligations as of September 30, 2024, primarily related to extended warranties. The Company expects to recognize revenue related to these remaining performance obligations of approximately \$0.8 million in the remainder of 2024, \$0.8 million in 2025, \$0.2 million in 2026, \$1.5 million in 2027, and \$0.2 million in 2028 and less than \$0.1 million in 2029 and beyond.

Note 3. Weichai Transactions

Weichai Shareholder's Loan Agreement

The Company is party to a \$105.0 million shareholder's loan agreement with Weichai. See additional discussion of this debt agreement in Note 6. *Debt*.

Weichai Collaboration Arrangement and Related Party Transactions

The Company and Weichai executed a strategic collaboration agreement (the "Collaboration Agreement") in March 2017 in order to achieve their respective strategic objectives and enhance the strategic cooperation alliance to share experiences, expertise and resources. Among other things, the Collaboration Agreement established a joint steering committee, permitted Weichai to select a limited number of certain technical, marketing, sales, procurement and finance personnel to work at the Company and established several collaborations related to stationary natural-gas applications and Weichai diesel engines. The Collaboration Agreement provided for the steering committee to create various sub-committees with operating roles and otherwise governs the treatment of intellectual property of parties prior to the collaboration and the intellectual property developed during the collaboration. On March 22, 2023, the Collaboration Agreement was extended for an additional term of three years.

The Company evaluates whether an arrangement is a collaborative arrangement at its inception based on the facts and circumstances specific to the arrangement. The Company also reevaluates whether an arrangement qualifies or continues to qualify as a collaborative arrangement whenever there is a change in either the roles of the participants or the participants' exposure to significant risks and rewards dependent on the ultimate commercial success of the endeavor. For those collaborative arrangements where it is determined that the Company is the principal participant, costs incurred and revenue generated from third parties are recorded on a gross basis in the financial statements. Purchases of inventory from Weichai were \$13.2 million and \$19.9 million for the three and nine months ended September 30, 2024, respectively. Purchases of inventory from Weichai were \$0.5 million and \$4.3 million for the three and nine months ended September 30, 2023, respectively.

In January 2022, PSI and Societe Internationale des Moteurs Baudouin ("Baudouin"), a subsidiary of Weichai, entered into an international distribution and sales agreement that enables Baudouin to bring PSI's power systems line of products into the European, Middle Eastern, and African markets. In addition to sales, Baudouin will manage service, support, warranty claims, and technical requests. Refer to the Consolidated Balance Sheet and Statements of Income for detailed related party information.

Note 4. Property, Plant and Equipment

Property, plant and equipment by type were as follows:

(in thousands)	As of September 30, 2024	As of December 31, 2023
Property, Plant and Equipment		
Leasehold improvements	\$ 8,298	\$ 6,987
Machinery and equipment	48,234	46,964
Construction in progress	803	1,654
Total property, plant and equipment, at cost	57,335	55,605
Accumulated depreciation	(43,235)	(40,677)
Property, plant and equipment, net	\$ 14,100	\$ 14,928

Note 5. Goodwill and Other Intangibles**Goodwill**

The carrying amount of goodwill at both September 30, 2024 and December 31, 2023 was \$29.8 million. Accumulated impairment losses at both September 30, 2024 and December 31, 2023 were \$11.6 million.

Other Intangible Assets

Components of intangible assets are as follows:

(in thousands)

	As of September 30, 2024		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Customer relationships	\$ 34,940	\$ (32,240)	\$ 2,700
Developed technology	700	(700)	—
Trade names and trademarks	1,700	(1,581)	119
Total	\$ 37,340	\$ (34,521)	\$ 2,819

(in thousands)

	As of December 31, 2023		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Customer relationships	\$ 34,940	\$ (31,195)	\$ 3,745
Developed technology	700	(700)	—
Trade names and trademarks	1,700	(1,531)	169
Total	\$ 37,340	\$ (33,426)	\$ 3,914

Note 6. Debt

The Company's outstanding debt consisted of the following:

(in thousands)	As of September 30, 2024		As of December 31, 2023		Maturity Date
	Amount	Rate ⁽³⁾	Amount	Rate ⁽³⁾	
Short-term financing:					
Revolving Credit Agreement ¹	\$ 100,000	7.20%	\$ —	—%	August 30, 2025
Credit Agreement ²	—	—%	50,000	8.71%	March 21, 2025
Shareholder's Loan Agreement	35,000	9.00%	—	—%	August 31, 2025
\$25 Million Loan Agreement	—	—%	25,000	9.44%	May 20, 2025
\$50 Million Loan Agreement	—	—%	50,000	9.44%	November 30, 2024
\$30 Million Loan Agreement	—	—%	19,820	9.41%	March 31, 2025
Total short-term debt	\$ 135,000		\$ 144,820		
Long-term debt:					
Finance leases and other debt	238	**	399	**	Various
Total long-term debt and finance leases	238		399		
Less: Current maturities of long-term debt and finance leases	152		215		
Long-term debt	\$ 86		\$ 184		

¹ Unamortized financing costs and deferred fees on the new Revolving Credit Agreement are not presented in the above table as they are classified in *Prepaid expenses and other current assets* on the Consolidated Balance Sheet. Unamortized debt issuance costs, were \$0.6 million as of September 30, 2024.

² As of December 31, 2023, unamortized financing costs and deferred fees on the Credit Agreement were not presented in the above table as they are classified in *Prepaid expenses and other current assets* on the Consolidated Balance Sheet. Unamortized debt issuance costs were \$0.2 million as of December 31, 2023.

³ Includes the weighted average interest rate.

** Finance lease obligations are a non-cash financing activity. See Note 8. Leases.

Credit Agreement and Shareholder's Loan Agreement

On August 30, 2024, the Company closed on its new Uncommitted Revolving Credit Agreement (the "Revolving Credit Agreement"), with Standard Chartered Bank ("Standard Chartered") and two other lenders. The Revolving Credit Agreement allows the Company to borrow up to \$120.0 million and has a maturity date of August 30, 2025. The Revolving Credit Agreement is subject to customary events of default and covenants, including minimum consolidated EBITDA and Consolidated Interest Coverage Ratio covenants for the third and fourth quarters of 2024 and the first and second quarters of 2025. Borrowings under the Revolving Credit Agreement will incur interest at the applicable Secured Overnight Financing Rate ("SOFR") plus 2.00% per annum. The obligations under the Revolving Credit Agreement are unconditionally guaranteed, on a joint and several basis, by certain wholly-owned, existing and subsequently acquired or formed direct and indirect domestic subsidiaries of the Company, subject to customary exceptions. The obligations under the Revolving Credit Agreement are secured by substantially all assets of the Company and the Company's wholly-owned subsidiaries. In addition, the Company paid fees of \$0.6 million related to the Revolving Credit Agreement which are deferred and amortized over the term of the Revolving Credit Agreement.

As part of the closing of the Revolving Credit Agreement, the Company made an initial draw in the amount of \$100.0 million. The Company utilized the amount drawn under the Revolving Credit Agreement (i) to repay the outstanding balance of approximately \$40 million under the Company's Fourth Amended and Restated Uncommitted Revolving Credit Agreement, dated March 22, 2024, by and among the Company and Standard Chartered; and (ii) to prepay approximately \$60.0 million under the following shareholder loan agreements between PSI and Weichai: the \$30 Million Loan Agreement, dated as of March 22, 2024, the \$25 Million Loan Agreement, dated as of May 20, 2024, and the \$50 Million Loan Agreement, dated as of November 29, 2023. As of September 30, 2024, the Company had \$100.0 million outstanding under the Revolving Credit Agreement. No gain or loss on extinguishment was recorded. See further discussion below.

