POWER SOLUTIONS INTERNATIONAL, INC.
Form S-1/A
July 26, 2011
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As filed with the Securities and Exchange Commission on July 26, 2011

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT

Under

Securities Act of 1933

POWER SOLUTIONS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Nevada	3510	33-0963637
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

655 Wheat Lane

Wood Dale, IL 60191

(630) 350-9400

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Gary S. Winemaster

Chief Executive Officer and President

Power Solutions International, Inc.

655 Wheat Lane

Wood Dale, IL 60191

(630) 350-9400

(Name, address, including zip code, and telephone number including area code, of agent for service)

Copies of all communications, including communications sent to agent for service, should be sent to:

Mark D. Wood

Katten Muchin Rosenman LLP

525 W. Monroe Street

Chicago, IL 60661

Tel.: (312) 902-5200

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $0.001 par value per share	6,026,211 (1)	$1.26 (2)	$7,593,026 (2)	$882 (3)

(1) This Registration Statement registers the offer and sale of 6,026,211 shares of common stock, par value $0.001 per share, of the registrant, all of which are issuable upon conversion of the registrant s Series A Convertible Preferred Stock previously issued by the registrant, giving effect to the limitations on conversion thereof set forth in the Certificate of Designation of the Series A Convertible Preferred Stock. In addition, there are being registered hereunder such additional number of shares of common stock of the registrant, of a currently indeterminable amount, as may from time to time become issuable by reason of stock splits, stock dividends or similar transactions, which shares of common stock are registered hereunder pursuant to Rule 416.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) based on the average of the bid and asked prices of the common stock reported on the over-the-counter markets on May 24, 2011, the date two days prior to the date upon which this Registration Statement was originally filed.

(3) The registrant previously paid $11,025 in connection with the previous filing of this Registration Statement.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

Subject to completion, dated July 26, 2011

Prospectus

POWER SOLUTIONS INTERNATIONAL, INC.

6,026,211 Shares of Common Stock

This prospectus relates to the sale or other disposition from time to time by selling securityholders of shares of our common stock issuable from time to time upon conversion of shares of our Series A Convertible Preferred Stock, originally issued by us pursuant to the Purchase Agreement, dated as of April 29, 2011, by and among us and the investors party thereto.

Each share of our preferred stock is convertible into shares of our common stock at any time at the election of its holder, subject to limitations on conversion set forth in the Certificate of Designation for the preferred stock (as described below), at a conversion price of $0.375 per share, subject to adjustment as set forth in the certificate of designation. After giving effect to the proposed migratory merger of our company into a Delaware corporation, which will effect our reincorporation into the State of Delaware and a 1-for-32 reverse stock split of our common stock (as described below under Description of Capital Stock Reverse Split and Migratory Merger), as if it occurred on or prior to the date hereof, the conversion price at which each share of our preferred stock will convert into shares of our common stock would be $12.00 per share.

The selling securityholders may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of our common stock or interests in shares of our common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices. If these shares are sold through underwriters, broker-dealers or agents, the selling securityholders will be responsible for underwriting discounts or commissions or agents commissions.

Our Series A Convertible Preferred Stock is not listed on an exchange or quoted on any over-the-counter market, and we do not intend to list our preferred stock on any exchange or to seek any such quotation.

Our common stock is quoted on the OTC Bulletin Board and the OTC Markets OTCQB tier under the symbol PSIX. On July 25, 2011, the last reported closing bid price of our common stock as reported on the OTC Bulletin Board was $0.10 per share. These over-the-counter quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. You are urged to obtain current market quotations of the common stock.

Investing in the securities involves a high degree of risk. See Risk Factors beginning on page 5 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities offered hereby or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2011

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Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. It may not contain all of the information that you should consider before investing in our common stock. You should read this entire prospectus carefully, including the Risk Factors and the financial statements and related notes and the unaudited pro forma combined financial statements included herein. This prospectus includes forward-looking statements that involve risks and uncertainties. See Cautionary Note Regarding Forward-Looking Statements.

Upon the closing of the reverse recapitalization transaction (as discussed below under Company History and under Business-Company History), Power Solutions International, Inc. (f/k/a Format, Inc.) has succeeded to the business of The W Group. In connection with the reverse recapitalization transaction, effective April 29, 2011, we changed our corporate name to Power Solutions International, Inc. Unless the context otherwise requires, we, our, us, our company and similar expressions used in this prospectus refer to The W Group and its consolidated subsidiaries, collectively, prior to the closing of the reverse recapitalization transaction on April 29, 2011, and Power Solutions International, Inc. (f/k/a Format, Inc.), as successor to the business of The W Group, and its consolidated subsidiaries, collectively, following the closing of the reverse recapitalization transaction.

Business

We are a global producer and distributor of a broad range of high performance, certified low emission, power systems for original equipment manufacturers of off-highway industrial equipment (industrial OEMs). Our customers include companies that are large, industry-leading and/or multinational organizations, and we are a sole source power system provider for most of our customers. Our power systems are highly engineered, comprehensive systems which, through our technologically sophisticated development and manufacturing processes, including our in-house design, prototyping, testing and engineering capabilities and our analysis and determination of the specific components to be integrated into a given power system (driven in large part by emission standards and cost restrictions required, or desired, to be met), allow us to provide to our customers power systems customized to meet specific industrial OEM application requirements, other technical specifications of customers and requirements imposed by environmental regulatory bodies. Our power system configurations range from a basic engine block 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. We are able to provide to our customers a comprehensive power system which can be incorporated, using a single part number, directly into a customer s specified application. Capitalizing on our expertise in developing and manufacturing emission-certified power systems and through our access to the latest power system technologies, we believe that we are able to provide complete green power systems to industrial OEMs at a low cost and with fast design turnaround.

Our power systems are primarily spark-ignited, running on alternative fuels such as natural gas and propane. We design, develop, manufacture, distribute and provide after-market support for our power systems for industrial OEMs in a wide range of industries with a diversified set of applications. For these applications, our low-emission, alternative fuel power systems, which range in size from under 1 liter to over 22 liters and meet, and in many cases produce emissions at levels significantly lower than those currently required by, emission standards of the United States Environmental Protection Agency (EPA) and the California Air Resources Board (CARB), represent a cleaner, and typically less expensive, alternative to diesel fuel power systems. In addition, while our power systems primarily run on alternative fuels, we also supply low-emission standard fuel (such as diesel) power systems and are in the process of developing hybrid power systems.

Under a distributor agreement with Perkins, a wholly-owned subsidiary of Caterpillar, packaging and distribution agreements with Caterpillar engine dealers and our association with Caterpillar, we are one of the largest suppliers of Perkins and Caterpillar diesel power systems under 275 horsepower. This makes us a prominent supplier of EPA and CARB emission-certified diesel power systems to the industrial OEM marketplace. As we do for our alternative fuel power systems, we supply components for, and apply our sophisticated application engineering and design services to, these Perkins and Caterpillar power systems in a wide range of industrial applications. Building upon our experience in developing emission-compliant power systems, and with a view to serving our customers needs regarding emissions compliance, we are also developing a range of hybrid power systems. We plan to apply technology from our existing green power systems and our application expertise to provide tailored, cost-efficient, emission-compliant hybrid power systems to the industrial OEM marketplace, both domestically and internationally.

Company History

Founded in 1985, we sought to break the then-prevalent OEM focus on the diesel engine as a commodity by providing value-added engineering, procurement and packaging of products and services to the industrial OEM marketplace. Because of our expanded product and service offerings, we played a significant role in moving the industrial OEM marketplace from a simple, engine-centric model to a more comprehensive model. Through implementation of our strategy, we grew our diesel power system sales and became one of the largest Perkins diesel power system distributors in the world, a position we still maintain today.

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From the mid-1990s going forward, we have applied our strategy to spark-ignited gasoline and alternative fuel products. In applying our extensive, prior experience developing power systems for our diesel power system OEM customers to the spark-ignited industrial OEM marketplace, and addressing the growing demand for diesel alternatives as a result of environmental and economic considerations, we have developed a comprehensive range of alternative fuel power systems. As a result, we have become a significant supplier of power systems to prominent OEM customers located throughout North America. We also sell our power systems to OEM customers located throughout Asia and Europe, in which regions we intend to increase our sales efforts.

On April 29, 2011, The W Group completed a reverse acquisition transaction with Format, Inc. (which is now Power Solutions International, Inc.), in which PSI Merger Sub, Inc., a Delaware corporation that was newly-created as a wholly-owned subsidiary of Format, merged into The W Group, and The W Group remained as the surviving corporation of the merger. In that transaction, The W Group became a wholly-owned subsidiary of Power Solutions International, Inc.

Immediately prior to the consummation of the reverse acquisition transaction, Format was engaged, to a limited extent, in EDGARizing corporate documents for filing with the SEC, and providing limited commercial printing services. Due to the nominal operations and assets of Format immediately prior to the consummation of this reverse acquisition transaction, this reverse acquisition transaction is accounted for as a recapitalization.

In connection with the reverse recapitalization transaction and the private placement described below, Format entered into a stock repurchase and debt satisfaction agreement, dated as of April 29, 2011, with Ryan Neely, the sole director and executive officer of Format immediately prior to the closing of the reverse recapitalization, and his wife, Michelle Neely. Pursuant to this agreement, among other things, Format repurchased 3,000,000 shares of its common stock, representing approximately 79.57% of the shares of Format s common stock outstanding immediately prior to the completion of the reverse recapitalization transaction, from Ryan and Michelle Neely.

For a detailed description of the reverse recapitalization and this repurchase of Format common stock, see Business Company History below.

Company Information

Our principal executive offices are located at 655 Wheat Lane, Wood Dale, IL 60191. Our telephone number is (630) 350-9400 and our web address is www.powergreatlakes.com. The information included or referred to on, or accessible through, our website does not constitute part of, and is not incorporated by reference into, this prospectus.

About This Offering

On April 29, 2011, we entered into a purchase agreement with 29 accredited investors, pursuant to which we issued to these investors an aggregate of 18,000 shares of Series A Convertible Preferred Stock, together with warrants to purchase shares of our common stock, at a purchase price of $1,000 per share and related warrant, receiving total gross proceeds of $18,000,000. The shares of preferred stock issued in the private placement are convertible into an aggregate of 48,000,007 shares of our common stock, subject to limitations on conversion set forth in the certificate of designation for the preferred stock. For every one share of our common stock issuable upon conversion of shares of preferred stock purchased in the private placement, each investor also received a warrant to purchase one-half of a share of our common stock at an exercise price of $0.40625 per share, subject to adjustment as set forth in the warrants. The warrants represent the right to purchase a total of 24,000,007 shares of our common stock, subject to limitations on exercise set forth in the warrants. In connection with the private placement, we also issued to Roth Capital Partners, LLC, as compensation for its role as placement agent in connection with the private placement, a warrant to purchase 3,360,000 shares of our common stock, subject to limitations on exercise set forth in the warrant issued to Roth Capital Partners, at an exercise price of $0.4125 per share, subject to adjustment as set forth in the warrant. For a detailed description of our Series A Convertible Preferred Stock, including the limitations on conversion and the adjustment provisions, see Description of Capital Stock Description of the Preferred Stock Series A Convertible Preferred Stock below; for a detailed description of the private placement warrants, including the limitations on exercise and the adjustment provisions, see Description of Capital Stock Description of the Warrants below; and for a detailed description of the warrant issued to Roth Capital Partners, including the limitations on exercise and the adjustment provisions, see Description of Capital Stock Description of the Roth Warrant below.

In connection with the private placement, we entered into a registration rights agreement with the investors and Roth Capital Partners, LLC, the placement agent. Pursuant to this registration rights agreement, we agreed to file a registration statement with the SEC covering the resale of the Registrable Securities (as defined below and contemplated by the registration rights agreement), including the shares of our common stock issuable upon conversion of shares of our preferred stock originally issued in the private placement and shares of our common stock issuable upon exercise of the warrants originally issued with the preferred stock in the private placement and upon exercise of the warrant issued to Roth Capital Partners. The shares of our common stock offered by this

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prospectus represent shares of our common stock issuable upon conversion of such shares of the preferred stock, giving effect to limitations on conversion set forth in the certificate of designation.

Pursuant to the terms of the private placement, we also agreed to consummate, and Format s board of directors approved, a migratory merger of our company into a Delaware corporation, which will effect our reincorporation into the State of Delaware and a 1-for-32 reverse stock split of our common stock. The reverse split will be effected through the consummation of the migratory merger, whereby each 32 shares of our common stock will be exchanged for one share of common stock of the surviving entity in the migratory merger. The consummation of the migratory merger will constitute the reverse split for all purposes, as contemplated by the transaction documents entered into in connection with the consummation of the reverse recapitalization transaction and the private placement. References throughout this prospectus to the reverse stock split and the reverse split mean the 1-for-32 reverse stock split of our common stock which will be effected through the consummation of the migratory merger.

Summary Consolidated Financial Information

The following table sets forth selected historical consolidated statements of operations and consolidated balance sheet data as of and for the fiscal years ended December 31, 2010, 2009 and 2008, and as of and for the three months ended March 31, 2011 and 2010. The W Group is considered the accounting acquiror in the reverse recapitalization and, as a result, the assets and liabilities and the historical operations that are reflected in our consolidated financial statements are those of The W Group. In other words, the historical financial data of The W Group is deemed to be our historical financial data. The balance sheet data as of December 31, 2010, 2009 and 2008 and the statement of operations data for the fiscal years ended December 31, 2010, 2009 and 2008 has been derived from our audited consolidated financial statements for those years. The audited financial statements as of December 31, 2010 and 2009 and for the fiscal years ended December 31, 2010, 2009, and 2008 are included in this prospectus beginning on page F-17 and ending on page F-39. The balance sheet data as of March 31, 2011 and 2010 and the statement of operations data for the three months ended March 31, 2011 and 2010 has been derived from our unaudited consolidated financial statements for those periods. The unaudited financial statements as of March 31, 2011 and 2010 and for the three months ended March 31, 2011 and 2010 are included in this prospectus beginning on page F-2 and ending on page F-15. The following data for fiscal years 2010, 2009 and 2008, and for the three months ended March 31, 2011 and 2010, should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in this prospectus and with our Consolidated Financial Statements and the related notes and other financial information included in this prospectus beginning on page F-2 and ending on page F-39. See also the Pro Forma Consolidated Financial Statements included in this prospectus beginning on page P-2 and ending on page P-19, which give effect to the reverse recapitalization and related transactions.

All amounts are in thousands except per share amounts.

	Years ended December 31,			Three Months Ended March 31,	
	2010	2009	2008	2011	2010
Statement of Operations Data:					
Net sales	$ 100,521	$ 82,902	$ 125,318	$ 31,353	$ 19,629
Net income (loss) allocable to stockholders	1,569	2,387	664	1,061	(55)

	As of December 31,			As of March 31,	
	2010	2009	2008	2011	2010
Balance Sheet Data:					
Total assets	$ 55,353	$ 65,586	$ 51,967	$ 57,048	$ 48,885
Line of credit	21,633	22,409	23,001	20,964	19,789
Total long-term debt (1)	7,902	10,033	11,678	7,336	9,620
Total liabilities	$ 49,997	$ 61,799	$ 50,567	$ 50,631	$ 45,153

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(1) Includes notes and capital lease obligations, including the current portion of these obligations. Total capital lease obligations were $78, $576 and $1,063 as of December 31, 2010, 2009 and 2008, respectively. Capital lease obligations were $40 and $448 as of March 31, 2011 and 2010, respectively The current portion of total debt was $2,226, $2,218 and $1,645 as of December 31, 2010, 2009 and 2008, respectively. The current portion of total debt was $2,159 and $2,315 as of March 31, 2011 and 2010, respectively.