In connection with the Revolving Credit Agreement, on August 30, 2024, the Company also entered into a new Shareholder's Loan Agreement (the "Shareholder's Loan Agreement") with Weichai, which allows the Company to borrow up to \$105.0 million and expires August 31, 2025. Borrowings under the Shareholder's Loan Agreement will incur interest at the applicable

SOFR, plus 4.05% per annum. If the interest rate for any loan is lower than Weichai's borrowing cost, the interest rate for such loan shall be equal to Weichai's borrowing cost plus 1.0%. The borrowing requests made under the Shareholder's Loan Agreement are subject to Weichai's discretionary approval. The payment of the borrowings under the Shareholder's Loan Agreement is subordinated in all respects to the Revolving Credit Agreement with the exception that the Company is allowed to make a single payment of \$10.0 million to Weichai. The \$60.0 million portion of the initial advance under the Revolving Credit Agreement was applied to pay all principal, interest, and other amounts outstanding under the \$30 Million Loan Agreement, the \$25 Million Loan Agreement, and the \$50 Million Loan Agreement, except for \$35.0 million which is the outstanding principal balance under the Shareholder's Loan Agreement as of September 30, 2024.

On March 22, 2024, the Company amended and restated its \$130.0 million Third Amended and Restated Uncommitted Revolving Credit Agreement with Standard Chartered. The Fourth Amended and Restated Uncommitted Revolving Credit Agreement (the "Credit Agreement") reduced the borrowing capacity to \$50.0 million and extended the maturity date of loans outstanding under its previous credit facility to the earlier of March 21, 2025 or the demand of Standard Chartered. The Credit Agreement was subject to customary events of default and covenants, including minimum consolidated EBITDA and Consolidated Interest Coverage Ratio covenants for the second and third quarters of 2024. Borrowings under the Credit Agreement incurred interest at either the alternate base rate or the SOFR plus applicable rate of 3.45% per annum. In addition, the Company paid fees of \$0.1 million related to the Credit Agreement which were deferred and amortized over the term of the Credit Agreement. The Credit Agreement was secured by substantially all of the Company's assets and provided Standard Chartered the right to demand payment of any and all of the outstanding borrowings and other amounts owed under the Credit Agreement at any point in time prior to the maturity date at Standard Chartered's discretion. The Company repaid the outstanding balance of \$40.0 million and extinguished the Fourth Amended and Restated Uncommitted Revolving Credit Agreement during the third quarter of 2024.

On March 22, 2024, the Company amended one of the four shareholder's loan agreements with Weichai, to among other things, extend the maturities thereof. The \$30 Million Loan Agreement provided the Company with a \$30.0 million subordinated loan at the discretion of Weichai and was amended to extend the maturity date to March 31, 2025. Borrowings under the \$30 Million Loan Agreement bear interest at an annual rate equal to SOFR plus 4.05% per annum. Further, if the applicable SOFR rate is negative, the interest rate per annum shall be deemed as 4.05% per annum. If the interest rate for any loan is lower than Weichai's borrowing cost, the interest rate for such loan shall be equal to Weichai's borrowing cost plus 1.0%. All the amended shareholder loan agreements with Weichai were subject to customary events of default and covenants. The Company and Weichai also agreed not to renew the first Amended Shareholder's Loan Agreement, which expired on April 24, 2024 and provided the Company with a \$130.0 million subordinated loan under which Weichai was obligated to advance funds solely for purposes of repaying outstanding borrowings under the \$130.0 million Fourth Amended and Restated Uncommitted Revolving Credit Agreement if the Company was unable to pay such borrowings. This shareholder loan agreement was replaced by the new Shareholder's Loan Agreement.

The Company was also party to a \$50 Million Loan Agreement with Weichai, which was entered into on December 10, 2021. The \$50 Million Loan Agreement provided the Company with a \$50.0 million uncommitted facility that was subordinated to the Third Amended and Restated Uncommitted Revolving Credit Agreement and any borrowing requests made under the \$50 Million Loan Agreement were subject to Weichai's discretionary approval. Borrowings under the \$50 Million Loan Agreement incurred interest at the applicable SOFR, plus 4.65% per annum and could have been used for general corporate purposes, except for certain legal expenditures which required additional approval from Weichai. Further, if the applicable term SOFR was negative, the interest rate per annum should have been deemed as 4.65% per annum. If the interest rate for any loan was lower than Weichai's borrowing cost, the interest rate for such loan would have been equal to Weichai's borrowing cost plus 1.0%. This shareholder loan agreement was replaced by the new Shareholder's Loan Agreement.

The Company was also party to a \$25 Million Loan Agreement with Weichai, which was amended and restated in May 2024. The \$25 Million Loan Agreement provided the Company with a \$25.0 million subordinated loan. Borrowings under the \$25 Million Loan Agreement incurred interest at the applicable SOFR rate, plus 4.05% per annum. Further, if the applicable term SOFR is negative, the interest rate per annum shall be deemed as 4.05% per annum. If the interest rate for any loan under the \$25 Million Loan Agreement is lower than Weichai's borrowing cost, the interest rate for such loan shall be equal to Weichai's borrowing cost plus 1.0%. This shareholder loan agreement was replaced by the new Shareholder's Loan Agreement.

As of September 30, 2024, the Company's total outstanding debt obligations under the Revolving Credit Agreement, the Shareholder's Loan Agreement, and for finance leases and other debt were \$135.2 million in the aggregate and its cash and cash equivalents were \$40.5 million. The Company's total accrued interest for the Revolving Credit Agreement and Shareholder's Loan Agreement was \$2.4 million as of September 30, 2024. The Company's total accrued interest for its Fourth Amended and Restated Uncommitted Revolving Credit Agreement and all shareholder loans was \$1.9 million as December 31, 2023. Accrued interest is included within Other Accrued Liabilities on the Consolidated Balance Sheet

See Note 1. *Summary of Significant Accounting Policies and Other Information* for further discussion of the Company's going concern considerations.

Note 7. Other Non-current Liabilities

On June 14, 2024, the Company executed a non-interest bearing note payable of \$4.5 million upon settlement of a legal matter. The note payable is due May 2028 and is discounted based on an imputed interest rate of 6.66%. The note payable includes an option for the Company to extend maturity of the note to September 2029 upon written notice before the thirty-seventh payment and the maximum payment amount of the note increases to \$4.8 million.

The current portion of the note of \$0.7 million is included in other accrued liabilities in the Company's Consolidated Balance Sheets.

(in thousands)	As of September 30, 2024
Note payable	\$ 3,668
Unamortized discount	(532)
Total	\$ 3,136

The following table presents remaining maturities for the note payable as of September 30, 2024:

(in thousands)	Maturities	Discount Amortization
Three months ending December 31, 2024	\$ 166	\$ 59
Year ending December 31, 2025	693	207
Year ending December 31, 2026	740	160
Year ending December 31, 2027	1328	97
Year ending December 31, 2028	741	9
Total note payable	\$ 3,668	\$ 532

The Company recorded less than \$0.1 million discount amortization as interest expense as of September 30, 2024.

Note 8. Leases

Leases

The Company has obligations under lease arrangements primarily for facilities, equipment and vehicles. These leases have original lease periods expiring between September 2025 and July 2034. The following table summarizes the lease expense by category in the Consolidated Statement of Income:

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Cost of sales	\$ 1,935	\$ 2,243	\$ 5,719	\$ 6,214
Research and development expenses	82	64	247	190
Selling, general and administrative expenses	45	19	187	56
Interest expense	2	39	7	80
Total	\$ 2,064	\$ 2,365	\$ 6,160	\$ 6,540

The following table summarizes the components of lease expense:

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Operating lease cost	\$ 1,531	\$ 1,561	\$ 4,595	\$ 4,353
Finance lease cost				
Amortization of right-of-use ("ROU") asset	16	20	50	61
Interest expense	2	3	7	11
Short-term lease cost	265	408	838	809
Variable lease cost	250	373	670	1,305
Sublease income	—	(87)	—	(619)
Total lease cost, net	\$ 2,064	\$ 2,278	\$ 6,160	\$ 5,920

The following table presents supplemental cash flow information related to leases:

(in thousands)	For the Nine Months Ended September 30,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows paid for operating leases	\$ 4,525	\$ 3,315
Operating cash flows paid for interest portion of finance leases	7	11
Financing cash flows paid for principal portion of finance leases	57	67
ROU assets obtained in exchange for lease obligations		
Operating leases	1,139	17,838

As of September 30, 2024 and December 31, 2023, the weighted-average remaining lease term was 5.5 years and 6.2 years for operating leases, respectively, and 1.5 years and 2.2 years for finance leases, respectively. As of September 30, 2024 and December 31, 2023, the weighted-average discount rate was 7.5% and 7.6% for operating leases, respectively, and for both periods 6.5% for finance leases.

The following table presents supplemental balance sheet information related to leases:

(in thousands)	September 30, 2024	December 31, 2023
Operating lease ROU assets, net	\$ 24,319	\$ 27,145
Operating lease liabilities, current	4,373	3,912
Operating lease liabilities, non-current	21,845	25,070
Total operating lease liabilities	<u>\$ 26,218</u>	<u>\$ 28,982</u>
Finance lease ROU assets, net ¹	\$ 94	\$ 144
Finance lease liabilities, current	78	76
Finance lease liabilities, non-current	35	94
Total finance lease liabilities	<u>\$ 113</u>	<u>\$ 170</u>

1. Included in *Property, plant and equipment, net* for finance leases on the Consolidated Balance Sheets.

The following table presents maturity analysis of lease liabilities as of September 30, 2024:

(in thousands)	Operating Leases	Finance Leases
Three months ending December 31, 2024	\$ 1,538	\$ 21
Year ending December 31, 2025	6,250	81
Year ending December 31, 2026	5,946	16
Year ending December 31, 2027	5,950	—
Year ending December 31, 2028	4,972	—
Year ending December 31, 2029	4,000	—
Thereafter	3,534	—
Total undiscounted lease payments	<u>32,190</u>	<u>118</u>
Less: imputed interest	5,972	5
Total lease liabilities	<u>\$ 26,218</u>	<u>\$ 113</u>

Note 9. Fair Value of Financial Instruments

For assets and liabilities measured at fair value on a recurring and nonrecurring basis, a three-level hierarchy of measurements based upon observable and unobservable inputs is used to arrive at fair value. Observable inputs are developed based on market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about valuation based on the best information available in the circumstances. Depending on the inputs, the Company classifies each fair-value measurement as follows:

- Level 1 – based on quoted prices in active markets for identical assets or liabilities;
- Level 2 – based on other significant observable inputs for the assets or liabilities through corroborations with market data at the measurement date; and
- Level 3 – based on significant unobservable inputs that reflect management's best estimate of what market participants would use to price the assets or liabilities at the measurement date.

Financial Instruments Measured at Carrying Value

Current Assets

Cash and cash equivalents (Level 1) are measured at carrying value, which approximates fair value because of the short-term maturities of these instruments.

Debt

The Company measured its material debt obligations and note payable at original carrying value. The fair value of the Revolving Credit Agreement and other short-term financing approximated carrying value, as it consisted primarily of short-term variable rate loans. The Company measured its non-interest bearing note payable using a rate which the Company could obtain financing of similar nature from other sources at the date of the transaction. The unamortized discount is reported in the Consolidated Balance Sheet as a deduction from the face amount of the note payable. The Company measured its material debt obligations and note payable using Level 2 inputs as follows:

(in thousands)

	As of September 30, 2024			
	Carrying Value	Fair Value		
		Level 1	Level 2	Level 3
Revolving Credit Agreement	\$ 100,000	\$ —	\$ 100,000	\$ —
Note payable	3,668	—	3,668	—
Other financing	35,000	—	35,000	—

(in thousands)

	As of December 31, 2023			
	Carrying Value	Fair Value		
		Level 1	Level 2	Level 3
Credit Agreement	\$ 50,000	\$ —	\$ 50,000	\$ —
Other financing	94,820	—	94,820	—

Other Financial Assets and Liabilities

In addition to the methods and assumptions used for the financial instruments discussed above, accounts receivable, net income tax receivable, accounts payable, and certain accrued expenses are measured at carrying value, which approximates fair value (Level 1) because of the short-term maturities of these instruments.

Note 10. Commitments and Contingencies

Legal Contingencies

The legal matters discussed below and others could result in losses, including damages, fines, civil penalties and criminal charges, which could be substantial. The Company records accruals for these contingencies to the extent the Company concludes that a loss is both probable and reasonably estimable. Regarding the matters disclosed below, unless otherwise disclosed, the Company has determined that liabilities associated with these legal matters are reasonably possible; however, unless otherwise stated, the possible loss or range of possible loss cannot be reasonably estimated. Given the nature of the litigation and investigations and the complexities involved, the Company is unable to reasonably estimate a possible loss for all such matters until the Company knows, among other factors, the following:

- what claims, if any, will survive dispositive motion practice;
- the extent of the claims, particularly when damages are not specified or are indeterminate;
- how the discovery process will affect the litigation;
- the settlement posture of the other parties to the litigation; and
- any other factors that may have a material effect on the litigation or investigation.

However, the Company could incur judgments, enter into settlements or revise its expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on the Company's results of operations in the period in which the amounts are accrued and/or liquidity in the period in which the amounts are paid.

Securities and Exchange Commission and United States Attorney's Office ("USAO") for the Northern District of Illinois Investigations

In September 2020, the Company entered into agreements with the SEC and the USAO to resolve the investigations into the Company's past revenue recognition practices. Under the settled administrative order with the SEC, the Company committed to remediate the deficiencies in its internal control over financial reporting that constituted material weaknesses identified in its 2017 Form 10-K filed in May 2019 by April 30, 2021 unless an extension was provided by the SEC. On April 12, 2021, the SEC granted the Company's request for an extension of time until March 31, 2022 in which to comply with the requirements of the administrative order to remediate the remaining outstanding material weaknesses. In April 2022, the SEC granted a further extension of time until March 31, 2023 to fully comply with the administrative order. In May 2023, the Company submitted

documentation to the SEC for its review to assess the Company's compliance with the administrative order. In July 2023, the Company was notified by the SEC that no additional information was required with respect to the administrative order.

Jerome Treadwell v. the Company

In October 2018, a punitive class-action complaint was filed against the Company and NOVAtime Technology, Inc. ("NOVAtime" or "Plaintiff") in the Circuit Court of Cook County, Illinois. In December 2018, NOVAtime removed the case to the U.S. District Court for the Northern District of Illinois, Eastern Division (the "Court") under the Class Action Fairness Act. Plaintiff has since voluntarily dismissed NOVAtime from the lawsuit without prejudice and filed an amended complaint in April 2019. The operative, amended complaint asserts violations of the Illinois Biometric Information Privacy Act ("BIPA") in connection with employees' use of the time clock to clock in and clock out using a finger scan and seeks statutory damages, attorneys' fees, and injunctive and equitable relief. An aggrieved party under BIPA may recover (i) \$1,000 per violation if the Company is found to have negligently violated BIPA or (ii) \$5,000 per violation if the Company is found to have intentionally or recklessly violated BIPA plus reasonable attorneys' fees. In May 2019, the Company filed its motion to dismiss the Plaintiff's amended complaint. In December 2019, the court denied the Company's motion to dismiss. In January 2020, the Company moved for reconsideration of the Court's order denying the motion to dismiss, or in the alternative, to stay the case pending the Illinois Appellate Court's ruling in *McDonald v. Symphony Healthcare* on a legal question that would be potentially dispositive in this matter. In February 2020, the Court denied the Company's motion for reconsideration, but required the parties to submit additional briefing on the Company's motion to stay. In April 2020, the Court granted the Company's motion to stay and stayed the case pending the Illinois Appellate Court's ruling in *McDonald v. Symphony Healthcare*. In October 2020, after the *McDonald* ruling, the Court granted the parties' joint request to continue the stay of the case for 60 days. The Court also ordered the parties to schedule a settlement conference with the Magistrate Judge in May 2021 which went forward without a settlement being reached. On May 22, 2023, the Company filed the answer to the amended complaint. Plaintiff and PSI have since reached a preliminary settlement of the case, and Plaintiff filed an Unopposed Motion for Preliminary Approval of Class Action Settlement on February 23, 2024, which is currently pending with the Court. As of both September 30, 2024 and December 31, 2023, the Company had recorded an estimated liability of \$2.4 million, recorded within *Other accrued liabilities* on the Consolidated Balance Sheet related to the potential settlement of this matter.