About This Prospectus

This prospectus is part of a registration statement that we filed with the SEC. We may provide a prospectus supplement containing specific information about the terms of a particular offering by the selling securityholders, or their transferees. The prospectus supplement may add, update or change information in this prospectus. If information in a prospectus supplement is inconsistent with the information in this prospectus, you should rely on the information in that prospectus supplement. You should read both this prospectus and, if applicable, any prospectus supplement. See Where You Can Find More Information for more information.

This prospectus includes industry and market data and other information, which we have obtained from, or is based upon, market research, independent industry publications or other publicly available information. Although we believe each such source to have been reliable as of its respective date, we have not independently verified the information contained in such sources. Any such data and other information is subject to change based on various factors, including those described below under the heading Risk Factors and elsewhere in this prospectus.

You should rely only on the information contained in this prospectus and any prospectus supplement. We have not authorized anyone to provide you with information different from that contained in this prospectus and any prospectus supplement. This prospectus is offering to sell, and is seeking offers to buy, the securities only in jurisdictions where offers and sales are permitted.

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Risk Factors

Investing in our common stock involves a high degree of risk. You should consider carefully the risks, uncertainties and other factors described below, in addition to the other information set forth in this prospectus, before deciding whether to invest in shares of our common stock. Any of these risks, uncertainties and other factors could materially and adversely affect our business, financial condition, results of operations, cash flows or prospects. In that case, the market price of our common stock could decline, and you may lose all or part of your investment in our common stock. See also Cautionary Note Regarding Forward-Looking Statements.

Risks Related to our Business and our Industry

Our financial position, results of operations and cash flows have been, and may continue to be, negatively impacted by the current challenging global economic conditions and the recent financial crisis.

The current challenging global economic conditions, which have had a particularly severe impact on industrial markets, have had, and may continue to have, a material adverse effect on our business. More specifically, such conditions resulted in significantly reduced demand in 2009 for our power systems and other products from our industrial OEM customers, as those customers faced sharp declines in market demand for their products into which our power systems are incorporated. Our net sales decreased 34% from 2008 to 2009, primarily due to lower power system shipment volumes and aftermarket parts sales resulting from this reduced demand. This sales decrease was reflected across our base of customers in all of the OEM categories in which our power systems are used. The difficult market conditions continue to affect our sales environment. As a result, among other things, we are experiencing pricing pressure, which is negatively impacting our margins.

The current difficult economic climate and future economic downturns may continue to materially impact our OEM customers, as well as suppliers and other parties with which we do business. Economic conditions that adversely affect our customers may cause them to terminate existing supply agreements or to reduce the volume of power systems they purchase from us in the future. In the case of a further economic downturn, we may have significant balances owing from customers that face liquidity issues. Failure to collect a significant portion of amounts due on those receivables could have a material adverse effect on our results of operations and financial condition. Similarly, with adverse market conditions, our key suppliers from which we source power system components may be unable to provide components to us. Furthermore, we may not be able to successfully anticipate, plan for and respond to changing economic conditions, and our business could be negatively affected.

In addition, the recent financial troubles affecting the banking system and financial markets and the on-going concerns and threats to investment banks and other financial institutions have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit and equity markets. There could be a number of follow-on effects from the credit crisis on the industrial OEM industry generally and on our business specifically. Our OEM customers may be unable to obtain credit to finance purchases of their inventory (thus reducing demand for our power systems), or to honor their obligations to us, or may become insolvent. In addition, our key suppliers may make changes in the credit terms they extend to us, such as shortening the required payment period for our amounts owing them or reducing the maximum amount of trade credit available to us, or may become insolvent.

The market for alternative fuel spark-ignited power systems may not develop according to our expectations and, as a result, our business may not grow as planned and our business plan may be adversely affected.

Our future growth is dependent upon the market for efficient alternative fuel spark-ignited power systems (including natural gas and propane) expanding as a result of our customers and potential customers substituting alternative fuel power systems for diesel power systems. Part of our business plan is dependent on our market forecasts with respect to this expected substitution trend. However, there can be no assurance that we can accurately predict the potential impact of new diesel emission regulations, which we assume will help drive this trend by increasing the cost and product footprint of diesel power systems, nor can we assure that customers or potential customers would substitute natural gas and propane powered power systems for diesel power systems in response to

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these regulations. In addition, to the extent that diesel power system manufacturers develop the ability to design and produce emission-compliant diesel power systems that they can sell at a lower price and have smaller product footprints than we currently expect, diesel power systems will be more competitive with our alternative fuel power systems, and customers and potential customers may be less likely to substitute alternative fuel power systems for diesel power systems. Furthermore, even if alternative fuel power systems are substituted for diesel power systems, there can be no assurance that our power systems would capture any portion of this potential market size increase. If the industrial OEM market generally, or more specifically any of the industrial OEM categories which represent a significant portion of our business or in which we anticipate significant growth opportunities for our power systems, fails to develop or develops more slowly than we anticipate, the growth of our business and our business plan could be materially adversely affected.

Changes in environmental and regulatory policies could hurt the market for our products.

Our business is affected by government environmental policies, mandates and regulations around the world, most significantly with respect to emission standards in the United States. Examples of such regulations include those that (1) restrict the sale of power systems that do not meet emission standards, (2) impose penalties on sellers of non-compliant power systems, and (3) require the use of more expensive ultra-low sulfur diesel fuel. There can be no assurance that these policies, mandates and regulations will be continued or expanded as assumed in our growth strategy. Incumbent industry participants with a vested interest in gasoline and diesel, many of which have substantially greater resources than we do, may invest significant resources in an effort to influence environmental regulations in ways that delay or repeal requirements for more stringent carbon, particulate matter (a mixture of solid particles and liquid droplets found in the air that contain a variety of chemical components, such as dust, dirt, soot or smoke) and other emissions.

We generally must obtain product certification from both the EPA and CARB to sell our products in the United States. We may attempt to expand sales of our power systems to industrial OEMs that sell their products in Europe, which also has stringent emissions requirements. Accordingly, future sales of our product will depend upon their being certified to meet the existing and future air quality and energy standards imposed by the relevant regulatory agencies. We cannot assure you that our products will continue to meet these standards. We incur significant research and developments costs to ensure that our products comply with emission standards and meet certification requirements in the regions where our products are sold. The failure to comply with certification requirements would not only adversely affect future sales but could result in the recall of our products or civil or criminal penalties.

The adoption of new, more stringent and burdensome government emission regulations, whether at the foreign, federal, state, or local level, in markets in which we supply our power systems, may require modification of our emission certification and other manufacturing processes for our power systems. Thus, we might incur unanticipated expenses in meeting future compliance requirements, and may be required to increase our research and product development expenditures. Increases in such costs and expenses could necessitate increases in the prices we charge our OEM customers for our power systems, which could adversely affect demand for them.

We currently face, and will continue to face, significant competition, which could result in a decrease in our revenue.

The market for our products and related services is intensely competitive, subject to rapid change and sensitive to new product and service introductions and changes in technical requirements. New developments in power system technology may negatively affect the development or sale of some or all of our power systems or make our power systems uncompetitive or obsolete. Other companies, some of which have longer operating histories, greater name recognition and greater financial and marketing resources than us, are currently engaged in the development of products and technologies that are similar to, or may be competitive with, certain of our products and power system technologies. If the markets for our products (including particular industrial OEM market categories) grow as we anticipate, competition may intensify, as existing and new competitors identify opportunities in such markets.

We face competition from companies that employ current power system technologies, and may face competition in the future from additional companies as new power system technologies are adopted. Among our competitors are fuel system providers such as Westport Innovations, Inc., Fuel System Solutions and Woodward Governor, Inc., which supply engines and engine system components to the industrial OEM marketplace.

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Additionally, we may face competition from companies developing technologies such as cleaner diesel engines, bio-diesel, fuel cells, advanced batteries and hybrid battery/internal combustion power systems. We may not be able to incorporate such technologies into our product offerings, or may be required to devote substantial resources to doing so. The success of our business depends in large part on our ability to provide single assembly, integrated, comprehensive, technologically sophisticated power systems to our customers. The development or enhancement by our competitors of similar capabilities could adversely affect our business.

Our industrial OEM customers may not continue to outsource their power system needs.

The purchasers of our power systems are industrial OEMs that manufacture industrial equipment. As a result of the significant resources and expertise required to develop and manufacture emission-certified power systems, these customers have historically chosen to outsource production of power systems to us. Our business depends in significant part on our industrial OEMs continuing to outsource design and production of power systems, power system components and subsystems. However, there can be no assurance that our OEM customers will continue to outsource, or outsource as much of, their power system production in the future. Industrial OEMs that otherwise might use our power systems may instead seek to internalize the production of these power systems and related components. Increased levels of OEM vertical integration could result from a number of factors, such as shifts in our customers business strategies, acquisition by a customer of a power system manufacturer or the emergence of low-cost production opportunities in foreign countries.

We are dependent on certain products and industrial OEM market categories for a significant share of our revenues and profits.

During fiscal 2010, a significant portion of our revenues were derived from sales of our power systems to be incorporated into equipment used in the power generation market category, and we anticipate that sales of power systems in the power generation market category will continue to represent a significant portion of our revenues for the foreseeable future. We further believe that our growth may depend in a significant part upon our ability to increase sales of our power systems in the oil and gas market category, as well as certain other industrial OEM categories. There can be no assurance that the oil and gas market category, or any other industrial market category into which we sell our power systems, will grow as quickly or as significantly as we expect (if at all), or that the current, or any future, demand for our power systems in any of these market categories will not decrease.

Failure to raise additional capital or to generate the significant capital necessary to continue our growth could reduce our ability to compete and could harm our business.

We may need to raise additional capital in the future, and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. Our current credit facility contains covenants restricting our ability to enter into additional debt financing. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and capital resources Credit agreement for a description of our credit facility. If we raise additional equity financing, our shareholders may experience significant dilution of their ownership interests, and the per share value of our common stock could decline. Furthermore, if we engage in additional debt financing, the holders of debt would have priority over the holders of common stock, and we may be required to accept terms that restrict our ability to incur additional indebtedness, and take other actions that would otherwise be in the interests of our shareholders and force us to maintain specified liquidity or other ratios. If we need additional capital and cannot raise it on acceptable terms, we may not, among other things, be able to:

- continue to expand our research and product development operations and sale and marketing organization;
- expand operations both organically and through acquisitions; or
- respond to competitive pressures or unanticipated working capital requirements.

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We are dependent on relationships with our OEM customers.

Our power systems are integrated into our OEM customers equipment for subsequent sales and distribution to end-users of off-highway industrial equipment. One of our customers represented more than 10% of our sales in each of the last three fiscal years, and another customer represented more than 10% of our sales in fiscal 2008. We do not currently have formal, written agreements with either of these two customers or some of our other largest customers. There can be no assurance that our current material customers, or industrial OEMs in general, will continue manufacturing equipment that uses our power systems or, if they do manufacture such equipment, that the end-users of our OEM customers will choose to purchase products into which our power systems are incorporated. Any integration, design, manufacturing or marketing problems encountered by our OEM customers could adversely affect the demand for our power systems and the ability of our OEM customers to timely pay us amounts due for our products and services. Any change in our relationships with any of our key OEM customers, whether as a result of economic or competitive pressures or otherwise, including any decision by our OEM customers to reduce their commitments to purchase our power systems in favor of competing products, could have a material adverse effect on our business and financial results.

In addition, we may be subject to disputes arising from agreements and other arrangements with our OEM customers. Disputes with our OEM customers could lead to termination of arrangements with our OEM customers and delays in collaborative development or commercialization of power systems that we design for, and supply to, these customers. Moreover, disagreements may arise with our OEM customers over rights to proprietary technology and other intellectual property incorporated in our power systems and our customers products into which our power systems are integrated. Significant disagreements with our OEM customers could result in costly and time-consuming litigation. Any such conflicts with our OEM customers could negatively impact our relationships, reduce the number of power systems which we supply, and negatively impact our ability to obtain future business, in each case with these and other OEM customers.

We are dependent on relationships with our material suppliers, and the partial or complete loss of one of these key suppliers, or the failure to find replacement suppliers or manufacturers in a timely manner, could adversely affect our business.

We have established relationships with third party engine suppliers and other suppliers from which we source our components for our power systems. However, we do not currently have formal, written agreements with some of these suppliers. We are substantially dependent on our three key engine suppliers, General Motors, Perkins/Caterpillar and Doosan. Sales of our power systems incorporating engines from General Motors, Perkins/Caterpillar and Doosan represented approximately 58%, 16% and 14% of our total sales for fiscal 2010, respectively, and represented approximately 57%, 13% and 16% of our total sales for the three months ended March 31, 2011, respectively. If any of these three engine suppliers were to fail to provide engines in a timely manner or to supply engines that meet our quality, quantity or cost requirements, and we were unable to obtain substitute sources in a timely manner or on terms acceptable to us, our ability to manufacture our products could be materially adversely affected. In addition, we currently source other important components used in our power systems, such as catalysts, engine controllers, fuel mixers, wiring harnesses, engine sensors and intake manifolds, from a limited number of suppliers. Much of the technology incorporated into these components that we source from a limited number of suppliers is technologically sophisticated, and we do not believe that our competitors have access to some of this sophisticated technology. Our business could be harmed by adverse changes in our relationships with our non-engine component suppliers, or if our competitors gain access to the technology. Further, if our suppliers are unable to provide components to us in a timely manner, or are unable to meet our quality, quantity or cost requirements, we may not in all cases be able to promptly obtain substitute sources. Any extended delay in receiving engines or other critical components could impair our ability to deliver products to our OEM customers.

The quality and performance of our power systems are, in part, dependent on the quality of their component parts that we obtain from various suppliers, which makes us susceptible to performance issues that could materially and adversely affect our business, reputation and financial results.

Our power systems are sophisticated and complex, and the success of our power systems is dependent, in part, upon the quality and performance of key components, such as engines, fuel systems, generators, breakers, and complex electrical components and associated software. There can be no assurance that the power system parts and components will not have performance issues from time to time, and the warranties provided by our suppliers may not always cover the potential performance issues. We may face disputes with our suppliers with respect to those performance issues and their warranty obligations, and our customers could claim damages as a result of such performance issues.

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We maintain a significant investment in inventory, and a decline in our customers purchases could lead to a decline in our sales and profitability.

We cannot always predict the timing, frequency or size of the future orders of our OEM customers. Our ability to accurately forecast our sales is further complicated by the current global economic uncertainty. We maintain significant inventories in an effort to ensure that our OEM customers have a reliable source of supply. If we fail to anticipate the changing needs of our customers and accurately forecast our customer demands, our customers may not continue to place orders with us, and we may accumulate significant inventories of products that we will be unable to sell or return to our suppliers. This may result in a significant decline in the value of our inventory and a decrease in our future gross profit.

Changes in our product mix could materially and adversely affect our business.

The margins on our revenues from some of our product and service offerings are higher than the margins on some of our other product and service offerings. In particular, the margins vary between sales of our power systems as compared to sales of our aftermarket parts and components. Our margins can also fluctuate based upon competition, alternative products and services, operating costs and contractual factors. In addition, we may not be able to accurately estimate the margins of some of our new and developing products and services due to our limited operating history with sales of these products. Our new products and services may have lower margins than our current products and services.

While margins differ across the range of our power systems, prices for our power systems generally vary based on the relative sizes in terms of horsepower of the power systems. For example, if a greater proportion of our revenues are generated from sales of our lower-power power systems, our total revenues and profits may be lower than what they would be if we sold a comparable number of larger power systems, even if margins on these smaller power systems are greater.

We derive a substantial majority of our revenues attributed to our diesel power systems business from our relationships with Perkins and Caterpillar.

We derive a significant portion of our diesel power systems business from our distributor agreement with Perkins, packaging and distribution agreements with Caterpillar engine dealers and our association with Caterpillar. Our business with Perkins and Caterpillar represented approximately 19% and 20% of our revenues in fiscal 2010 and fiscal 2009, respectively. Any material change in our relationships with Perkins and Caterpillar, including the termination of our distribution agreement with Perkins, could have a material adverse effect on our business and financial results.