Mast Powertrain v. the Company

In February 2020, the Company received a demand for arbitration from Mast Powertrain, LLC ("Mast") pursuant to a development agreement entered into in November 2011 (the "Development Agreement"). Mast claimed that it was owed more than \$9.0 million in past royalties and other damages for products sold by the Company pursuant to the Development Agreement. The Company disputed Mast's damages, denied that any royalties are owed to Mast, denied any liability, and counterclaimed for overpayment on invoices paid to Mast. Mast subsequently clarified its claim for past royalties owed to be approximately \$4.5 million. In July 2021, the Company reached a settlement with Mast to resolve past claims for royalties owed for \$1.5 million which the Company had previously recorded within *Selling, general and administrative expenses* in the Consolidated Statement of Income for the year-ended December 31, 2020. The Company fully paid the settlement and had no recognized liability as of both September 30, 2024 and 2023. In September 2023, Mast filed a lawsuit against the Company in the Eastern District of Texas Federal Court ("Court"), alleging, among other things, damages of approximately \$6.0 million for fraudulent inducement leading to the 2021 arbitration settlement agreement and breach of said settlement agreement. Upon court order, the Company participated in mediation in May 2024, and no settlement was reached. The Company has filed a motion to stay the lawsuit and compel it to arbitration, and that motion is currently pending. In the interim, the court ordered the parties to participate in a second mediation by the end of November 2024. As of both September 30, 2024 and December 31, 2023, the Company had recorded an estimated liability of \$0.9 million, recorded within *Other accrued liabilities* on the Consolidated Balance Sheet related to the potential settlement of this matter.

Gary Winemaster v. The Company

In August 2021, the Company's former Chairman of the Board and former Chief Executive Officer and President, Gary Winemaster ("Winemaster") filed suit in the Court of Chancery of the State of Delaware against the Company and Travelers Casualty and Surety Company of America ("Travelers") alleging the Company's breach of its advancement obligations under Winemaster's indemnification agreement and Travelers' breach of the side A policy between Traveler's and the Company of which Winemaster is a beneficiary. In his complaint, Winemaster was seeking reimbursement under his indemnification agreement in excess of \$7.2 million of attorney's fees plus interest incurred by Winemaster in his defense of the Department of Justice ("DOJ") case, *U.S. v. Winemaster et al.* Since the filing of the complaint, the Company estimates that Travelers has paid approximately \$8.8 million to Winemaster's attorneys, Latham and Watkins, under the Company's side A policy to settle existing outstanding attorney's fees. Travelers is seeking reimbursement from the Company for those advances pursuant to the terms of the side A policy. In October 2021, the Company and Winemaster entered into a Stipulation and Advancement Order to handle all future attorney's fees relating to his DOJ and SEC cases, to the extent not reimbursed by Travelers under the side A policy. As of December 31, 2023, the Company had approximately \$8.8 million accrued for the reimbursement to Travelers recorded within *Accounts payable* on the Consolidated Balance Sheet. In June 2024, the Company reached a settlement with

Travelers for \$4.5 million, resulting in a \$4.3 million gain that was recorded within Selling, General and Administrative expenses on the Consolidated Statements of Income. As of September 30, 2024, the Company recorded the aforementioned settlement liability within *Other noncurrent liabilities* with the current portion within *Other accrued liabilities* on the Consolidated Balance Sheet. Refer to Note 7. *Other Non-current Liabilities* for additional information related to this settlement.

Jeffrey Ehlers and Rick Lulloff Litigation

In September 2021, Jeffrey Ehlers (“Ehlers”) and Rick Lulloff (“Lulloff”), former employees of the Company, made demand against the Company for approximately \$2.4 million and \$1.2 million, respectively, for alleged wages due and owing under each employee’s employment contract related to “Incentive Bonuses” for revenues generated in the Company’s transportation end market. In November 2021, Ehlers and Lulloff separately filed complaints against the Company in the Circuit Court of Cook County, Illinois, alleging breach of contract and violations of the Illinois Wage and Payment Collection Act incorporating their claims in the above referenced demand letter. The Company filed a notice of removal from the Circuit Court of Cook County, Illinois and has also moved to consolidate the cases, which has been granted by the Court. In December 2022, the Company reached a settlement with both Ehlers and Lulloff, for \$0.8 million and \$0.5 million, respectively. As of December 31, 2023, the Company paid the settlement in full to both Ehlers and Lulloff.

Indemnification Agreements

The Company holds a directors’ and officers’ liability insurance policy, which is renewed annually and expires in July 2025. The insurance policy includes standard exclusions including for any ongoing or pending litigation such as the previously disclosed investigations by the SEC and USAO.

Other Commitments and Contingencies

At September 30, 2024, the Company had four outstanding letters of credit totaling \$1.4 million. The letters of credit primarily serve as collateral for the Company for certain facility leases and insurance policies. As discussed in Note 1. *Summary of Significant Accounting Policies and Other Information*, the Company had restricted cash of \$3.2 million as of September 30, 2024, related to these letters of credit and cash held in escrow due to a customer agreement.

Note 11. Income Taxes

On a quarterly basis, the Company computes an estimated annual effective tax rate considering ordinary income and related income tax expense. Ordinary income refers to income before income tax expense excluding significant, unusual or infrequently occurring items. The tax effect of an unusual or infrequently occurring item is recorded in the interim period in which it occurs.

The Company has assessed the need to maintain a valuation allowance for deferred tax assets based on an assessment of whether it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Appropriate consideration is given to all available evidence, both positive and negative, in assessing the need for a valuation allowance. In assessing the realizability of the Company’s deferred tax assets, the Company considered whether it is more likely than not that some or all of the deferred tax assets will be realized through the generation of future taxable income. In making this determination, the Company assessed all of the evidence available at the time, including recent earnings, forecasted income projections, historical performance, and that substantial doubt exists about the Company’s ability to continue as a going concern. The Company determined that the negative evidence outweighed the objectively verifiable positive evidence and continues to maintain a valuation allowance against deferred tax assets. The Company’s valuation allowance is \$46.3 million and \$54.3 million as of September 30, 2024 and December 31, 2023, respectively.

The effective tax rate for the three and nine months ended September 30, 2024 was 1.6% and 2.9%, respectively, compared to an effective tax rate for the three and nine months ended September 30, 2023 of 1.9% and 2.9%. The effective tax rates for all periods were significantly different than the applicable U.S. statutory tax rate. For both the three and nine months ended September 30, 2024, the difference between the effective and statutory tax rates was primarily due to the Company’s full valuation allowance.

Note 12. Stockholders’ Equity

Common and Treasury Stock

The changes in shares of Common and Treasury Stock are as follows:

(in thousands)

	Common Shares Issued	Treasury Stock Shares	Common Shares Outstanding
Balance as of December 31, 2023	23,117	149	22,968
Net shares issued for Stock awards	—	(22)	22
Balance as of September 30, 2024	<u>23,117</u>	<u>127</u>	<u>22,990</u>

Note 13. Earnings Per Share

The Company computes basic earnings per share by dividing net income by the weighted-average common shares outstanding during the year. Diluted earnings per share is calculated to give effect to all potentially dilutive common shares that were outstanding during the year. Weighted-average diluted common shares outstanding primarily reflect the additional shares that would be issued upon the assumed exercise of stock options and the assumed vesting of unvested share awards. The treasury stock method has been used to compute diluted earnings per share for the three and nine months ended September 30, 2024 and 2023.

The Company issued SARs and RSAs, all of which have been evaluated for their potentially dilutive effect under the treasury stock method. See Note 13. *Stock-Based Compensation* in the Company's 2023 Annual Report for additional information on the SARs and the RSAs.

The computations of basic and diluted earnings per share are as follows:

(in thousands, except per share basis)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net income – basic and diluted	\$ 17,337	\$ 7,795	\$ 45,992	\$ 17,936
Denominator:				
Shares used in computing net income per share:				
Weighted-average common shares outstanding – basic	22,990	22,967	22,977	22,957
Effect of dilutive securities	54	7	26	12
Weighted-average common shares outstanding – diluted	23,044	22,974	23,003	22,969
Earnings per common share:				
Earnings per share of common stock – basic	\$ 0.75	\$ 0.34	\$ 2.00	\$ 0.78
Earnings per share of common stock – diluted	\$ 0.75	\$ 0.34	\$ 2.00	\$ 0.78

The aggregate number of shares excluded from the diluted earnings per share calculations, because they would have been anti-dilutive, were 105 for the three months ended September 30, 2023, and 59 and 107 for the nine months ended September 30, 2024 and 2023, respectively. For the three and nine months ended September 30, 2024 and 2023, SARs and RSAs were not included in the diluted earnings per share calculations as they would have been anti-dilutive because the Company's average stock price was less than or equal to the exercise price of the SARs or the grant price of the RSAs.

Note 14. Related Party Transactions

Weichai Transactions

See Note 3. *Weichai Transactions* for information regarding the Weichai Shareholder's Loan Agreement and Collaboration Agreement.

Other Related Party Transactions

See Note 10. *Commitments and Contingencies* for information regarding the Company's indemnification obligations related to certain former directors and officers of the Company.

Note 15. Subsequent Events

In October 2024, the Company reached a settlement with a customer in the amount of \$5.8 million for the collection of past due accounts receivable and various pricing adjustments. As a result of the settlement, the Company reversed \$1.6 million of credit losses in its Consolidated Statements of Income as of September 30, 2024. As part of the settlement agreement, the Company agreed to pay \$7.7 million for its accepted warranty obligations to the customer. These obligations were previously recorded as outstanding credit memos and have been reclassified to Accounts Payable within its Consolidated Balance Sheet as of September 30, 2024 due to the settlement agreement requirement to settle these obligations in cash. Both parties agreed to continue normal and customary relationships under existing supply agreements and amended pricing and payment terms and conditions.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis includes forward-looking statements about the Company’s business and consolidated results of operations for the three and nine months ended September 30, 2024 and 2023, including discussions about management’s expectations for the Company’s business. These statements represent projections, beliefs and expectations based on current circumstances and conditions and are made in light of recent events and trends. These statements should not be construed either as assurances of performance or as promises of a given course of action. Instead, various known and unknown factors are likely to cause the Company’s actual performance and management’s actions to vary, and the results of these variances may be both material and adverse. See “Forward-Looking Statements” in this Quarterly Report. The following discussion should also be read in conjunction with the Company’s unaudited consolidated financial statements and the related Notes included in this Quarterly Report.

Executive Overview

The Company designs, engineers, manufactures, markets and sells a broad range of advanced, emission-certified engines and power systems that run on a wide variety of clean, alternative fuels, including natural gas, propane, and biofuels, as well as gasoline and diesel options, within the power systems, industrial and transportation end markets with primary manufacturing, assembly, engineering, research and development (“R&D”), sales and distribution facilities located in suburban Chicago, Illinois and Darien and Beloit, Wisconsin. The Company provides highly engineered, comprehensive solutions designed to meet specific customer application requirements and technical specifications, including those imposed by environmental regulatory bodies, such as the U.S. Environment Protection Agency (“EPA”), the California Air Resource Board (“CARB”) and the People’s Republic of China’s Ministry of Ecology and Environment (“MEE”).

The Company’s products are primarily used by global original equipment manufacturers (“OEM”) and end-user customers across a wide range of applications and equipment that includes standby and prime power generation, demand response, microgrid, combined heat and power, arbor care, material handling (including forklifts), agricultural and turf, construction, pumps and irrigation, compressors, utility vehicles, light- and medium-duty vocational trucks, school and transit buses, and utility power. The Company manages the business as a single reporting segment.

Net sales by geographic area and by end market for the three and nine months ended September 30, 2024 and 2023 are presented below:

Geographic Area	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2024		2023		2024		2023	
	% of Total		% of Total		% of Total		% of Total	
United States	\$ 113,533	90 %	\$ 96,899	84 %	\$ 294,295	89 %	\$ 285,761	81 %
North America (outside of United States)	5,824	5 %	4,484	4 %	16,127	5 %	16,605	5 %
Pacific Rim	5,595	4 %	9,485	7 %	17,416	5 %	36,036	10 %
Europe	890	1 %	4,273	4 %	3,781	1 %	11,238	3 %
Others	—	— %	743	1 %	49	— %	4,578	1 %
Total	\$ 125,842	100 %	\$ 115,884	100 %	\$ 331,668	100 %	\$ 354,218	100 %

End Market	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2024		2023		2024		2023	
	% of Total		% of Total		% of Total		% of Total	
Power Systems	\$ 84,111	67 %	\$ 60,405	52 %	\$ 219,160	66 %	\$ 159,491	45 %
Industrial	32,774	26 %	40,354	35 %	93,031	28 %	128,819	36 %
Transportation	8,957	7 %	15,125	13 %	19,477	6 %	65,908	19 %
Totals	\$ 125,842	100 %	\$ 115,884	100 %	\$ 331,668	100 %	\$ 354,218	100 %

Recent Trends and Business Outlook

PSI’s growth in net revenue for the nine months of 2024 was driven by power systems markets, including data center and oil and gas products, partially offset by lower sales from more mature, lower-margin markets such as transportation. This shift in markets reflects the Company’s conscious strategic prioritization towards higher growth, higher-margin markets with less emphasis on more mature markets.

The Company is focused on leading the business through a growth phase with a stronger balance sheet while strategically prioritizing products that demonstrate strong demand and higher gross margins. Consistent with those goals, the Company is actively pursuing several initiatives to enhance and expand manufacturing capacity to meet the increasing demand from data center markets. Pivoting the focus to these markets is driving current net sales growth and profitability. Through expanded capacity and strategic partnerships, management expects this positive trend to continue.

PSI's business is impacted by the current macroeconomic and geopolitical environment, which has contributed to differing levels of recovery in the global economy. For example, although the oil and gas market, in which the Company has historically operated, has experienced year over year growth from its historic lows, sales levels may not reach their previous higher levels because of rising crude oil prices and lower rig counts. The Company has been actively navigating these challenges by balancing its investments, expenses, pricing and sales efforts in this market as well as others.

In addition to prioritizing gross profit, the Company is committed to efficiently managing expenses, including streamlining operating expenses and prioritizing certain R&D investments in support of long-term growth objectives. The Company is committed to focusing on growth opportunities and investment while also optimizing its cost structure to enhance growth and profitability, ultimately delivering sustained value to our shareholders.

The Company continues to experience inflationary cost pressures for certain raw materials and other goods which the Company continues to try to mitigate through price increases and other cost reduction measures. Additionally, the Company continues to experience ongoing tariff costs for its supply chain products and is trying to mitigate these impacts through price increases and other measures, such as seeking certain tariff exclusions, where possible. The potential for continued economic uncertainty and unfavorable oil and gas market dynamics may have a material adverse impact on the levels of future customer orders and the Company's future business operations, financial condition and liquidity.