Fuel price differentials are hard to predict and may have an adverse impact on the demand for our products in the future.

The prices of various fuel alternatives are subject to fluctuation, based upon many factors, including changes in resource bases, pipeline transportation capacity for natural gas, refining capacity for crude oil and government excise and fuel tax policies. The price differential among various fuel alternatives can impact OEMs and their decisions to buy power systems from us. For example, if fossil fuel prices increase significantly, OEMs may choose to seek power systems powered by electric motors instead of ones that use fossil fuels. Furthermore, if OEMs do decide to purchase power systems from us, relative fuel prices may affect which power systems they purchase from us. The margins on our sale of certain of our power systems are higher than the margins on other power systems that we sell to our OEM customers. See Changes in our product mix could materially and adversely affect our business.

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Price increases in some of the key components in our power systems could materially and adversely affect our operating results and cash flows.

The prices of some of the key components of our power systems are subject to fluctuation due to market forces beyond our control, including changes in the costs of raw materials incorporated into these components. Such price increases occur from time to time due to spot shortages of commodities, increases in labor costs or longer-term shortages due to market forces. In particular, the prices of certain precious metals used in our emissions control systems have recently increased significantly. Substantial increases in the prices of raw materials used in components which we source from our suppliers may result in increased prices charged by our suppliers. If we incur price increases from our suppliers for key components in our power systems, our operating costs will increase. Given competitive market conditions and contractual pricing limitations, we may not be able to pass all or any of those cost increases on to our OEM customers in the form of higher sales prices. To the extent our competitors do not suffer comparable component cost increases, we may have even greater difficulty passing along price increases and our competitive position may be harmed. As a result, increases in costs of key components may adversely affect our margins and otherwise adversely affect our operating results and cash flows.

Many of our power systems involve long and variable design and sales cycles, which could have a negative impact on our results of operations for any given quarter or year.

The design and sales cycle for our customized power systems, from initial contact with our potential OEM customer to the commencement of shipments of our power systems, may be lengthy. Customers generally consider a wide range of issues before making a decision to purchase our power systems. Before an industrial OEM commits to purchase our power systems, they often require a significant technical review, assessment of competitive products and approval at a number of management levels within their organization. The current challenging economic conditions have resulted in even longer sales cycles than we had experienced previously. During the time our customers are evaluating our products, we may incur substantial sales and marketing, engineering and research and development expenses to customize our power systems to the customer s needs. We may also expend significant management efforts, increase manufacturing capacity, order long-lead-time components or purchase significant amounts of power system components and other inventory prior to receiving an order. Even after this evaluation process, a potential customer may not purchase our products.

The product development time after an industrial OEM customer agrees to purchase our power systems can be considerable. Our process for establishing technical specifications and developing a customized, integrated power system requires use of significant engineering resources, including design, prototyping, modeling, testing and application engineering. The length of this cycle is influenced by many factors, including the difficulty of the technical specification, the novelty and complexity of the design and the customer s procurement processes.

Our design, development and sales cycle may vary based on the specific power system and the industrial OEM market category in which our customer s product will compete, and it is difficult to predict for any particular transaction. The length and variability of our sales cycle can make it difficult to predict whether particular sales commitments will be received in any given quarter. As a result, a significant period may elapse between our investment of time and resources in designing and developing a custom power system for an OEM customer and our revenue from sales of that power system.

The length of this process may increase the risk that an OEM customer will decide to cancel or change its plans related to its equipment into which our power system is integrated, especially in this challenging economic climate. Such a cancellation or change in plans by a customer could cause us to lose anticipated sales. In addition, our business, results of operations and financial condition could be materially adversely affected if a customer curtails, materially reduces or delays a significant order during our sales cycle, chooses not to release its equipment that contains our custom power system, or is not successful in the sale and marketing of its equipment that contains our custom power system.

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The loss of one or more key members of our senior management, or our inability to attract and retain qualified personnel could harm our business.

Our success and future growth depends to a significant degree on the skills and continued services of our management team, in particular Gary Winemaster, our Chief Executive Officer and President. The loss of any of our key members of management could inhibit our growth prospects. We do not expect that the proceeds from any key man life insurance policies we maintain for certain members of management would adequately compensate us for the loss of any of these individuals. Our future success also depends in large part on our ability to attract, retain and motivate key management, engineering, manufacturing and operating personnel. As we develop additional capabilities, we may require more skilled personnel. Given the highly specialized nature of our power systems, these personnel must be highly skilled and have a sound understanding of our industry, business and our technology. The market for such personnel is highly competitive. As a result, we may not be able to continue to attract and retain the personnel needed to support our business.

Our existing debt could adversely affect our business and growth prospects.

At April 29, 2011, after giving effect to our entry into our credit facility with Harris N.A. in connection with the consummation of the reverse recapitalization transaction and the private placement, and the repayment of debt using a portion of the proceeds from the private placement, we had approximately $18.4 million in principal amount of outstanding debt under a credit line that allows us to borrow up to an aggregate of $35.0 million. Our indebtedness, the cash flow needed to satisfy our debt and the covenants contained in current and potential future credit agreements have important consequences, including:

- limiting funds otherwise available for financing our capital expenditures by requiring us to dedicate a portion of our cash flows from operations to the repayment of debt and the interest on this debt;
- limiting our ability to incur additional indebtedness;
- limiting our ability to capitalize on significant business opportunities;
- placing us at a competitive disadvantage to those of our competitors that are less indebted than we are;
- making us more vulnerable to rising interest rates; and
- making us more vulnerable in the event of a downturn in our business.

More specifically, pursuant to our current loan and security agreement with our senior lender entered into in connection with the consummation of the reverse recapitalization transaction and the private placement, we have agreed to certain financial covenants, including maintaining certain ratios between our adjusted EBITDA and our fixed charges. In addition, our current loan and security agreement places limitations on our ability to make capital expenditures and to make acquisitions of other companies. As of December 31, 2010, we were not in compliance with certain of the financial covenants set forth in our previous loan and security agreement; however, on January 20, 2011, we received a waiver from our previous senior lender with respect to our noncompliance with these financial covenants as of December 31, 2010. Any failure by us to comply with the financial covenants set forth in our current loan and security agreement in the future, if not cured or waived, could result in our senior lender accelerating the maturity of our indebtedness or preventing us from accessing availability under our credit facility. If the maturity of our indebtedness is accelerated, we may not have sufficient cash resources to satisfy our debt obligations and we may not be able to continue our operations as planned.

Our quarterly operating results are subject to variability from quarter to quarter.

Our quarter-to-quarter and quarter-over-quarter operating results (including our sales, gross profit and net income) and cash flows have been, and in the future may be, impacted by a variety of internal and external events associated with our business operations, many of which are

outside of our control. Examples of such events include (1) changes in regulatory emission requirements (which generally occur on January 1 of the year in which they become effective), (2) customer product phase-in/phase-out programs, (3) supplier product (i.e. a specific engine model) phase-in/phase-out programs, (4) changes in pricing by suppliers to us of engines, components and other

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parts (typically effective January 1 of any year), and (5) changes in our pricing to our customers (typically effective January 1 of any year), which may be related to changes in the pricing by suppliers to us. In order to mitigate potential availability or pricing issues, customers may adjust their demand requirements from traditional patterns. We may also extend special programs to customers in advance of such events, and we are more likely to offer such programs in our fourth quarter of a year in anticipation of events expected to occur in the first quarter of the next year. The occurrence of any of the events discussed above may result in fluctuations in our operating results (including sales and profitability) and cash flows between and among reporting periods.

If we fail to adequately protect our intellectual property rights, we could lose important proprietary technology, which could materially and adversely affect our business.

We believe that the success of our business depends, in substantial part, upon our proprietary technology, information, processes and know-how. The unauthorized use of our intellectual property rights and proprietary technology by others could materially harm our business. We do not own any material patents and rely on a combination of trademark and trade secret laws, along with confidentiality agreements, contractual provisions and licensing arrangements, to establish and protect our intellectual property rights. Although certain of our employees have entered into confidentiality agreements with us to protect our proprietary technology and processes, not all of our employees have executed such agreements, nor can we ensure that employees who have executed such agreements will not violate them.

Despite our efforts to protect our intellectual property rights, existing laws afford only limited protection, and our actions may be inadequate to protect our rights or to prevent others from claiming violations of their proprietary rights. Unauthorized third parties may attempt to copy, reverse engineer or otherwise obtain, use or exploit aspects of our products and services, develop similar technology independently, or otherwise obtain and use information that we regard as proprietary. We cannot assure you that our competitors will not independently develop technology similar or superior to our technology or design around our intellectual property.

In addition, the laws of some foreign countries may not protect our proprietary rights as fully or in the same manner as the laws of the United States. In particular, we sell our power systems to industrial OEM customers, and source certain components from suppliers, in China, where commercial laws are relatively underdeveloped compared to other geographic markets into which we sell our products. Protection of intellectual property is limited under Chinese law, and the sale of our products and the local sourcing of components may subject us to an increased risk of infringement or misappropriation of our intellectual property. As a result, we cannot be certain that we will be able to adequately protect our intellectual property rights in China.

We may need to resort to litigation to enforce our intellectual property rights, to protect our trade secrets, and to determine the validity and scope of other companies proprietary rights in the future. However, litigation could result in significant costs or in the diversion of financial resources and management s attention. We cannot assure you that any such litigation will be successful or that we will prevail over counterclaims against us.

In addition, many of the components we source from our suppliers and which are incorporated into our power systems use proprietary intellectual property of our suppliers. We also license or rely upon certain intellectual property from third parties, including the back office software and functionality for our telematics tool, MasterTrak. For a description of MasterTrak, our telematics tool, see Business Our Products and Industry Categories Connected Asset Services. Any of these third parties from which we source our power system components, from which we license intellectual property or on whose intellectual property we rely, may also supply these components (or other components that incorporate the same intellectual property) or license or provide such intellectual property, as applicable, to others, including our competitors, or terminate our access to such intellectual property.

If we face claims of intellectual property infringement by third parties, we could encounter expensive litigation, be liable for significant damages or incur restrictions on our ability to sell our products and services.

We cannot be certain that our products, services and power system technologies, including any intellectual property licensed from third parties for use therein or incorporated into components that we source from our suppliers, do not, or in the future will not, infringe or otherwise violate the intellectual property rights of third parties. We are not aware of all of the proprietary technology incorporated into, or used in developing, the components that we source and integrate into our power systems, nor are we familiar with all of the technology included in, or used in developing, products that are competitive with these components. Furthermore, the design, prototyping, testing and engineering capabilities we use to manufacture our power systems are technologically sophisticated, and we consider the processes by which we develop our power systems to be confidential and proprietary trade secrets. To compete in the industrial OEM market, our competitors likely also use proprietary development processes to manufacture their products. Given that neither we nor our competitors make information regarding such manufacturing and development processes available to the public, we cannot know the extent to which there may be any commonality between our respective processes and cannot be certain that we are not infringing on any intellectual property rights of others. In addition, for the above reasons, we cannot assure you that third parties will not claim that we have infringed their intellectual property rights.

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A third party alleged, and asserted those allegations in proceedings against us (which proceedings were subsequently settled), that certain technology related to our telematics tool, MasterTrak, infringed upon the intellectual property rights of that party. As such, we may in the future be subject to similar infringement claims that may result in litigation. Successful infringement claims against us could result in substantial monetary liability, require us to enter into royalty or licensing arrangements, or otherwise materially disrupt the conduct of our business. In addition, even if we prevail in the defense of any such claims, any such litigation could be time-consuming and expensive to defend or settle, and could result in the diversion of the time and attention of management and of operational resources, which could materially and adversely affect our business. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling and/or using the specific products and/or services incorporating the allegedly infringing technology and/or stop incorporating the allegedly infringing technology into such products and/or services;
- obtain from the owner of the infringed intellectual property right a license to sell and/or use the relevant technology, which license may not be available on commercially reasonable terms, or at all; or
- redesign the products and/or services that incorporate the allegedly infringing technology.

We could suffer warranty claims.

Provisions we make for warranty accrual may not be sufficient, and we may recognize additional expenses as a result of warranty claims in excess of our current expectations. Such warranty claims may necessitate a redesign, re-specification, a change in manufacturing processes, and/or recall of our power systems, which could have an adverse impact on our finances and on existing or future sales of our power systems and other products. Even in the absence of any warranty claims, a product deficiency such as a manufacturing defect or a safety issue may necessitate a product recall, which could have an adverse impact on our finances and on existing or future sales.

We could become subject to product liability claims.

Our business exposes us to potential product liability claims that are inherent to natural gas, propane, gasoline and diesel, and products that use these fuels. Natural gas, propane and gasoline are flammable and are potentially dangerous products. Any accidents involving our power systems could materially impede widespread market acceptance and demand for our power systems. In addition, we may be subject to a claim by end-users of our OEM customers products or others alleging that they have suffered property damage, personal injury or death because our power systems or the products of our customers into which our power systems are integrated did not perform adequately. Such a claim could be made whether or not our power systems perform adequately under the circumstances. From time to time, we may be subject to product liability claims in the ordinary course of business, and we carry a limited amount of product liability insurance for this purpose. However, our current insurance policies may not provide sufficient or any coverage for such claims, and we cannot predict whether we will be able to maintain our insurance coverage on commercially acceptable terms.

Our telematics tool, MasterTrak, may not be successful.

We have recently begun to offer connected asset services through MasterTrak, our telematics tool, which allows our customers to collect critical data from their equipment and monitor the performance of their equipment. Our telematics tool is unproven in the market and does not yet provide a material portion of our revenues. There can be no assurance that our telematics tool will gain widespread acceptance among customers or generate meaningful revenues or profits.

We are subject to various laws and regulations relating to our telematics tool. Among other things, wireless transceiver products are required to be certified by the Federal Communications Commission and comparable authorities in foreign countries where they are sold. If we fail to obtain product certifications for our telematics product, or otherwise fail to successfully comply with applicable regulations in this area, we may be required to make significant unanticipated expenditures to bring our telematics tool within compliance with such regulations, and future sales of our telematics tool may be adversely affected. Furthermore, through our telematics tool, we transmit and store information of customers, including equipment-specific information such as performance data. Equipment-specific information may also reveal customer-identifiable information. A growing body of laws designed to protect the privacy of personally-identifiable information, as well as to protect against its misuse, and the judicial interpretations of such laws, may adversely affect the growth of our telematics business. In particular, such laws could limit our ability to collect information related to users of our telematics tool, to store or process that information in what would otherwise be the most efficient manner, or to commercialize new telematics services based on emerging technologies. In addition, we could become subject to

third party claims based upon allegations of loss or misuse of customer information.

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See also If we face claims of intellectual property infringement by third parties, we could encounter expensive litigation, be liable for significant damages or incur restrictions on our ability to sell our products and services, for a discussion of a third party intellectual property infringement claim with respect to technology related to our telematics tool, which matter has been settled.

We may have difficulty managing the expansion of our operations.

Our current organization and our facilities currently in place may not be adequate to support our future growth. In order to effectively manage our operations and any significant growth, including any significant growth in the sales of, and services related to, our power systems, we may need to:

- scale our internal infrastructure, including establishing additional facilities, while continuing to provide technologically sophisticated power systems on a timely basis;
- attract and retain sufficient numbers of talented personnel, including application engineers, customer support staff and production personnel;
- continue to enhance our compliance and quality assurance systems; and
- continue to improve our operational, financial and management controls and reporting systems and procedures.