Results of Operations

Condensed consolidated results of operations for the three and nine months ended September 30, 2024, compared with the three and nine months ended September 30, 2023 (UNAUDITED):

(in thousands, except per share amounts)

	For the Three Months Ended September 30,		Change	% Change	For the Nine Months Ended September 30,		Change	% Change
	2024	2023			2024	2023		
Net sales (from related parties \$50 and \$340 for the three months ended September 30, 2024 and September 30, 2023, respectively, \$500 and \$2,400 for the nine months ended September 30, 2024 and September 30, 2023, respectively)	\$ 125,842	\$ 115,884	\$ 9,958	9 %	\$ 331,668	\$ 354,218	\$ (22,550)	(6)%
Cost of sales (from related parties \$40 and \$245 for the three months ended September 30, 2024 and September 30, 2023, respectively, and \$370 and \$1,755 for the nine months ended September 30, 2024 and September 30, 2023, respectively)	89,418	87,979	1,439	2 %	234,300	275,890	(41,590)	(15)%
Gross profit	36,424	27,905	8,519	31 %	97,368	78,328	19,040	24 %
<i>Gross margin %</i>	28.9 %	24.1 %	4.8 %		29.4 %	22.1 %	7.4 %	
Operating expenses:								
Research and development expenses	4,651	4,762	(111)	(2)%	14,807	14,028	779	6 %
<i>Research and development expenses as a % of sales</i>	3.7 %	4.1 %	(0.4)%		4.5 %	4.0 %	0.5 %	
Selling, general and administrative expenses	10,957	10,595	362	3 %	25,009	31,050	(6,041)	(19)%
<i>Selling, general and administrative expenses as a % of sales</i>	8.7 %	9.1 %	(0.4)%		7.5 %	8.8 %	(1.3)%	
Amortization of intangible assets	365	436	(71)	(16)%	1,095	1,309	(214)	(16)%
Total operating expenses	15,973	15,793	180	1 %	40,911	46,387	(5,476)	(12)%
Operating income	20,451	12,112	8,339	69 %	56,457	31,941	24,516	77 %
Interest expense (from related parties \$1,800 and \$2,000 for the three months ended June 30, 2024 and 2023, respectively, and 6,300 and 5,800 for the nine months ended September 30, 2024 and September 30, 2023, respectively)	2,837	4,164	(1,327)	(32)%	9,092	13,474	(4,382)	(33)%
Income before income taxes	17,614	7,948	9,666	122 %	47,365	18,467	28,898	156 %
Income tax expense	277	153	124	81 %	1,373	531	842	159 %
Net income	\$ 17,337	\$ 7,795	\$ 9,542	122 %	\$ 45,992	\$ 17,936	\$ 28,056	156 %
Earnings per common share:								
Basic	\$ 0.75	\$ 0.34	\$ 0.41	121 %	\$ 2.00	\$ 0.78	\$ 1.22	156 %
Diluted	\$ 0.75	\$ 0.34	\$ 0.41	121 %	\$ 2.00	\$ 0.78	\$ 1.22	156 %
Non-GAAP Financial Measures:								
Adjusted net income *	\$ 17,341	\$ 8,861	\$ 8,480	96 %	\$ 40,941	\$ 19,029	\$ 21,912	115 %
Adjusted net income per share – diluted*	\$ 0.75	\$ 0.39	\$ 0.36	92 %	\$ 1.79	\$ 0.84	\$ 0.95	113 %
EBITDA *	\$ 21,747	\$ 13,498	\$ 8,249	61 %	\$ 60,388	\$ 36,175	\$ 24,213	67 %
Adjusted EBITDA *	\$ 21,751	\$ 14,564	\$ 7,187	49 %	\$ 55,337	\$ 37,268	\$ 18,069	48 %

NM Not meaningful

* Non-GAAP measurement, see reconciliation below

Net Sales

Net sales increased \$10.0 million, or 9%, during the three months ended September 30, 2024, compared to the three months ended September 30, 2023, as a result of higher sales of \$23.7 million in the power systems end market, partially offset by a decrease of \$7.6 million and \$6.2 million within the industrial and transportation end markets, respectively. Higher power systems end market sales were primarily due to increased demand for products across various applications, with the largest increases attributable to products used within the packaging market such as enclosures serving the fast-growing Data Center market, as well as oil and gas products. The Company is strategically prioritizing the rapidly expanding Data Center sector, improving and increasing our manufacturing capacity and capabilities to meet and exceed our customers' evolving demands for our products. Decreased industrial end market sales are primarily due to decreases in demand for products used within the material handling and arbor care markets, as well as the direct effects of enforcement of the UFLPA, which limited the Company's ability to import certain raw materials continuing through the third quarter of 2024. The decreased sales within the transportation end market were primarily attributable to lower sales in the truck and school bus market as customer products have evolved, decrease in sales from shifting away from some of our transportation customers, and new compliance and regulatory requirements that have changed engine product offerings.

Net sales decreased \$22.6 million, or 6%, during the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023, as a result of lower sales of \$35.8 million and \$46.4 million within the industrial and transportation end markets, respectively, partly offset by an increase of \$59.7 million in the power systems end market. Higher power systems end market sales were primarily due to increased demand for products across various applications, with the largest increases attributable to products used within the packaging market such as enclosures serving the fast-growing Data Center market, as well as oil and gas products and demand response products. The Company is strategically prioritizing the rapidly expanding Data Center sector, improving and increasing our manufacturing capacity and capabilities to meet and exceed our customers' evolving demands for our products. Decreased industrial end market sales are primarily due to decreases in demand for products used within the material handling and arbor care markets, as well as the direct effects of enforcement of the UFLPA, which limited the Company's ability to import certain raw materials continuing through the third quarter of 2024. The decreased sales within the transportation end market were primarily attributable to lower sales in the truck and school bus market as customer products have evolved, decrease in sales from shifting away from some of our transportation customers, and new compliance and regulatory requirements that have changed engine product offerings.

Gross Profit

Gross profit increased during the three months ended September 30, 2024 by \$8.5 million, or 31%, compared to the three months ended September 30, 2023. Gross margin was 28.9% and 24.1% during the three months ended September 30, 2024 and 2023, respectively. The increase in gross margin is primarily due to improved mix, pricing actions, higher operating efficiencies, and lower warranty costs primarily attributable to the Company's sales shift away from certain transportation customers.

Gross profit increased during the nine months ended September 30, 2024 by \$19.0 million, or 24%, compared to the nine months ended September 30, 2023. Gross margin was 29.4% and 22.1% during the nine months ended September 30, 2024 and 2023, respectively. The increase in gross margin is primarily due to improved mix, pricing actions, higher operating efficiencies, and lower warranty costs primarily attributable to the Company's sales shift away from certain transportation customers.

Research and Development Expenses

Research and development expenses during the three months ended September 30, 2024 and 2023 were \$4.7 million and \$4.8 million, respectively.

Research and development expenses during the nine months ended September 30, 2024 and 2023 were \$14.8 million and \$14.0 million, respectively. The increase of \$0.8 million or 6% was primarily related to the testing of new products.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were \$11.0 million during the three months ended September 30, 2024 an increase of \$0.4 million, or 3%, compared to the three months ended September 30, 2023, primarily due to higher executive compensation, offset by lower legal expenses.

SG&A expenses were \$25.0 million during the nine months ended September 30, 2024, a decrease of \$6.0 million, or 19%, compared to the nine months ended September 30, 2023, primarily due to the decrease in the legal reserve, lower professional fees and the decrease selling expenses associated with decreased sales in the transportation market.

Interest Expense

Interest expense was \$2.8 million for the three months ended September 30, 2024, as compared to \$4.2 million for the three months ended September 30, 2023, largely due to lower average outstanding debt, partially offset by higher overall effective interest rates on the Company's debt. See Note 6. *Debt*, included in Part 1, Item 1. *Financial Statements*, for additional information.

Interest expense was \$9.1 million for the nine months ended September 30, 2024, as compared to \$13.5 million for the nine months ended September 30, 2023, largely due to lower average outstanding debt, partially offset by higher overall effective interest rates on the Company's debt. See Note 6. *Debt*, included in Part 1, Item 1. *Financial Statements*, for additional information.

Income Tax Expense

The Company recorded income tax expense of \$0.3 million for the three months ended September 30, 2024, as compared to income tax expense of \$0.2 million for the three months ended September 30, 2023. The Company's pretax income was \$17.6 million for the three months ended September 30, 2024, compared to a pretax income of \$7.9 million for the three months ended September 30, 2023. The Company continues to utilize Net Operating Losses ("NOLs") along with other tax credits to lower its effective tax rate. The Company continues to record a full valuation allowance against deferred tax assets.

The Company recorded income tax expense of \$1.4 million for the nine months ended September 30, 2024, as compared to income tax expense of \$0.5 million for the nine months ended September 30, 2023. The Company's pretax income was \$47.4 million for the nine months ended September 30, 2024, compared to pretax income of \$18.5 million for the nine months ended September 30, 2023. The Company continues to utilize NOLs along with other tax credits to lower its effective tax rate. The Company continues to record a full valuation allowance against deferred tax assets.

See Note 11. *Income Taxes*, included in Part I, Item 1. *Financial Statements*, for additional information related to the Company's income tax provision.

Non-GAAP Financial Measures

In addition to the results provided in accordance with U.S. GAAP above, this report also includes non-GAAP (adjusted) financial measures. Non-GAAP financial measures provide insight into selected financial information and should be evaluated in the context in which they are presented. These non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation from, or as a substitute for, financial information presented in compliance with U.S. GAAP, and non-GAAP financial measures as reported by the Company may not be comparable to similarly titled amounts reported by other companies. The non-GAAP financial measures should be considered in conjunction with the consolidated financial statements, including the related notes, and *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in this report. Management does not use these non-GAAP financial measures for any purpose other than the reasons stated below.

Non-GAAP Financial Measure	Comparable GAAP Financial Measure
Adjusted net income	Net income
Adjusted net income per share – diluted	Net income per share – diluted
EBITDA	Net income
Adjusted EBITDA	Net income

The Company believes that Adjusted net income, Adjusted net income per share – diluted, EBITDA, and Adjusted EBITDA provide relevant and useful information, which is widely used by analysts, investors and competitors in its industry as well as by the Company's management in assessing the performance of the Company. Adjusted net income is defined as net income as adjusted for certain items that the Company believes are not indicative of its ongoing operating performance. Adjusted net income per share – diluted is a measure of the Company's diluted earnings per common share adjusted for the impact of special items. EBITDA provides the Company with an understanding of earnings before the impact of investing and financing charges and income taxes. Adjusted EBITDA further excludes the effects of other non-cash charges and certain other items that do not reflect the ordinary earnings of the Company's operations.

Adjusted net income, Adjusted net income per share – diluted, EBITDA, and Adjusted EBITDA are used by management for various purposes, including as a measure of performance of the Company's operations and as a basis for strategic planning and forecasting. Adjusted net income, Adjusted net income per share – diluted, and Adjusted EBITDA may be useful to an investor because these measures are widely used to evaluate companies' operating performance without regard to items excluded from the calculation of such measures, which can vary substantially from company to company depending on the accounting methods, the book value of assets, the capital structure and the method by which the assets were acquired, among other factors. They are not, however, intended as alternative measures of operating results or cash flow from operations as determined in accordance with U.S. GAAP.

The following table presents a reconciliation from Net income to Adjusted net income for the three and nine months ended September 30, 2024 and 2023:

(in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income	\$ 17,337	\$ 7,795	\$ 45,992	\$ 17,936
Stock-based compensation ¹	4	26	52	132
Other legal matters ²	—	1,040	(5,103)	1,061
Insurance proceeds ³	—	—	—	(100)
Adjusted net income	\$ 17,341	\$ 8,861	\$ 40,941	\$ 19,029

The following table presents a reconciliation from Net income per share – diluted to Adjusted net income per share – diluted for the three and nine months ended September 30, 2024 and 2023:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income per share – diluted	\$ 0.75	\$ 0.34	\$ 2.00	\$ 0.78
Stock-based compensation ¹	—	—	—	0.01
Other legal matters ²	—	0.05	(0.21)	0.05
Adjusted net income per share – diluted	\$ 0.75	\$ 0.39	\$ 1.79	\$ 0.84
Diluted shares (in thousands)	23,043	22,974	23,003	22,969

The following table presents a reconciliation from Net income to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2024 and 2023:

(in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income	\$ 17,337	\$ 7,795	\$ 45,992	\$ 17,936
Interest expense	2,837	4,164	9,092	13,474
Income tax expense	277	153	1,373	531
Depreciation	931	950	2,836	2,925
Amortization of intangible assets	365	436	1,095	1,309
EBITDA	21,747	13,498	60,388	36,175
Stock-based compensation ¹	4	26	52	132
Other legal matters ²	—	1,040	(5,103)	1,061
Insurance proceeds ³	—	—	—	(100)
Adjusted EBITDA	\$ 21,751	\$ 14,564	\$ 55,337	\$ 37,268

- Amounts reflect non-cash stock-based compensation expense and have no material impact on the Adjusted net income per share – diluted for the three and nine months ended September 30, 2024 and 2023.
- Amounts include legal settlements for the three and nine months ended September 30, 2024 and 2023.
- Amounts include insurance recoveries related to a prior year incident and have no material impact on the Adjusted net income per share – diluted for the three and nine months ended September 30, 2024 and 2023.

Cash Flows

Cash was impacted as follows:

(in thousands)

	For the Nine Months Ended September 30,		Change	% Change
	2024	2023		
Net cash provided by operating activities	\$ 29,739	\$ 62,117	\$ (32,378)	(52)%
Net cash used in investing activities	(1,957)	(2,678)	721	27 %
Net cash used in financing activities	(10,703)	(51,739)	41,036	79 %
Net increase in cash, cash equivalents, and restricted cash	\$ 17,079	\$ 7,700	\$ 9,379	122 %
Capital expenditures	\$ (1,957)	\$ (2,678)	\$ 721	27 %

Cash Flows for the Nine Months Ended September 30, 2024

Cash Flow from Operating Activities

Net cash provided by operating activities was \$29.7 million for the nine months ended September 30, 2024, compared to net cash provided by operating activities of \$62.1 million for the nine months ended September 30, 2023, resulting in a decrease of \$32.4 million in cash provided by operating activities year-over-year. The decrease in cash provided by operating activities primarily resulted from a \$54.4 million decrease of cash provided by working capital accounts, partially offset by an increase in earnings of \$28.1 million. The decrease in cash generated from working capital was primarily related to the increase of prepaid

expenses, purchases of inventory, and fewer collections on accounts receivables, offset by decreased payments on accounts payable for the nine months ended September 30, 2024 compared to September 30, 2023.

Cash Flow from Investing Activities

Net cash used in investing activities was \$2.0 million for the nine months ended September 30, 2024, compared to cash used in investing activities of \$2.7 million for the nine months ended September 30, 2023. For the nine months ended September 30, 2024 and 2023, cash used in investing activities primarily related to capital expenditures associated with normal maintenance of the Company's facilities.