Rapid expansion of our operations could place a significant strain on our senior management team, support teams, manufacturing lines, information technology platforms and other resources. In addition, we may be required to place more reliance on our strategic partners and suppliers, some of whom may not be capable of meeting our production demands in terms of timing, quantity, quality or cost. Difficulties in effectively managing the budgeting, forecasting and other process control issues presented by any rapid expansion could harm our business, prospects, results of operations or financial condition.

New products may not achieve widespread adoption.

Our growth may depend on our ability to develop and/or acquire new products, and/or refine our existing products and power system technology, to complement and enhance the breadth of our power system offering with respect to engine class and the industrial OEM market categories into which we supply our products. We are currently in the process of developing a range of hybrid power systems, and have recently begun to offer connected asset services through our telematics tool, MasterTrak, to our OEM customers and other businesses to which we do not supply our power systems. We will generally seek to develop or acquire new products, or enhance our existing products and power system technology, if we believe they will provide significant additional revenues and favorable profit margins. However, we cannot know beforehand whether any new or enhanced products will successfully penetrate our target markets. There can be no assurance that newly developed or acquired products will perform as well as we expect, or that such products will gain widespread adoption among our customers.

Additionally, there are greater design and operational risks associated with new products. The inability of our suppliers to produce technologically sophisticated components for our new power systems, the discovery of any product or process defects or failures associated with production of any new products and any related product returns could each have a material adverse effect on our business, financial condition and results of operations. If new products for which we expend significant resources to develop or acquire are not successful, our business could be adversely affected.

If we do not properly manage the sales of our products into foreign markets, our business could suffer.

A significant portion of our future revenues could be derived from sales outside of the United States, particularly in Asia. We have recently begun sales and distribution activities in Asia and Europe where we may lack sufficient expertise, knowledge of local customs or contacts. In Asia, we depend upon an independent sales

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and support organization to complement our OEM relationships and provide knowledge of local customs and requirements, while also providing immediate sales assistance and customer support. There can be no assurance that we will be able to maintain our current relationship with this independent sales and support organization, or that we will be able to develop effective, similar relationships in foreign markets into which we supply our products in the future.

Establishment of a market for our products in Asia and other markets outside of the United States may take longer and cost more to develop than we anticipate and is subject to inherent risks, including unexpected changes in government policies, trade barriers restricting our ability to sell our products in those countries, longer payment cycles, exposure to currency fluctuations, and foreign exchange controls that restrict or prohibit repatriation of funds. As a result, if we do not properly manage foreign sales, our business could suffer.

In addition, our foreign sales are subject us to numerous stringent U.S. and foreign laws, including the Foreign Corrupt Practices Act, or FCPA, and comparable foreign laws and regulations which prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. and other business entities for the purpose of obtaining or retaining business. Safeguards that we may implement to discourage these practices could prove to be ineffective, and violations of the FCPA and other laws may result in severe criminal or civil sanctions, or other liabilities or proceedings against us, including class action lawsuits and enforcement actions from the SEC, Department of Justice and overseas regulators. Any of these factors, or any other international factors, could impair our ability to effectively sell our power systems, or other products or services that we may develop, outside of the U.S.

If our production facilities become inoperable, our business, including our ability to manufacture our power systems, will be harmed.

We operate our business, including all of our production and manufacturing processes, out of facilities that are all located in Wood Dale, Illinois. If damaged, our facilities, our manufacturing lines, the equipment we use to perform our emission certification and other tests and our other business process systems would be costly to replace and could require substantial time to repair or replace. We are particularly subject to this risk because of our current geographic concentration of our facilities. We may decide to consolidate into fewer facilities in the future, which would further exacerbate this risk. Our facilities may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, wildfires, floods, acts of terrorism or other criminal activities, infectious disease outbreaks and power outages, which may render it difficult or impossible for us to efficiently operate our business for some period of time. In addition, such events may temporarily interrupt our ability to receive engines, fuels systems or other components for our power systems from our suppliers and to have access to our various production systems necessary to operate our business. Our insurance covering damage to our properties and the disruption of our business may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

In the event our facilities are damaged or destroyed, we may need to find another facility into which we can move our operations. Finding a facility that meets the criteria necessary to operate our business would be time-consuming and costly and result in delays in our ability to provide our sophisticated power systems or to provide the same level of quality in our services as we currently provide.

We may be adversely impacted by work stoppages and other labor matters.

As of July 15, 2011, our workforce consisted of approximately 248 persons, including full-time and part-time employees, as well as members of our production team whose services we obtain through an arrangement with a professional employer organization. While none of the members of our workforce are currently represented by a union or covered by a collective bargaining agreement, there have been unsuccessful efforts to unionize our manufacturing employees in the past, and there can be no assurance that members of our workforce will not in the future join a union. If our employees organize and join a union in the future, there can be no assurance that future issues with our workforce will be resolved favorably or that we will not encounter future strikes, work stoppages or other types of conflicts with labor unions or our employees. Any of these consequences may have an adverse effect on us or may limit our flexibility in dealing with our workforce.

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In addition, many of our suppliers have unionized work forces. Work stoppages or slow-downs experienced by our material suppliers could result in slow-downs or closures at the manufacturing facilities of our suppliers from where our power system components are sourced. If one or more of our key suppliers experience a material work stoppage, it could have a material adverse effect on our operations.

We could be adversely affected by risks associated with potential acquisitions.

From time to time, we may seek to expand our business through investments in, or acquisitions of, complementary businesses, technologies, services or products, subject to our business plans and management s ability to identify, acquire and develop suitable investments or acquisition targets in both new and existing industrial OEM market categories and geographic markets. In certain circumstances, acceptable investments or acquisition targets might not be available. Acquisitions involve a number of risks, including: (1) difficulty in integrating the operations, technologies, products and personnel of an acquired business, including consolidating redundant facilities and infrastructure; (2) potential disruption of our ongoing business and the distraction of management from our day-to-day operations; (3) difficulty entering markets in which we have limited or no prior experience and in which competitors have a stronger market position; (4) difficulty maintaining the quality of services that such acquired companies have historically provided; (5) potential legal and financial responsibility for liabilities of acquired businesses; (6) overpayment for the acquired company or assets; (7) increased expenses associated with completing an acquisition and amortizing any acquired intangible assets; and (8) challenges in implementing uniform standards, controls, procedures and policies throughout an acquired business. In addition, under the terms of our credit facility, we may be restricted from engaging in certain acquisition transactions. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and capital resources Credit agreement for a description of our credit facility.

If we were to pursue acquisition or investment opportunities, these potential risks could disrupt our ongoing business, result in the loss of key customers or personnel, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial condition.

We could become liable for damages resulting from our manufacturing activities.

The nature of our manufacturing operations exposes us to potential claims and liability for environmental damage, personal injury, loss of life and damage to, or destruction of, property. Our manufacturing operations are subject to numerous laws and regulations that govern environmental protection and human health and safety. These laws and regulations have changed frequently in the past and it is reasonable to expect additional and more stringent changes in the future. Our manufacturing operations may not comply with future laws and regulations, and we may be required to make significant unanticipated capital and operating expenditures to bring our operations within compliance with such regulations. If we fail to comply with applicable environmental laws and regulations, manufacturing guidelines, and workplace safety requirements, governmental authorities may seek to impose fines and penalties on us or to revoke or deny the issuance or renewal of operating permits, and private parties may seek damages from us. Under such circumstances, we could be required to curtail or cease operations, conduct site remediation or other corrective action, or pay substantial damage claims for which may not have sufficient or any insurance coverage for claims.

We may have unanticipated tax liabilities that could adversely impact our results of operations and financial condition.

We are subject to various types of taxes in the U.S., as well as foreign jurisdictions into which we supply our products. The determination of our provision for income taxes and other tax accruals involves various judgments, and therefore the ultimate tax determination is subject to uncertainty. In addition, changes in tax laws, regulations, or rules may adversely affect our future reported financial results, may impact the way in which we conduct our business, or may increase the risk of audit by the Internal Revenue Service or other tax authority. Although we are not subject to any audits currently, we may be in the future subject to an Internal Revenue Service audit or other audit by state, local and foreign tax authorities. The final determinations of any tax audits in the U.S. or abroad could be materially different from our historical income tax provisions and accruals. If any taxing authority disagrees with the positions taken by us on our tax returns, we could incur additional tax liabilities, including interest and penalties.

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Variability in self-insurance liability estimates could significantly impact our results of operations.

We self-insure for employee health insurance coverage up to a predetermined level, beyond which we maintain stop-loss insurance from a third-party insurer. Our aggregate exposure varies from year to year based upon the number of participants in this health insurance plan. We estimate our self-insurance liabilities using an analysis provided by our claims administrator and our historical claims experience. Our accruals for insurance reserves reflect these estimates and other management judgments, which are subject to a high degree of variability. Any significant variation in these estimates and judgments could cause a material change to our reserves for self-insurance liabilities, as well as our earnings.

Risks Related to the Shell Company

We may have contingent liabilities related to Format, Inc. s operations prior to the reverse recapitalization transaction of which we are not aware and for which we have not adequately provisioned.

Format, Inc. may be deemed to have been a shell company with nominal operations and assets prior to the reverse recapitalization transaction. Upon completion of the reverse recapitalization, we acquired all of the operations of The W Group and its subsidiaries. Immediately prior to the consummation of the reverse recapitalization, Format, Inc. was engaged, to a limited extent, in EDGARizing corporate documents for filing with the SEC, and providing limited commercial printing services. We cannot assure you that there are no material claims outstanding, or other circumstances of which we are not aware, that would give rise to a material liability relating to those prior operations, even though we do not record any provisions in our financial statements related to any such potential liability. If we are subject to past claims or material obligations relating to our operations prior to the consummation of the reverse recapitalization, such claims could materially adversely affect our business, financial condition and results of operations.

Risks Related to the Reverse Recapitalization and the Ownership of our Common Stock

We will incur increased costs and demands upon management and accounting and finance resources as a result of complying with the laws and regulations affecting public companies; any failure to establish and maintain adequate internal control over financial reporting or to recruit, train and retain necessary accounting and finance personnel could have an adverse effect on our ability to accurately and timely prepare our consolidated financial statements.

As a public operating company, we will incur significant administrative, legal, accounting and other burdens and expenses beyond those of a private company, including those associated with corporate governance requirements and public company reporting obligations. In particular, we will need to enhance and supplement our internal accounting resources with additional accounting and finance personnel with the requisite technical and public company experience and expertise, as well as refine our quarterly and annual financial statement closing process, to enable us to satisfy such reporting obligations. However, even if we are successful in doing so, there can be no assurance that our finance and accounting organization will be able to adequately meet the increased demands that result from being a public company.

Furthermore, we will be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. In order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we will be required to document and test our internal control procedures and prepare annual management assessments of the effectiveness of our internal control over financial reporting. These assessments will need to include disclosure of identified material weaknesses in our internal control over financial reporting. Testing and maintaining internal control over financial reporting will involve significant costs and could divert management s attention from other matters that are important to our business. Additionally, we cannot provide any assurances that we will be successful in remediating any deficiencies that may be identified. If we are unable to remediate any such deficiencies or otherwise fail to establish and maintain adequate accounting systems and internal control over financial reporting, or we are unable to recruit, train and retain necessary accounting and finance personnel, we may not be able to accurately and timely prepare our consolidated financial statements and otherwise satisfy our public reporting obligations. Any inaccuracies in our

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financial statements or other public disclosures (in particular if resulting in the need to restate previously filed financial statements), or delays in our making required SEC filings, could have a material adverse effect on the confidence in our financial reporting, our credibility in the marketplace and the trading price of our common stock.

In addition, our management team will also have to adapt to other requirements of being a public company. We will need to devote significant resources to address these public company-associated requirements, including compliance programs and investor relations, as well as our financial reporting obligations. Complying with these rules and regulations will substantially increase our legal and financial compliance costs and make some activities more time-consuming and costly.

Concentration of ownership among our existing executive officers may prevent new investors from influencing significant corporate decisions.

As of May 25, 2011, Gary Winemaster, our Chairman of the Board, Chief Executive Officer and President, and Kenneth Winemaster, our Senior Vice President and Secretary, on a fully-diluted basis, but giving effect to any limitations on conversion of our Series A Convertible Preferred Stock and any limitations on exercise of any warrants, beneficially own in the aggregate approximately 85.70% of our outstanding shares of common stock. This percentage gives effect to Gary Winemaster s agreement to purchase shares of our capital stock issued to Thomas Somodi pursuant to the reverse recapitalization transaction, but does not give effect to the proposed reverse stock split of our common stock. On a pro forma basis as if the reverse split was consummated on or prior to such date, such shareholders would beneficially own in the aggregate approximately 77.28% or our outstanding shares of common stock. See Certain Relationships and Related Party Transactions Purchase and Sale Transaction for a description of Mr. Winemaster s agreement to purchase from Mr. Somodi the shares of preferred stock and shares of our common stock issued to Thomas Somodi pursuant to the reverse recapitalization merger agreement.

As of May 25, 2011, Gary Winemaster alone beneficially owns approximately 55.77% of our outstanding shares of common stock, on a fully-diluted basis calculated on the same basis as described above (giving effect to Mr. Winemaster s agreement to purchase shares of capital stock from Mr. Somodi, but without giving effect to the reverse split), and approximately 50.30% on a pro forma basis as if the reverse split was consummated on or prior to such date.

The fully diluted percentage of outstanding shares held by these shareholders decreases, relative to the fully diluted ownership of investors in the private placement, when giving effect to the proposed reverse stock split of our common stock because these individuals hold both shares of our common stock and preferred stock (which preferred stock fully converts into shares of our common stock automatically upon the consummation of the migratory merger and the reverse split), while the investors in the private placement hold shares of our preferred stock and warrants (which warrants become exercisable upon the consummation of the migratory merger and the reverse split). Upon the consummation of the proposed reverse split, holders of our common stock that do not hold any shares of our preferred stock or warrants will incur a substantial decrease in their voting power and will own a significantly smaller percentage of the outstanding shares of our common stock relative to their percentage ownership of outstanding shares of our common stock prior to the proposed reverse split.

As a result of Gary Winemaster s and Kenneth Winemaster s beneficial ownership of a significant majority of our outstanding shares of common stock, these shareholders can exercise control over all matters requiring shareholder approval, including the election of directors, amendment of our articles of incorporation and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our company or changes in management and will make the approval of certain transactions impossible without the support of these shareholders.

An active, liquid, public and orderly trading market for our common stock may not develop, and the price of our stock may be volatile and may decline in value.

There currently is not an active, liquid public trading market for our common stock. An active, liquid public trading market may not develop or, if developed, may not be sustained. The lack of an active, liquid public trading market may impair your ability to sell your shares of common stock at the time you wish to sell them or at a price that you consider reasonable. The lack of an active, liquid public trading market for our common stock may also impair our ability to raise capital by selling shares of common stock and may impair our ability to acquire other companies or assets by using shares of our common stock as consideration.

To the extent there is trading in shares of our common stock, including the shares covered by this prospectus, the trading price is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. The stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies with securities traded in those markets. Broad market and industry factors may seriously affect the market price of companies stock, including ours, regardless of actual operating performance. In addition, in the past, following periods of volatility in the overall

market and the market price of a particular company s securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management s attention and resources.

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Our common stock may not be eligible for listing on a national securities exchange.

Our common stock is not currently listed on any national securities exchange, and we do not currently meet the initial quantitative listing standards of any national securities exchange. We cannot assure you that we will be able to meet the initial listing standards of any national securities exchange, or, if we do meet such initial qualitative listing standards, that we will be able to maintain any such listing. Our common stock is currently quoted on the OTC Bulletin Board and the OTC Markets OTCQB tier and, until our common stock is listed on a national securities exchange, we expect that it will continue to be eligible and quoted on the OTC Bulletin Board and the OTC Markets OTCQB tier, on another over-the-counter quotation system, or in the pink sheets. In those venues, however, an investor may find it difficult to obtain accurate quotations as to the market value of our common stock. In addition, if we fail to meet the criteria set forth in SEC regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling our common stock, which may further affect its liquidity. This would also make it more difficult for us to raise additional capital.

Our common stock may be considered a penny stock.

The SEC has adopted regulations which generally define penny stock to be an equity security that has a market price of less than $5.00 per share, subject to specific exemptions. The market price of our common stock may be less than $5.00 per share and therefore may be a penny stock. Broker and dealers effecting transactions in penny stock must disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect your ability to sell shares of our common stock in the future.

As a result of the registration of the shares covered by this prospectus, a significant number of shares of our common stock have become eligible for sale, which could depress the market price for our common stock. Future sales by us or our existing shareholders could similarly depress the market price of our common stock.

As a result of the registration of the shares covered by this prospectus, a significant number of shares of our common stock have become eligible for sale in the public market, which could cause the market price for our common stock to decline significantly. If we or our existing shareholders sell a large number of shares of our common stock, or if we sell additional securities that are convertible into common stock, in the future, the market price of our common stock similarly could decline. Further, even the perception in the public market that we or our existing shareholders might sell shares of common stock could depress the market price of our common stock.

Anti-takeover provisions contained in our articles of incorporation and bylaws, as well as provisions of Nevada law, could impair a takeover attempt.

In addition to the concentration of ownership described under Concentration of ownership among our existing executive officers and their affiliates may prevent new investors from influencing significant corporate decisions above, which will limit any attempt to acquire control of our company not supported by these significant shareholders, our articles of incorporation, bylaws and Nevada law contain provisions which could have the effect of rendering more difficult, delaying or preventing an acquisition deemed undesirable by our board of directors. Our organizational documents include provisions:

creating a classified board of directors whose members serve staggered three-year terms;

authorizing blank check preferred stock, which could be issued by our board of directors without shareholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;

limiting the liability of, and providing indemnification to, our directors and officers; and

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restricting the ability of our shareholders to take action by written consent.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management. Pursuant to the purchase agreement entered into with the investors in the private placement, we agreed to consummate the migratory merger (as described below under Description of Capital Stock Reverse Split and Migratory Merger), pursuant to which we will change our jurisdiction of incorporation from Nevada to Delaware, and agreed with the investors in the private placement on forms of each of the certificate of incorporation and the bylaws for the surviving entity in the migratory merger. These forms of the certificate of incorporation and the bylaws for the surviving entity in the migratory merger contain provisions similar in some respects to those contained in our current articles of incorporation and amended and restated bylaws.

As a Nevada corporation, we are also subject to provisions of Nevada law which restrict shareholders beneficially owning 10% or more of our outstanding voting shares from engaging in certain business combinations without approval of our board of directors or the holders of our stock representing a majority of the voting power not beneficially owned by the interested stockholder. Our articles of incorporation contain a similar provision restricting shareholders beneficially owning 20% or more of our outstanding voting shares from engaging in certain business combinations without approval of our board of directors or the holders of our common stock representing two-thirds of the outstanding shares of common stock, subject to the voting rights of any issued and outstanding preferred stock.

After the consummation of the migratory merger, we will be subject to Delaware law. Provisions of Delaware law, and the terms of our certificate of incorporation and bylaws (after giving effect to the migratory merger), may have anti-takeover effects.

Any provision of our charter or bylaws (including our charter and bylaws, after giving effect to the migratory merger) or Nevada law or, after the consummation of the migratory merger, Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our shareholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Our shareholders may experience significant dilution if future equity offerings are used to fund operations or acquire complementary businesses.

If we engage in capital raising activities in the future, including issuances of common stock, to fund the growth of our business, our shareholders could experience significant dilution. In addition, securities issued in connection with future financing activities or potential acquisitions may have rights and preferences senior to the rights and preferences of our common stock. In the future, we may adopt and establish an equity incentive plan pursuant to which equity awards may be granted to eligible employees (including our executive officers), directors and consultants, if our board of directors determines that it is in our best interest and the best interest of our shareholders to do so. The issuance of shares of our common stock upon the exercise of any such equity awards may result in dilution to our shareholders and adversely affect our earnings.

If securities or industry analysts do not publish, or cease publishing, research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by whether industry or securities analysts publish research and reports about us, our business, our market or our competitors and, if any analysts do publish such reports, what they publish in those reports. We may not obtain analyst coverage in the future. Any analysts that do cover us may make adverse recommendations regarding our stock, adversely change their recommendations from time to time, and/or provide more favorable relative recommendations about our competitors. If any analyst who may cover us in the future were to cease coverage of our company or fail to regularly publish reports on us, or if analysts fail to cover us or publish reports about us at all, we could lose, or never gain, visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

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We do not anticipate paying any dividends in the foreseeable future.

We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends to holders of our common stock in the foreseeable future.

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Cautionary Note Regarding Forward-Looking Statements

This prospectus includes forward-looking statements that reflect our expectations and projections about our future results, performance, prospects and opportunities. These statements can be identified by the fact that they do not relate strictly to historical or current facts. We have tried to identify forward-looking statements by using words such as anticipate, believe, could, estimate, expect, intend, may, plan, potential, should, will, will be, would and similar expressions, but this is not an exclusive way of identifying such statements. Our actual res performance and achievements may differ materially from those expressed in, or implied by, the forward-looking statements contained in this prospectus as a result of various risks, uncertainties and other factors, including those described above under the heading Risk Factors and elsewhere in this prospectus.

Forward-looking statements speak only as of the date of this prospectus. Except as expressly required under federal securities laws and the rules and regulations of the SEC, we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances arising after the date of this prospectus, whether as a result of new information or future events or otherwise. You should not place undue reliance on the forward-looking statements included in this prospectus or that may be made elsewhere from time to time by us, or on our behalf. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

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Use of Proceeds

This prospectus relates to the sale or other disposition of shares of our common stock by the selling securityholders listed under Selling Securityholders and their transferees. We will not receive any proceeds from any sale of the shares by the selling securityholders.

Dividend Policy

We have not paid any cash dividends on our common stock to date. The payment of dividends in the future will be contingent upon our revenues and earnings, if any, capital requirements and general financial condition, and will be within the discretion of our then-existing board of directors. We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, our board of directors does not anticipate paying any cash dividends to holders of our common stock in the foreseeable future. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and capital resources Credit agreement below for a further discussion regarding restrictions on the payment of dividends under our new credit facility.

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Price Range of Common Stock

Our common stock is quoted on the OTC Bulletin Board and the OTC Markets OTCQB tier under the symbol PSIX. The table below sets forth the high and low bid prices per share of our common stock as quoted on the OTC Markets OTCQB tier for the periods indicated. Prior to April 29, 2011, the effective date of the reverse recapitalization, the common stock traded under the symbol FRMT. All OTCQB quotations included herein reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. Prior to the reverse recapitalization, there was limited or no trading activity in Format s common stock and there has continued to be a lack of trading activity in our common stock. There can be no assurance that there will be active trading of our common stock in the future.

Pursuant to the purchase agreement entered into with the investors in the private placement, we have agreed to use our reasonable best efforts to list, our common stock for trading on a national securities exchange as soon as reasonably practicable after we meet the initial quantitative listing standards of any such exchange. However, our common stock is not currently listed on any national securities exchange, and we do not currently meet the initial quantitative listing standards of any national securities exchange. Accordingly, we cannot be certain when or whether we will meet such initial listing standards or receive approval to list our common stock on any national securities exchange.

	High	Low
Fiscal Year Ended December 31, 2009		
First Quarter	N/A	N/A
Second Quarter	N/A	N/A
Third Quarter	N/A	N/A
Fourth Quarter	N/A	N/A
Fiscal Year Ended December 31, 2010		
First Quarter	N/A	N/A
Second Quarter	$ 0.05	$ 0.05
Third Quarter	$ 2.00	$ 0.05
Fourth Quarter	$ 0.20	$ 0.20
Fiscal Year Ending December 31, 2011		
First Quarter	$ 0.51	$ 0.20
Second Quarter	$ 0.51	$ 0.51
Third Quarter (through July 19, 2011)	$ 0.20	$ 0.20

As of July 25, 2011, the closing bid price for our common stock on the OTC Markets OTCQB tier was $0.20 per share, and the closing bid price for our common stock on the OTC Bulletin Board was $0.10 per share.

Holders

As of July 25, 2011, there were approximately 50 holders of record of our common stock.

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Securities Authorized for Issuance Under Compensation Plans

We currently do not have any compensation plans or individual compensation arrangements under which our equity securities are authorized for issuance.

Management s Discussion and Analysis of

Financial Condition and Results of Operations

The following discussion includes forward-looking statements about our business, financial condition and results of operations, including discussions about management s expectations for our business. These statements represent projections, beliefs and expectations based on current circumstances and conditions and in light of recent events and trends, and you should not construe these statements either as assurances of performance or as promises of a given course of action. Instead, various known and unknown factors are likely to cause our actual performance and management s actions to vary, and the results of these variances may be both material and adverse. A description of material factors known to us that may cause our results to vary, or may cause management to deviate from its current plans and expectations, is set forth under Risk Factors. See Cautionary Note Regarding Forward-Looking Statements. The following discussion should also be read in conjunction with our audited and unaudited consolidated financial statements, including the notes thereto, and unaudited pro forma combined financial statements appearing elsewhere in this prospectus.

Overview

Organization

We design, manufacture, distribute and support power system solutions for industrial OEMs across a broad range of industries including stationary electricity power generation, oil and gas, material handling, aerial work platforms, industrial sweepers, arbor, welding, airport ground support, turf, agricultural, construction and irrigation. Our engineering personnel design and test power system solutions and components supporting those solutions. Our major engine suppliers include Perkins/Caterpillar, General Motors and Doosan, and we source components from a variety of domestic and global suppliers. We operate as one business and geographic segment. Accordingly, the following discussion is based upon this presentation.

Net sales

We generate revenues and cash primarily from the sale of off-highway industrial power systems and aftermarket parts to industrial OEMs. Our products are sold globally, and we are a sole source power solution provider of our products for most of our customers. Net sales are derived from gross sales less sales returns and or sales discounts.

Cost of sales

We assemble all of our products at our facilities in Wood Dale, Illinois. The most significant component of our cost of sales is the engine cost. The remainder of our cost of sales primarily includes the cost of additional materials utilized in our finished goods, labor, freight, depreciation and other inventoriable costs such as allocated overhead.

Operating expenses

Operating expenses include engineering, selling and service and general and administrative expenses. Engineering expenses include both internal personnel costs and expenses associated with outsourced third party engineering relationships. Engineering activities are staff intensive; thus costs incurred primarily consist of salary and benefits for professional engineers and amounts paid to third parties under contractual engineering agreements. Engineering consists of a Product and Application Research and Development Engineering Group and a Customer Support Engineering Group. The primary focus of the Product and Application Research and Development Engineering Group is on current and future product design, prototyping, testing and application development activities. The Customer Support Engineering Group provides dedicated engineering and technical attention to customer production support, including a direct communication link with our internal operations.

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Selling and service expenses represent the costs of our OEM sales team, an aftermarket sales group and a customer support group for field service and warranty support of our products. We utilize a direct sales and marketing approach to maintain maximum customer interface and service support. Wages and benefits, together with expenses associated with travel, account for the majority of the costs in this category.

General and administrative expenses principally represent costs of our corporate office and personnel that provide management, accounting, finance, human resources, information systems and related costs which support the organization. In addition to wages and benefits, costs include professional services, insurance, banking fees and other general facility and administrative support costs.

Recent developments

Reverse Recapitalization, Private Placement and Stock Repurchase

On April 29, 2011, Format, Inc. (n/k/a Power Solutions International, Inc.) completed a reverse recapitalization transaction, in which PSI Merger Sub, Inc., a Delaware corporation that was newly-created as a wholly-owned subsidiary of Format, merged with and into The W Group, and The W Group remained as the surviving corporation of the merger. In that transaction, The W Group became a wholly-owned subsidiary of Power Solutions International, Inc. The reverse recapitalization transaction was consummated under Delaware corporate law pursuant to an agreement and plan of merger, dated as of April 29, 2011. Pursuant to this merger agreement, all of the outstanding shares of common stock of The W Group held by the three stockholders of The W Group at the closing of the reverse recapitalization converted into shares of our common stock and shares of preferred stock. In connection with the reverse recapitalization and Gary Winemaster and Thomas Somodi entering into the purchase and sale agreement (as described below under Certain Relationships and Related Party Transactions Purchase and Sale Transaction), (1) The W Group and Mr. Somodi entered into a termination agreement, pursuant to which each of Mr. Somodi s employment agreement with The W Group (the term of which expired in April 2010) and the subscription agreement between The W Group and Mr. Somodi were terminated; and (2) Power Solutions International, Inc. entered into a new employment agreement with Mr. Somodi, which sets forth the terms of Mr. Somodi s employment with us. See Executive Compensation Employment Agreements below for a description of the new employment agreement with Mr. Somodi.

Concurrently with the closing of the reverse recapitalization, on April 29, 2011, we completed a private placement of shares of our Series A Convertible Preferred Stock, together with warrants to purchase shares of our common stock, to 29 accredited investors, receiving total gross proceeds of $18,000,000. Each share of preferred stock is convertible into a number of shares of our common stock equal to $1,000 divided by the conversion price then in effect, subject to limitations on conversion set forth in the certificate of designation for the preferred stock. For every one share of our common stock issuable upon conversion of preferred stock purchased in the private placement, each investor in the private placement also received a warrant to purchase one-half of a share of our common stock, at an exercise price of $0.40625 per share, subject to limitations on exercise and adjustment as set forth in the warrants.

In connection with the reverse recapitalization and the private placement, Format, Inc. entered into a stock repurchase and debt satisfaction agreement, dated as of April 29, 2011, with Ryan Neely, who was the sole director and executive officer of Format, Inc. immediately prior to the closing of the reverse recapitalization, and his wife, Michelle Neely. Pursuant to this agreement, at the time the reverse recapitalization was completed, (1) Format repurchased 3,000,000 shares of Format common stock from Ryan and Michelle Neely, and (2) Ryan Neely and Michelle Neely terminated all of their interest in, and released Format from all obligations Format had with respect to, the loans made by Ryan Neely and Michelle Neely to Format, Inc. from time to time (which, as of the closing of the transactions contemplated by the stock repurchase and debt satisfaction agreement, were in an aggregate principal amount of $114,156), in exchange for aggregate consideration of $360,000.

As a result of the reverse recapitalization, Power Solutions International, Inc. has succeeded to the business of The W Group. See Business Company History below for a detailed description of the reverse recapitalization and the repurchase of shares of our common stock from Ryan Neely and Michelle Neely; see Selling Securityholders below for a detailed description of the private placement; and see Certain Relationships and Related Party Transactions Purchase and Sale Transaction below for a detailed description of the transactions contemplated by the purchase and sale agreement between Gary Winemaster and Thomas Somodi.

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Replacement of Prior Credit Agreement

On April 29, 2011, in connection with the closing of the reverse recapitalization, the repurchase of shares of our common stock from Ryan and Michelle Neely and the private placement, Power Solutions International, Inc. and The W Group entered into a loan and security agreement with Harris N.A., and such loan and security agreement replaced the then existing loan and security agreement that The W Group had with its senior lender prior to the closing of the reverse recapitalization. Pursuant to the loan and security agreement with Harris N.A., among other things, Power Solutions International, Inc. became a party to the loan and security agreement, the maximum loan amount under the senior credit facility was reduced from the maximum loan amount under The W Group s prior credit facility to reflect The W Group s repayment in full of its two previously outstanding term loans under the prior credit facility and the financial covenants under the prior credit facility were replaced with a new fixed charge coverage ratio. See Liquidity and capital resources Credit agreement below for a discussion of our current credit facility and The W Group s prior credit facility, which was replaced by the current credit facility in connection with the reverse recapitalization.