Cash Flow from Financing Activities

The Company used \$10.7 million in cash from financing activities for the nine months ended September 30, 2024, compared to \$51.7 million cash used by financing activities for the nine months ended September 30, 2023. The cash used by financing activities for the nine months ended September 30, 2024, was the net impact from the initial draw on the new Revolving Credit Agreement and payments toward the Shareholder's Loan Agreement and other existing debt year to date. See additional discussion below and in Note 6. *Debt*, included in Part I, Item 1. Financial Statements, which further describe the Company's debt arrangements.

Liquidity and Capital Resources

The Company's sources of funds are cash flows from operations, borrowings made pursuant to its credit facilities and shareholder's loan agreements, and cash and cash equivalents on hand. Principal uses of funds consist of payments of principal interest on our debt facilities and shareholder's loan agreements, capital expenditures, and working capital needs.

While the Company has achieved profitability and generated positive cash flows from operating activities in 2024, uncertainties exist about the Company's ability to refinance, extend, or repay its outstanding indebtedness. As September 30, 2024, the Company's total outstanding debt obligations under the Credit Agreement, the Shareholder's Loan Agreement, and for finance leases and other debt were \$135.2 million in the aggregate, and its cash and cash equivalents were \$40.5 million. See Item 1. *Financial Statements*, Note 6. *Debt*, for additional information.

The Company's ability to continue as a going concern is dependent on extending and amending, refinancing or repaying the indebtedness outstanding under the Company's existing debt arrangements. Without additional financing, the Company anticipates that it will not have sufficient cash and cash equivalents to repay amounts owed under its existing debt arrangements as they become due. In order to provide the Company with a more permanent source of liquidity, management plans to seek an extension and amendment and/or replacement of its existing debt agreements or seek additional liquidity from its current or other lenders before the maturity dates in 2025. There can be no assurance that the Company's management will be able to successfully complete an extension and amendment of its existing debt agreements or obtain new financing on acceptable terms, when required or if at all.

Despite the recent recovery of the global economy, there continue to be challenges based on the current macroeconomic and geopolitical environment. Average crude oil prices reached the highest average price in five years in 2022 but have steadily declined while remaining near historically high 5-year averages at the end of the third quarter 2024. Rig counts in the U.S. oil markets remain below historical levels as of the third quarter of 2024. Despite increasing rig counts and historically high crude oil prices, the Company believes that capital spending within the areas of the oil and gas market that it participates in remains below historical levels. While the Company saw an increase of sales to customers with traditional exposure to the oil and gas markets during 2023, as compared to the prior year, sales remain below historic levels. A significant portion of the Company's sales and profitability has historically been derived from the sale of products that are used within the oil and gas industry. The Company continues to experience inflationary cost pressures for certain raw materials and other goods which the Company continues to try to mitigate through price increases and other cost reduction measures. Additionally, the Company continues to experience ongoing tariff costs for products and is trying to mitigate these impacts through price increases and other measures, such as seeking certain tariff exclusions, where possible. The potential for continued economic uncertainty and unfavorable oil and gas market dynamics may have a material adverse impact on the levels of future customer orders and the Company's future business operations, financial condition and liquidity.

Lastly, national inflationary pressures have continued to cause interest rates to remain elevated. Although the Company's interest expense has decreased because of reduced debt balances, it may be subject to future increases from these inflationary pressures. Accordingly, the above challenges may continue to have a material adverse impact on the Company's future results of operations, financial position, and liquidity.

Due to these uncertainties, the Company's management has concluded that, substantial doubt exists as to its ability to continue as a going concern within one year after the date that these financial statements are issued. The Company's plans to alleviate the substantial doubt about its ability to continue as a going concern may not be successful, and it may be forced to limit its

business activities or be unable to continue as a going concern, which would have a material adverse effect on its results of operations and financial condition.

At September 30, 2024, the Company had four outstanding letters of credit totaling \$1.4 million. See Item 1. *Financial Statements*, Note 10. *Commitments and Contingencies* for additional information related to the Company's off-balance sheet arrangements and the outstanding letters of credit.

Critical Accounting Policies and Estimates

The Company's consolidated financial statements are prepared in accordance with U.S GAAP. Preparation of these financial statements requires the Company to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. The Company's most critical accounting policies and estimates are those most important to the portrayal of its financial condition and results of operations and which require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. Although management believes that its estimates and assumptions are reasonable, they are based on information available when they are made and, therefore, may differ from estimates made under different assumptions or conditions.

The Company's significant accounting policies are consistent with those discussed in Note 1. *Summary of Significant Accounting Policies and Other Information*, to the consolidated financial statements and the MD&A section of the Company's 2023 Annual Report. During the nine months ended September 30, 2024, there were no significant changes in the application of critical accounting policies.

The Company has identified the following accounting policies as its most critical because they require the Company to make difficult, subjective, and complex judgments and estimates:

- Revenue Recognition
- Goodwill Impairment
- Warranty

Impact of New Accounting Standards

For information about recently issued accounting pronouncements, see Note 1. *Summary of Significant Accounting Policies and Other Information*, included in Part 1, Item 1.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information under this item.

Item 4. Controls and Procedures.***Evaluation of Disclosure Controls and Procedures***

The term “disclosure controls and procedures” is defined in Rule 13a-15(e) of the Exchange Act as “controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms.” The Company’s disclosure controls and procedures are designed to ensure that material information relating to the Company and its consolidated subsidiaries is accumulated and communicated to its management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

The Company’s management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of its disclosure controls and procedures as of September 30, 2024. Based upon that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of September 30, 2024, to provide reasonable assurance that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the third quarter of 2024 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 10. *Commitments and Contingencies*, included in Part I, Item 1. *Financial Statements*, for a discussion of legal proceedings, which are incorporated herein by reference.

Item 1A. Risk Factors.

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

EXHIBIT INDEX

The following documents listed below that have been previously filed with the SEC (1934 Act File No. 001-35944) are incorporated herein by reference:

Exhibit No.	Exhibit Description	Incorporated by Reference Herein			
		Form	Exhibit	Filing Date	File No.
10.1	Uncommitted Revolving Credit Agreement, dated as of August 30, 2024, among the Company, the lenders party thereto and Standard Chartered Bank, as administrative agent.	8-K	10.1	09/06/2024	001-35944
10.2	Shareholder's Loan Agreement, dated as of August 30, 2024, between the Company and Weichai America Corp.	8-K	10.2	09/06/2024	001-35944
31.1	*				
	Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	*				
	Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1	**				
	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.				
32.2	**				
	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.				
101.INS	*				
	XBRL Instance Document.				
101.SCH					
	XBRL Taxonomy Extension Schema Document.				
101.CAL					
	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.LAB					
	XBRL Taxonomy Extension Labels Linkbase Document.				
101.PRE					
	XBRL Taxonomy Extension Presentation Linkbase Document.				
101.DEF	*				
	XBRL Taxonomy Definition Linkbase Document.				
104	*				
	Cover Page Interactive Data File (embedded within the Inline XBRL document)				

* Filed with this Report.

** This exhibit shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 7th day of November 2024.

POWER SOLUTIONS INTERNATIONAL, INC.

By: /s/ Xun Li
Name: **Xun Li**
Title: Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION PURSUANT TO 17 CFR 240.13a-14 PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dino Xykis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Power Solutions International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

By: /s/ Dino Xykis

Name: **Dino Xykis**

Title: Chief Executive Officer

**CERTIFICATION PURSUANT TO 17 CFR 240.13a-14 PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Xun Li, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Power Solutions International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

By: /s/ Xun Li

Name: **Xun Li**

Title: Chief Financial Officer

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Power Solutions International, Inc. (the "Company") on Form 10-Q for the three months ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dino Xykis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2024

By: /s/ Dino Xykis

Name: **Dino Xykis**

Title: Chief Executive Officer

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided by the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Power Solutions International, Inc. (the "Company") on Form 10-Q for the three months ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Xun Li, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2024

By: /s/ Xun Li

Name: **Xun Li**

Title: Chief Financial Officer

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided by the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.