Factors affecting future comparability

We have set forth below selected factors that we believe have had, or can be expected to have, a significant effect on the comparability of recent or future results of operations:

Public company expenses

As a result of the reverse recapitalization, we are now a public company, and anticipate that we will make an application to list our shares for trading on a national securities exchange, once we satisfy the relevant quantitative listing criteria. As a result, we expect that our general and administrative expenses will increase as we pay our employees, legal counsel and accountants to assist us in, among other things, establishing and maintaining a more comprehensive compliance and board governance function, establishing and maintaining internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, and preparing and distributing periodic public reports under the federal securities laws. In addition, we expect that as a public company the cost of director and officer liability insurance will increase. We may also incur additional costs associated with compensation of non-employee directors.

Stock-based and other executive compensation

Prior to the reverse recapitalization and the private placement, we have not granted or issued any stock-based compensation. Accordingly, we have not recognized any stock-based compensation expense. Upon and following the consummation of this offering, we may consider adopting an equity compensation plan and making awards under such a plan to our directors, officers and other employees and possibly to consultants. As a result, to the extent relevant, we may incur non-cash, stock-based compensation expenses in future periods.

Events affecting sales and profitability comparisons

Our quarter-to-quarter and quarter-over-quarter operating results (including our sales, gross profit and net income) and cash flows can be impacted by a variety of internal and external events associated with our business operations. Examples of such events include (1) changes in regulatory emission requirements (which generally occur on January 1 of the year in which they become effective), (2) customer product phase-in/phase-out programs, (3) supplier product (i.e. a specific engine model) phase-in/phase-out programs, (4) changes in pricing by suppliers to us of engines, components and other parts (typically effective January 1 of any year), and (5) changes in our pricing to our customers (typically effective January 1 of any year), which may be related to changes in the pricing by suppliers to us. In order to mitigate potential availability or pricing issues, customers may adjust their demand requirements from traditional patterns. We may also extend special programs to customers in advance of such events, and we are more likely to offer such programs in our fourth quarter of a year in anticipation of events expected to occur in the first quarter of the next year. The occurrence of any of the events discussed above may result in fluctuations in our operating results (including sales and profitability) and cash flows between and among reporting periods.

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Critical accounting policies and estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of these financial statements in accordance with GAAP requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, assumptions and judgments, including those related to revenue recognition, bad debts, inventories, warranties and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and our revenue recognition. Actual results may differ from these estimates under different assumptions or conditions.

Revenue recognition

We recognize revenue at the time title and risk of loss of inventory passes to the customer, which is typically upon shipment of goods. In certain cases, we recognize revenue upon billing for goods which are not immediately shipped at the request and for the convenience of our customer, otherwise known as a bill and hold arrangement. In these cases, revenue is recognized under the same terms and conditions as any other sales except that the products are held by us until the customer initiates the shipment of the product from our warehouses. Transfer of the title and risk of loss pass to the customer, and there are no future performance obligations, at the time the bill and hold sale is recognized. Any product that has been sold under a bill and hold arrangement is segregated from our owned inventory. When billed to the customers, shipping and handling charges to customers are included in revenue when incurred. Shipping and handling costs incurred by the company are included in cost of sales.

Allowance for doubtful accounts

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management s best estimate of the amounts that will not be collected. Management individually reviews all past due accounts receivable balances and, based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected.

Inventories

Inventories consist primarily of engines and parts. Engines are valued at the lower of cost, as determined by specific serial number identification, or market value. Parts are valued at the lower of cost (first-in, first out) or market value.

We write down inventory for an estimated amount equal to the difference between the cost of the inventory and the estimated realizable value. Estimated realizable value for each item in inventory is based upon our estimation of future demand for the quantity of inventory on hand. In determining an estimate of future demand, multiple factors are taken into consideration including (i) customer purchase orders and customer forecasted demand; (ii) historical sales/usage for each inventory item; and (iii) utilization within a current or anticipated future power system. These factors are primarily based upon quantifiable information and therefore, we have not experienced significant differences in inventory valuation due to variances in our estimation of future demand. We estimate that, in 2010, a 10% variance between the cost of the inventory and its estimated net realizable value would have a $0.3 million effect on our cost of goods sold and the estimated net realizable value of our inventory.

Warranty programs

We offer a standard limited warranty on the workmanship of our products that in most cases covers defects for a period of (i) one year from the date of shipment or (ii) six months from the date products are placed into service, whichever occurs first. Warranties for certified emission products are mandated by the EPA and/or the CARB and are longer than our standard warranty on certain emission related products. Our products also carry limited warranties from suppliers. Costs related to supplier warranty claims are borne by the supplier; our warranties apply only to the modifications we make to supplier base products. We estimate and record a liability, and related charge to income, for our warranty program at the time products are sold to customers. Our estimates are based on historical experience and reflect management s best estimates of expected costs at the time products are sold. We make adjustments to our estimates in the period in which it is determined that actual costs may differ from our initial or previous estimates. In 2010, a 10% change in the amount of warranty expense would increase our warranty liability and related costs by approximately $32 thousand.

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Income taxes

All income tax amounts reflect the use of the liability method. Under this method deferred tax assets and liabilities are determined based upon the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax purposes. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. These differences relate primarily to different depreciation methods for financial statement and income tax purposes, nondeductible allowances for accounts receivable and inventory, certain accrued expenses, unrealized losses on hedging activities and research and development credit carryforwards.

Deferred taxes are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and tax rates as of the date of enactment.

Results of operations

Three months ended March 31, 2011 compared with the three months ended March 31, 2010

Net sales

Our net sales increased $11.8 million (59.7%) to $31.4 million for the three months ended March 31, 2011 compared to $19.6 million for the three months ended March 31, 2010. The increase in net sales was primarily due to increases in sales volume to existing customers arising from an improvement in the general global economy, together with a continued growth in sales of large power systems and expansion of sales to Asia-based customers to whom we began shipping product in the latter part of 2010. An increase in sales volume of $11.4 million almost exclusively accounted for the increase in sales, with the remaining sales increase arising from price increases to cover supplier cost increases. Sales volumes for our established diesel power systems and alternative fuel power systems, including aftermarket components increased $7.3 million for the three months ended March 31, 2011 compared to the three months ended March 31, 2010. Our new, alternative fuel power systems introduced in late 2009 accounted for $3.6 million of the quarter-over-quarter sales volume increase. Sales volume to Asia-based customers, to whom we began shipping in 2010, increased $0.5 million for the three months ended March 31, 2011 as compared to the same period in 2010.

Cost of sales

Our cost of sales increased 53.1% to $25.4 million for the three months ended March 31, 2011 from $16.6 million in the comparable period of 2010. The increase in cost of sales was primarily due to the increase in our sales volume. As a percentage of net sales, cost of sales has declined to 80.9% for the three months ended March 31, 2011, compared to 84.4% for the three months ended March 31, 2010. Production costs were spread over higher volumes which favorably affected cost of sales. In addition, the increase in sales, noted in *Net sales* above, occurred across the majority of our customer base, broadening our product mix, which also favorably impacted our cost of sales.

Gross profit

Our gross profit increased 95.8% to $6.0 million for the three months ended March 31, 2011 from $3.1 million in the comparable period of 2010. Our gross profit increased primarily due to the previously discussed increase in sales volumes. As a percentage of revenue, gross profit was 19.1% for the three months ended March 31, 2011 compared to 15.6% in 2010. The higher gross profit during the first quarter of 2011 was principally attributable to the broadening product mix and higher sales volume relative to production costs as described in *Cost of sales* above.

Engineering

Engineering expenses increased 38.9% to $1.0 million for the three months ended March 31, 2011 from $0.7 million in the comparable period of 2010 due to an increase in customer product support activities associated with the increase in sales and product development. Wages and benefits account for the majority of our engineering expenses and accounted for $0.2 million of the quarter-over-quarter increase, as we increased our headcount in 2011 in connection with these activities. In addition, our engineering expenses were lower in 2010 due to cost control initiatives which included, among other things, temporary compensation reductions. However, as a percentage of net sales, engineering expenses decreased to 3.2% in the three months ended March 31, 2011 compared to 3.6% for the same period in 2010.

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Selling and service

Selling and service expenses increased 18.9% to $1.4 million for the three months ended March 31, 2011 from $1.2 million in the comparable period of 2010. The increase in selling and services expense was primarily attributable to an increase in wages and benefits, travel costs, and warranty costs in support of our increased product sales for the three months ended March 31, 2011 as compared to 2010, none of which was individually significant. However, our sales increased at a higher percentage than our increase in selling and service expenses. Accordingly, as a percentage of net sales, selling and service expenses decreased to 4.4% in the three months ended March 31, 2011 compared to 6.0% for the same period in 2010.

General and administrative

General and administrative expenses increased 79.6% to $1.3 million for the three months ended March 31, 2011 from $0.7 million in the comparable period of 2010. The increase was principally attributable to (i) $0.1 million for the cost of additional staff to support our higher sales volume and (ii) a $0.4 million increase in professional, consulting fees and bank fees incurred in connection with our year end audit, reverse recapitalization and the refinancing of our credit facility in April 2011. The remaining increase was attributable to increases in other expense categories, none of which was individually significant. As a percentage of net sales, general and administrative expenses increased to 4.2% in the three months ended March 31, 2011 from 3.7% for the same period of 2010.

Interest expense

Interest expense increased 23.0% to $0.6 million for the three months ended March 31, 2011, as compared to $0.5 million for the year-ago period. The increase was principally attributable to a $0.1 million fee incurred under our prior credit agreement with Fifth Third Bank (as discussed below). Our average outstanding bank borrowings were $0.8 million higher for the three months ended March 31, 2011 compared to the same period in 2010; however, our average effective interest rate on our bank borrowings was 5.86% during the first quarter of 2011, compared to 5.97% in 2010. Holding all other variables constant, we expect that our interest expense will decrease, in part, as a result of a lower effective interest rate pursuant to our new credit facility. For a description of our new credit facility, see Liquidity and capital resources Credit agreement below.

Income tax expense

Our income tax expense increased $0.6 million for the three months ended March 31, 2011, to $0.6 million, as compared to a tax benefit of less than $0.1 million in 2010. Our effective tax rate for the three months ended March 31, 2011 was 36.2% compared with 18.8% for the comparable prior year period. Our effective tax rate in 2010 was lower than in 2011 as the amount of research tax credits expected to be generated and used for 2010 was significantly higher relative to the amount of taxable income generated for the year. The research tax credits are generated as a result of our engineering research and development activities. In general, these credits, which are general business credits, may be carried forward up to 20 years to be offset against taxable income in future years. In 2011, our effective tax rate is expected to be higher as we expect that the proportion of research tax credits generated and used will be lower relative to our taxable income for the year.

Year ended December 31, 2010 compared with the year ended December 31, 2009

Net sales

Our net sales increased $17.6 million (21.2%) to $100.5 million for the year ended December 31, 2010 compared to $82.9 million for the year ended December 31, 2009. This increase was driven by an increase in sales volume of approximately $15.7 million, with the remaining $1.9 million increase to cover increases in supplier component costs. Net sales volume increased $10.6 million in 2010 compared to 2009 due to increases in sales of our new alternative fuel larger power systems, which we initially introduced in 2009. In addition, sales to new, Asia-based customers contributed $3.1 million to sales volume growth year-over-year. The remaining $2.0 million increase in volume was due to our existing product base.

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Cost of sales

Our cost of sales increased 26% to $83.9 million for the year ended December 31, 2010 from $66.5 million in the comparable period of 2009. The increase in cost of sales was primarily due to the increase in our sales volume. As a percentage of net sales, cost of sales increased to 83% for the year ended December 31, 2010, compared to 80% for the year ended 2009. Cost of sales as a percentage of net sales was lower in 2009 primarily due to lower costs associated with products sold in a special program discussed under Year ended December 31, 2009 compared with the year ended December 31, 2008 -*Net sales* below and the cost control initiatives begun in 2008 and which continued throughout 2009.

Gross profit

Our gross profit increased 1.5% to $16.6 million for the year ended December 31, 2010 from $16.4 million in the comparable period of 2009. Our gross profit increased primarily due to the previously discussed increase in sales volumes. As a percentage of revenue, gross profit was 17% for the year ended December 31, 2010 compared to 20% in 2009. The higher gross profit in 2009 was principally attributable to the lower material costs associated with the products sold in a special program discussed under Year ended December 31, 2009 compared with the year ended December 31, 2008 *Net sales* below and the cost control initiatives previously identified.

Engineering expense

Engineering expenses increased 41% to $3.8 million in the year ended December 31, 2010 from $2.7 million in the comparable period of 2009. Engineering activities are staff intensive; thus, costs incurred primarily consist of salary and benefits for professional engineers and amounts paid to third parties for contract services associated with our research and development activities. Engineering salaries and benefits increased $0.7 million in 2010 compared to 2009 in connection with new customer product launches and increased product development activities. In addition, costs associated with the required initial and periodic testing of engines for emission compliance increased $0.6 million in 2010 compared to 2009. Net other expenses decreased $0.2 million, none of which was individually significant.

Selling and services expense

Selling and service expenses increased 21% to $5.5 million for the year ended December 31, 2010 from $4.5 million in the comparable period of 2009, although this expense remained consistent as a percentage of net sales year over year. The increase in selling and services expense was primarily attributable to an increase in salaries and benefits of $0.8 million to support our increased sales for the year ended December 31, 2010 as compared to 2009.

General and administrative expenses

General and administrative expenses increased 7% to $3.3 million in the year ended December 31, 2010 from $3.1 million in the comparable period of 2009. The increase in general and administrative expenses is principally attributable to a $0.3 million increase in salaries and benefits in 2010 arising from a restoration of compensation that had previously been subject to adjustments implemented as part of our cost control initiatives associated with lower sales and the global economic slowdown in 2009. Net other expenses decreased $0.1 million, none of which was individually significant. The sales growth from 2009 to 2010 outpaced the increase in general and administrative expenses as we were able to effectively leverage our general and administrative costs to support our increased sales volume. As a result, general and administrative expenses decreased to 3% of net sales in 2010 from 4% in 2009.

Interest expense

Interest expense decreased 8% to $2.1 million for the year ended December 31, 2010, as compared to $2.3 million for the year ended December 31, 2009. Our average outstanding bank borrowings were $1.8 million lower in 2010 compared to 2009. Our average effective interest rate on our bank borrowings was 5.82% in 2010 as compared to 5.01% in 2009. We benefitted from lower average outstanding debt and reduced amortization of deferred financing costs in 2010. The lower outstanding debt was primarily attributable to scheduled payments of term loans and capital lease obligations. In addition, we wrote off additional deferred financing costs in 2009 as a result of an amendment to our existing credit agreement which reduced our overall borrowing capacity. Offsetting these reductions in interest expense was a higher average interest rate in 2010.

Income tax expense

Our income tax expense decreased $1.0 million to $0.4 million for the year ended December 31, 2010 compared to 2009, primarily as the result of our lower taxable income. Our effective tax rate was 19% on income before taxes of $1.9 million for the year ended December 31, 2010 compared to an effective tax rate of 37% on pre-tax income of $3.8 million for the comparable period of 2009. The lower effective income tax rate in 2010 was attributable to available federal and state tax research credits generated and used. Absent changes to existing legislation, we expect these research tax credits, to the extent generated but not used, will be available for our benefit in the future as well.

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Year ended December 31, 2009 compared with Year ended December 31, 2008

Cost control program 2009

We initiated a cost control program in 2008, which we expanded in 2009 to reduce expenses by implementing mandatory cost reduction programs, including stringent budgetary cost controls on discretionary spending and various employee cost control programs that matched required staffing levels with the variability of product demand during the year. We historically maintained a mix of full-time and temporary staffing in both production and administrative functions, allowing us to flex the staff in response to market conditions. This mix provided us with the ability to quickly adjust our staffing cost to the decrease in demand in 2009. In addition, we were able to establish flexible production lines along with flexible work programs with the remainder of our staff, enabling us to match required production capacity and staffing levels with the variability of product demand. This also enabled us to retain our most qualified staff, which in turn provided a solid technical base to support the anticipated improvement in customer sales activity as ultimately realized in 2010.

Net sales

Net sales decreased 34% to $82.9 million in the year ended December 31, 2009 compared to $125.3 million for 2008. The decrease in net sales was attributable to lower demand as a result of the downturn in global economic conditions across our customer base. The decrease in shipments occurred across all power system products, as well as our aftermarket parts, although our customer base remained stable during this period. In spite of a general decrease in net sales in 2009, fourth quarter 2009 net sales remained strong due to increased sales activity associated with customers purchasing product before our published January 1 price increases, product purchases by customers to cover transitional requirements associated with new mobile emission standards and a special program whereby we offered our customer base the opportunity to purchase certain products scheduled for a supplier phase out in 2010 in order to avoid potential availability issues and future published price increases on those products. Sales under this program represented a substantial portion of total net sales in the fourth quarter of 2009.

Cost of sales

Our cost of sales decreased 38% to $66.5 million for the year ended December 31, 2009 from $107.4 million in the comparable period of 2008. The decrease in cost of sales was due to the decrease in our sales volume associated with the downturn in the global economy. As a percentage of net sales, cost of sales decreased to 80% in 2009 compared to 86% in 2008. The improvement in the cost of sales as a percentage of net sales between 2009 and 2008 was primarily attributable to lower costs associated with the products sold in the special program discussed under Net sales above, as well as lower labor and overhead costs resulting from cost control programs initiated during 2008 and 2009.

Gross profit

Our gross profit decreased 8% to $16.4 million for the year ended December 31, 2009 from $17.9 million in the comparable period of 2008. The decrease in gross profit was due to the overall decrease in sales volumes associated with the general downturn in global economic conditions that generally affected our customer base. As a percentage of sales, gross profit increased to 20% in 2009 compared to 14% in 2008. Our gross profit as a percentage of sales increased due primarily to the factors noted above in Cost of sales.

Engineering expense

Engineering expenses decreased 18% to $2.7 million for the year ended December 31, 2009 from $3.3 million in the comparable period of 2008. The decrease in engineering expense was primarily due to our cost control plan which was implemented in 2008 and continued into 2009, and resulted in reduced salaries and benefits expenses of $0.7 million in 2009 as compared to 2008. Engineering activities are staff intensive; thus costs incurred primarily consist of salary and benefits for professional engineers and amounts paid to third parties for contract services. Although we did reduce engineering costs according to our cost control program, we retained our technical staff to continue development of new products independent of our sales volume. Net other expenses increased $0.1 million, none of which was individually significant.

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Selling and service expense

Selling and service expenses decreased 24% to $4.5 million for the year ended December 31, 2009 from $6.0 million in the comparable period of 2008. The decrease in selling and service expense was the result of the cost control plan implemented in 2008 and continuing into 2009 which resulted in lower expenses across most expense categories, including (i) a $0.6 million decrease in salaries, benefits and travel (ii) a $0.3 million decrease in advertising and promotions, and (iii) a $0.3 million decrease in consulting fees. Our bad debt expense also decreased $0.3 million as our sales decreased in the year over year period. As a percentage of net sales, selling and service expense was 5% in 2009 and 2008.

General and administrative expense

General and administrative expenses decreased 31% to $3.1 million for the year ended December 31, 2009 from $4.4 million in the comparable period of 2008. The decrease in general and administrative expense was primarily due to decreased discretionary spending and personnel costs from the continuation of the cost control program, which was expanded in 2009 in response to lower sales and general business activity levels. Accordingly, our salaries and benefits were lower by $0.7 million in 2009 as compared to 2008. Professional fees, including legal and bank fees, also decreased $0.4 million year over year. General and administrative expenses remained consistent at approximately 4% of net sales in 2009 and 2008.

Interest expense

Interest expense decreased 17% to $2.3 million for the year ended December 31, 2009 from $2.8 million in the comparable period of 2008. Our average outstanding bank borrowings were $3.2 million lower in 2009 compared to 2008. Our average effective interest rate on our bank borrowings was 5.01% in 2009 compared to 5.50% in 2008. Partially offsetting the expense decrease was a $0.2 million increase in deferred financing charges arising from an amendment to our then existing credit facility, which among other things, resulted in a decrease in our overall borrowing capacity.

Income tax expense

Our income tax provision increased to $1.4 million for the year ended December 31, 2009 from $0.8 million in 2008, primarily due to higher income before income taxes. Our effective tax rate was 37% and 53% for the years ended December 31, 2009 and 2008, respectively. We were under audit by the Internal Revenue Service for certain tax years prior to 2008. During 2008, these audits were completed, resulting in additional income tax expense of $0.2 million, which increased our effective overall income tax rate as a percentage of pre-tax income. The additional taxes arising from the settlement and closure of these tax years were partially offset by research tax credits of $0.1 million.

Liquidity and capital resources

Our cash requirements are dependent upon a variety of factors, foremost of which is the execution of our strategic plan. We expect to continue to devote substantial capital resources to running our business. Our primary sources of liquidity are cash flows from operations, principally collections of customer accounts receivable and borrowing capacity under our credit facility. Our existing and historical financing arrangements require that cash received by us be applied against our revolving line of credit. Accordingly, we do not maintain cash or cash equivalents on our balance sheet, but instead fund our operations through borrowings under a revolving line of credit which is described below under Credit agreement.

Based on our current forecasts and assumptions, we believe that our sources of cash and cash equivalents, namely the sales of our power systems and aftermarket products and access to borrowing capacity will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

As of March 31, 2011, we had working capital of $5.9 million compared to $6.3 million as of December 31, 2010 and $7.1 million at December 31, 2009. Our working capital decreased $0.4 million from December 31, 2010 to March 31, 2011, primarily due to a $1.5 million reduction in inventories and a $1.1 million increase in liabilities that were partially offset by a $2.3 million increase in accounts receivable. Our inventories decrease was principally attributable to initiatives implemented in the first quarter of 2011 to identify and implement opportunities to decrease inventory and our higher sales activity. Our liabilities increased to support our higher level of production and corresponding sales activities. In addition, our current liabilities increased due to the timing of certain payments. Our accounts receivable increased principally due to the higher sales volume in the first quarter as compared to the quarter ended December 31, 2010.

Our working capital decreased $0.8 million as of December 31, 2010 from December 31, 2009 principally due to the scheduled debt payments arising from collections on accounts receivable in excess of the amounts used to reduce accounts payable and our line of credit. Our accounts

receivable decreased $12.3 million, while our accounts payable and revolving line of credit decreased $9.7 million. These decreases were principally attributable to our collection of receivables in 2010 on sales arising from the 2009 fourth quarter sales discussed in Net sales for the year ended December 31, 2009 and payment of inventory purchases associated with

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those sales activities. These decreases in working capital were offset by a $1.0 million increase in inventories, as well as a $0.7 million reduction in our income tax liability and net other reductions of $0.1 million. Inventories increased to support the increase in sales in 2010, and the reduction in our income tax liability was attributable to our lower estimated tax liability for 2010 as compared to 2009.

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Three months ended March 31, 2011

Operating activities

For the three months ended March 31, 2011, we generated cash flows from operations of $2.2 million. Net income and changes in working capital are the primary drivers of our cash flows from operations. For the three months ended March 31, 2011, we generated cash flows from operations of $1.2 million, including non-cash items (primarily depreciation), as compared to $0.2 million for the same period in 2010. The remaining cash flow of $1.0 million was generated primarily from changes in working capital. Specifically, we managed our inventories downward from December 31, 2010 to March 31, 2011 as a result of an initiative to decrease our inventory while still supporting our higher level of sales activity. This initiative and the higher level of sales activity resulted in a $1.5 million decrease in our inventories. We also generated operating cash from an increase in our accounts payable and income tax payable of $1.4 million and $0.7 million, respectively. The increase in accounts payable was driven primarily by purchases of inventory to support the higher levels of production, the corresponding timing of those purchases, and vendor payment terms. The increase in the income tax payable balance was due to the timing of income tax payments. These operating cash flows were partially offset by a $2.3 million increase in our trade receivables from December 31, 2010 arising from an increase in sales activity in the first quarter of 2011 as compared to the sales activity in the fourth quarter of 2010. Net other cash used in operations was $0.3 million, none of which was individually significant.

Investing activities

Net cash used in investing activities of $0.3 million for the three months ended March 31, 2011 related primarily to the acquisition of property, equipment and other assets.

Financing activities

Our financing activities for the three months ended March 31, 2011 included $0.6 million primarily for the repayment of scheduled bank term debt and other notes payable. We also used $0.7 million to reduce our revolving line of credit and $0.3 million to reduce our cash overdraft. Consistent with our current revolving line of credit, our prior revolving line of credit was used to fund our operations and fluctuated primarily based upon our changes in working capital requirements. Also consistent with our current revolving line of credit, our prior revolving line of credit required that our cash be applied against the revolving line of credit. As such, we do not maintain a cash balance, and we borrow on the revolving line of credit to fund outstanding checks as they clear our bank. As of March 31, 2011, our borrowings under our prior revolving line of credit decreased because we had generated additional cash flows from the reduction in working capital, specifically through reductions in inventories and the timing of payments owed. Under our prior credit agreement, as well as with our new Harris credit facility, our cash overdrafts will fluctuate based on the timing of checks issued which have not yet cleared our bank as of a given date. We also used $0.4 million of cash during the period for the payment of financing fees in connection with the reverse recapitalization and private placement which occurred on April 29, 2011. Concurrent with the reverse recapitalization and private placement we also refinanced our existing revolving line of credit with another bank, which, in aggregate, resulted in the repayment in full of our outstanding bank term debt and a reduction in our revolving line of credit balance.

Three months ended March 31, 2010

Operating activities

We generated $3.7 million in cash from operating activities during the three months ended March 31, 2010, almost exclusively due to a reduction in our working capital for the period. Specifically, we collected $16.7 million in accounts receivable, a significant portion of which arose in the latter part of 2009 from our fourth quarter sales as discussed under Net sales above for the year ended December 31, 2009. The cash generated from the collection of these receivables was partially offset by payments to suppliers in 2010 arising from the inventories associated with these fourth quarter sales, as well as current quarter purchasing activities. The cash generated from the collection of accounts receivable was also offset by $0.6 million relating to estimated income tax payments made in 2010 relating to our 2009 results and a $0.5 million increase in inventories from December 31, 2009 to March 31, 2010 as our customer orders began to improve.

Investing activities

Net cash used in investing activities related primarily to the acquisition of equipment and other assets of $0.2 million for the three months ended March 31, 2010.

Financing activities

Our financing activities for the three months ended March 31, 2010 included the scheduled repayment of $0.5 million of bank term debt and other notes and capital lease obligations. We had a $2.6 million reduction in our revolving line of credit, which arose

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from a reduction in our working capital as we collected more cash from customer receivables during the period than what was required to pay trade payables and other obligations. We also had a $0.5 million reduction in our cash overdrafts.

Year ended December 31, 2010

Operating activities

For the year ended December 31, 2010, we generated cash flows from operations of $3.9 million of which $2.6 million arose from net income and other non-cash items of depreciation and receivable allowances as compared to $3.3 million in 2009.

We also realized a reduction in our working capital during the year, which contributed to the cash generated from operations, primarily arising from a $12.0 million reduction in accounts receivable that was partially offset by a $9.3 million reduction in accounts payable and a $1.0 million increase in our inventories. The decrease in accounts receivable and accounts payable primarily arose from a high level of sales activity occurring in the fourth quarter of 2009, which resulted in both an increase in receivables from those sales and related payables from the purchase of inventories to support those sales. We collected the receivables and paid the corresponding payables in the first quarter of 2010.

Investing activities

Net cash used in investing activities of $0.6 million in the year ended December 31, 2010, related primarily to the acquisition of fixed assets. Fixed asset expenditures principally arose from the purchase of tooling and transportation equipment.

Financing activities

During 2010, our financing activities included scheduled payments of $1.7 million of bank term debt and $0.5 million of capital lease obligations and other notes payable. Our overall revolving line of credit decreased $0.8 million principally arising from the cash flows generated from operations. We also used $0.3 million of cash during the year for the payment of financing fees in connection with the reverse recapitalization and private placement. We also had a $0.7 million decrease in cash overdrafts. At December 31, 2010, we were not in compliance with certain of our bank covenants, including our senior debt leverage and our fixed charge coverage ratios. On January 20, 2011, we obtained a waiver from our bank for these events of non-compliance. Subsequent to December 31, 2010, we completed a reverse recapitalization and private placement offering on April 29, 2011, which resulted in the repayment in full of our remaining term debt, and we also refinanced our existing revolving line of credit with another bank.

Year ended December 31, 2009

Operating activities

In the year ended December 31, 2009, we generated cash flows from operations of $3.4 million, which consisted primarily of net income of $3.3 million, including non-cash adjustments (primarily for depreciation) of $0.9 million.

With respect to our working capital, changes in accounts receivable and inventories, net of accounts payable and income taxes payable had a nominal net impact on cash flows from operations. Although our receivables and inventories increased by $9.6 million and $4.9 million year over year, these increases were offset by a $13.2 million and $1.2 increase in accounts payable and income taxes payable, respectively. The increase in receivables arose from sales activity occurring late in 2009 as further described in *Net sales* above for the year ended December 31, 2009. In addition, our inventories increased from the purchase of components to support new programs arising in 2010, including sales of large alternative power systems. The inventories purchased to support the sales activity and the new programs for 2010, primarily accounted for the $13.2 million increase in accounts payable. In addition, cash flows of $1.2 million were generated from an increase in our income taxes payable. The increase was attributable to the income generated late in 2009 and paid in 2010. Net other cash flows from operations was $0.2 million, none of which was individually significant.

Investing activities

Net cash used in investing activities related primarily to the acquisition of fixed assets of $0.4 million for the year ended December 31, 2009. Fixed asset expenditures principally arose from the purchase of custom tooling used in the production of components for power systems.

Financing activities

We used $3.0 million of cash for our financing activities in 2009, of which $1.6 million was used for the repayment of debt obligations. Specifically, we paid $1.2 million to our bank for scheduled term debt payments, and the remaining payments consisted of scheduled payments on capital lease obligations and other notes payable. We had a $0.6 million reduction in our revolving line of credit which arose from a reduction in our working capital as we collected more cash from customer receivables during the period than what was required to pay trade payables and other obligations. We also had a $0.7 million decrease in cash overdrafts.

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Year ended December 31, 2008

Operating activities

In the year ended December 31, 2008, we generated cash flows from operations of $2.7 million, which consisted primarily of net income of approximately $1.8 million, including non-cash adjustments (primarily for deferred income taxes and depreciation) of $1.1 million. We generated additional cash flow of $5.8 million from the collections of accounts receivable. The cash flow generated from a reduction in the accounts receivable in 2008 compared to 2007 arose due to the timing of receivable collections. In addition, we generated cash flow through a reduction of $7.4 million of our inventories from the prior year. Throughout 2007, our inventories had increased with our sales activity. In 2008, although sales were at levels consistent with 2007, we strategically targeted a reduction of inventories, while still supporting our sales. The cash flow generated from the reductions in accounts receivable and inventories was partially offset by a $12.0 million decrease in accounts payable. Accounts payable decreased as we lowered our inventories during 2008. Net other cash flows used in operations was $0.3 million, none of which was individually significant.

Investing activities

Net cash used in investing activities related primarily to the acquisition of fixed assets of $0.6 million for the year ended December 31, 2008. Fixed asset expenditures principally arose from the purchase of custom tooling used in the production of components for power systems.

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Financing activities

Net cash used in financing activities for the year ended December 31, 2008 was $2.1 million. We refinanced our existing line of credit and three term loans with arrangements with a new lender during 2008. The refinancing was completed to provide us with additional cash. Under the terms of the refinancing, we replaced the existing line of credit and term loans with our prior lender with two term loans totaling $11.1 million and a revolving line of credit arrangement to maintain sufficient borrowing capacity. Borrowings under our revolving line of credit fluctuate based upon our changes in working capital requirements during a period. We used $12.6 million to repay borrowings, including repayment of the prior revolving line of credit and scheduled term debt payments, and we used $1.3 million of cash to pay financing fees related to the debt with our new lender. We also generated cash of $0.4 million from the sale and leaseback of assets during the year. We also had a $0.4 million increase in cash overdrafts the balance of which fluctuates based upon the timing of outstanding checks clearing our bank. Our revolving line of credit requires that our cash be applied against the revolving line of credit. As such, we do not maintain a cash balance, but rather borrowing on the revolving line of credit to fund outstanding checks as they clear our bank. Accordingly, the change in our outstanding checks will fluctuate by reporting period based upon the timing of their presentation to our bank for payment.

Credit agreement

In connection with the consummation of the reverse recapitalization and the private placement, on April 29, 2011, we entered into a loan and security agreement with certain lenders and Harris N.A., as agent for the lenders. The new credit agreement replaced the loan and security agreement with Fifth Third Bank, the terms of which are discussed below. Our credit agreement provides for borrowings of up to $35.0 million under a revolving line of credit, which new line of credit is scheduled to mature on April 29, 2014 and has a variable interest rate as described below. Borrowings under our credit agreement are collateralized by substantially all of our assets. Under our credit agreement, we are required to meet certain financial covenants, including a minimum monthly fixed charge coverage ratio and a limitation on annual capital expenditures, the testing of which commences on April 30, 2011. Our credit agreement also contains customary covenants and restrictions applicable to us, including agreements to provide financial information, comply with laws, pay taxes and maintain insurance, restrictions on the incurrence of certain indebtedness, guarantees and liens, restrictions on mergers, acquisitions and certain dispositions of assets, and restrictions on the payment of dividends and distributions. In addition, our credit agreement requires our cash accounts to be held with Harris N.A. Our cash deposits in the new line of credit account are swept by Harris N.A. daily and applied against the outstanding balance on our new line of credit. As a result, we maintain a zero cash balance in our line of credit account, and we borrow on the line of credit on a daily basis to fund our cash disbursements.

Under our credit agreement (in contrast to the prior credit agreement discussed below): (a) Power Solutions International, Inc. is a party to the new credit agreement and pledged the equity interests of The W Group to Harris N.A.; (b) there are no term loans; (c) the new line of credit bears interest at Harris N.A. s prime rate (3.25% at December 31, 2010) plus an applicable margin ranging from 0% to 0.50% or, at our option, a portion of the new line of credit can be designated to bear interest at LIBOR plus an applicable margin ranging from 2.00% to 2.50%; (d) there is a higher limit on annual capital expenditures; (e) there is no maximum quarterly senior debt leverage ratio; and (f) there is a fixed charge coverage ratio similar to the fixed charge coverage ratio in the prior credit agreement with Fifth Third Bank, except that the fixed charge coverage ratio under the new credit agreement excludes historical debt service on Term Loan A and Term Loan B (each as defined and discussed below) and certain other one-time expenses.

On April 29, 2011, upon consummation of the reverse recapitalization and the other transactions referred to above under Recent Developments, we used net proceeds from the private placement and proceeds from a draw on the new line of credit to repay the prior loans (as discussed below) under the prior credit agreement with Fifth Third Bank in full. Upon consummation of the reverse recapitalization and immediately following the repayment of these prior loans on April 29, 2011, availability under the new line of credit was approximately $12.7 million.

The prior credit agreement was entered into in 2008 among Fifth Third Bank and The W Group and its subsidiaries. The initial proceeds from the prior credit agreement were used to retire the revolving line of credit and term loans with our predecessor bank. The prior credit agreement provided for a revolving line of credit of up to $37.5 million, a term loan of $8.7 million (Term Loan A) and a term loan of $2.4 million (Term Loan B), which prior loans collectively were scheduled to mature on July 15, 2013 and had variable interest rates. Under the terms of the prior credit agreement with Fifth Third Bank, we had the ability to elect whether outstanding amounts under the prior loans accrued interest based on the prime rate plus a margin or LIBOR plus a margin. Prior to being repaid in full, the loans under our prior credit agreement were collateralized by substantially all of our assets. Under the prior credit agreement, we were required to maintain our cash accounts with Fifth Third Bank. We had our cash deposits in our prior line of credit account swept by Fifth Third Bank daily and applied against the outstanding line of credit balance. As a

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result, we maintained a zero cash balance in our prior line of credit account, and we borrowed on our prior line of credit on a daily basis to fund our cash disbursements. Outstanding borrowings under our prior line of credit were $21.0 million and $21.6 million at March 31, 2011 and December 31, 2010, respectively. Prior to its repayment in full in connection with the closing of the reverse recapitalization, principal payments of Term Loan A were payable in quarterly installments ranging from $0.2 million to $0.6 million over the life of the loan. Term Loan A had an outstanding balance of $5.1 million and $5.6 million as of March 31, 2011 and December 31, 2010, respectively. Prior to its repayment in full in connection with the closing of the reverse recapitalization, principal payments of Term Loan B were payable in quarterly installments of less than $0.1 million over the life of the loan plus a balloon payment at maturity. Term Loan B had an outstanding balance of $2.1 million and $2.1 million as of March 31, 2011 and December 31, 2010, respectively. In addition to scheduled quarterly payments, prior to its replacement, our prior credit agreement with Fifth Third Bank required an annual repayment equal to 60% of excess cash flow.

Our prior line of credit was previously amended, in August 2009, to reduce the maximum borrowings from $37.5 million to $29.0 million, bearing interest at Fifth Third Bank s prime rate (3.25% at December 31, 2009) plus an applicable margin ranging from 2.25% to 2.50%. Prior to the replacement of our prior credit agreement with Fifth Third Bank on April 29, 2011, at our option a portion of the prior line of credit could be designated to bear interest at LIBOR, subject to a 2.00% floor, plus an applicable margin ranging from 3.25% to 3.50%. At December 31, 2010, the entire outstanding balance of $21.6 million had been designated to bear interest at the LIBOR rate, plus margin. The interest rate on our prior line of credit was 5.50% at December 31, 2010.

As of December 31, 2010, we determined that we were not in compliance with the quarterly fixed charge coverage ratio and the quarterly senior debt leverage ratio covenants of our prior credit agreement with Fifth Third Bank. The event of non-compliance at December 31, 2010 arose principally due to the timing of the payment of certain fixed charges such as tax payments during the period and as our actual EBITDA was less than the minimum required to be in compliance with the fixed charge coverage ratio and the senior debt leverage ratio. On January 20, 2011, we received from Fifth Third Bank a waiver of our noncompliance with these financial covenants as of December 31, 2010. Our new credit agreement requires us to maintain a monthly minimum fixed charge coverage ratio of not less than 1.10 to 1.0 and not exceed an annual capital expenditure threshold as defined in the agreement. We were in compliance with the financial covenants under our current credit facility as of our most recent required compliance reporting period.

Contractual obligations

As of December 31, 2010, our commitments under our revolving line of credit, term debt, purchase obligations, operating and capital leases (which do not reflect the consummation of the reverse recapitalization, our repurchase of shares of our common stock from Ryan Neely and Michelle Neely or the private placement) were as set forth below (amounts in 000s). During the three months ended March 31, 2011, there were no material contractual obligations entered into, or modified, outside the ordinary course of business which require adjustment to the amounts presented in the table below. As discussed and described in Liquidity and capital resources Credit agreement, subsequent to March 31, 2011, we entered into the New Credit Agreement.

	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
Revolving line of credit	$ 21,633	$	$ 21,633	$	$
Term debt	7,824	2,148	5,663	13	
Interest [1]	3,873	1,672	2,201		
Purchase commitments [2]	1,109	378	150	150	431
Capital leases	78	78			
Operating leases	1,630	1,184	441	5	
Total	$ 36,147	$ 5,460	$ 30,088	$ 168	$ 431

(1) For our revolving line of credit, we estimated future interest expense using the balance and interest rate as of December 31, 2010 through the remaining term of the agreement. For all other debt with scheduled principal payments, we estimated future interest expense using the applicable balances expected during the remaining term of each obligation and the interest rate in effect as of December 31, 2010.

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(2) On November 18, 2010, we entered into an agreement with a supplier to build certain tooling and fixtures to be owned by us and used to produce certain of the components for our power systems. In exchange for the intellectual development and building of the tooling and fixtures, we agreed to pay the supplier $1.125 million over a 10 year period. Of this amount, $0.9 million remains unpaid at December 31, 2010. In addition, we have a $0.2 million commitment to another supplier relating to the development of licensing exclusively for our benefit.

Off-balance sheet arrangements

We do not have any material off-balance sheet arrangements.

Impact of recently issued accounting standards

Revenue Recognition

In September 2009, the FASB reached a consensus on ASU No. 2009-13, Revenue Recognition (Topic No. 605) Multiple-Deliverable Revenue Arrangements, (ASU 2009-13). ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 eliminates the requirement that all undelivered elements must have either: (i) vendor specific objective evidence (VSOE) or (ii) third-party evidence (TPE), before an entity can recognize the portion of an overall arrangement consideration that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities are required to estimate the selling prices of those elements. Overall arrangement consideration must be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity s estimated selling price. The residual method of allocating arrangement consideration has been eliminated. The application of this standard in the first quarter of 2011 had no material impact on the results of operations for the three months ended March 31, 2011.

Quantitative and Qualitative Disclosure About Market Risk

We maintain cash accounts with Harris N.A., which is where we also maintain our new line of credit. Our cash deposits in the new line of credit account are swept by Harris N.A. on a daily basis and applied against the outstanding line of credit balance, and we borrow on the line of credit on a daily basis to fund our cash disbursements.

Our exposure to changes in the level of interest rates is generally limited to borrowings under our credit facility with Harris N.A. In particular, our interest expense sensitivity results from changes in the underlying prime rate or LIBOR. At our option, we have the ability to elect whether outstanding amounts under our new line of credit with Harris N.A. bear interest at the prime rate plus a margin or LIBOR plus a margin and, prior to the repayment of our prior line of credit with our previous senior lender, Fifth Third Bank as of April 29, 2011, we had the ability to elect whether outstanding amounts under each of Term Loan A and Term Loan B with Fifth Third Bank, bore interest at the prime rate plus a margin or LIBOR plus a margin. We designated our outstanding balance under our prior line of credit with Fifth Third Bank to bear interest at LIBOR, subject to a 2.0% floor, plus an applicable margin ranging from 3.25% to 3.50%. At March 31, 2011 and December 31, 2010, (1) the principal amount of indebtedness outstanding under the prior line of credit was $21.0 million and $21.6 million, respectively, (2) the principal amount of indebtedness outstanding under Term Loan A was $5.1 million and $5.6 million, respectively, and (3) the principal amount of indebtedness outstanding under Term Loan B was $2.1 million and $2.1 million, respectively. At March 31, 2011 and December 31, 2010, the entire outstanding balance of $21.0 million and $21.6 million, respectively, under the prior line of credit bore interest at a rate of 5.50%. At March 31, 2011 and December 31, 2010, all outstanding balances under Term Loan A and Term Loan B bore interest at the prime rate plus a margin. See Note 5 under the heading Line of credit and Note 6 under the heading Long-term debt to the Unaudited Consolidated Financial Statements for the three months ended March 31, 2011 and 2010; see

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Note 3 under the heading Line of credit and Note 4 under the heading Long-term debt to the Consolidated Financial Statements for the years ended December 31, 2010, 2009, and 2008; and see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and capital resources Credit agreement above for a discussion of our prior line of credit with Fifth Third Bank, Term Loan A and Term Loan B.

We previously maintained, and may maintain in the future, an interest-rate risk management strategy using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility. However, we have not maintained such a strategy since the third quarter of fiscal 2008.

Based upon our prior credit agreement with Fifth Third Bank, using our balances and interest rates as of March 31, 2011 and holding other variables constant, a 10% increase in interest rates for the next 12-month period would have decreased our pre-tax earnings and cash flow by approximately $0.2 million. Excluding Term Loan A and Term Loan B, the decrease would have been approximately $0.1 million. Assuming for purposes hereof that our new credit agreement was effective as of March 31, 2011, using our balances other than Term Loan A and Term Loan B as of March 31, 2011 and holding other variables constant, a 10% increase in interest rates for the next 12-month period would have decreased our pre-tax earnings and cash flow by approximately $0.1 million.

We are currently not subject to any material foreign currency exchange rate risk or any investment-related risk.

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Business

Company Overview

We are a global producer and distributor of a broad range of high performance, certified low emission, power systems for original equipment manufacturers of off-highway industrial equipment. Our customers include companies that are large, industry-leading and/or multinational organizations, and we are a sole source power systems provider for most of our customers. Our power systems are highly engineered, comprehensive systems which, through our technologically sophisticated development and manufacturing processes, including our in-house design, prototyping, testing and engineering capabilities and our analysis and determination of the specific components to be integrated into a given power system (driven in large part by emission standards and cost restrictions required, or desired, to be met), allow us to provide to our customers power systems customized to meet specific industrial OEM application requirements, other technical specifications of customers and requirements imposed by environmental regulatory bodies. Our power system configurations range from a basic engine block 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. We are able to provide to our customers a comprehensive power system which can be incorporated, using a single part number, directly into a customer s specified application. Capitalizing on our expertise in developing and manufacturing emission-certified power systems and through our access to the latest power system technologies, we believe that we are able to provide complete green power systems to industrial OEMs at a low cost and fast design turnaround.

Our power systems are primarily spark-ignited, running on alternative fuels such as natural gas and propane. We design, develop, manufacture, distribute and provide after-market support for our power systems for industrial OEMs in a wide range of industries with a diversified set of applications. Our power systems are used in stationary electricity generators, oil and gas equipment, forklifts, aerial work platforms, industrial sweepers, arbor equipment, agricultural and turf equipment, aircraft ground support equipment, construction and irrigation equipment, and other industrial equipment. For these applications, our low-emission, alternative fuel power systems, which range in size from under 1 liter to over 22 liters and meet, and in many cases produce emissions at levels significantly lower than those currently required by, emission standards of the EPA and CARB, represent a cleaner, and typically less expensive, alternative to diesel fuel power systems. In addition, while our power systems primarily run on alternative fuels, we also supply low-emission standard fuel (such as diesel) power systems and are in the process of developing hybrid power systems. In the markets in which our diesel and alternative fuel power systems compete, substantially all of the engines are water-cooled (as opposed to air-cooled), multi-cylinder engines.

Under a distributor agreement with Perkins, a wholly-owned subsidiary of Caterpillar, packaging and distribution agreements with Caterpillar engine dealers and our association with Caterpillar, we are one of the largest suppliers of Perkins and Caterpillar diesel power systems under 275 horsepower. This makes us a prominent supplier of EPA and CARB emission-certified diesel power systems to the industrial OEM marketplace. As we do for our alternative fuel power systems, we supply components for, and apply our sophisticated application engineering and design services to, these Perkins and Caterpillar power systems in a wide range of industrial applications. We believe that the 12-state territory covered by these distribution agreements presents us with the opportunity to capitalize on the majority of all diesel industrial OEM opportunities in the United States.

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Building upon our experience in developing emission-compliant power systems, and with a view to serving our customers needs regarding emissions compliance, we are also developing a range of hybrid power systems. We plan to apply technology from our existing green power systems and our application expertise to provide tailored, cost-efficient, emission-compliant hybrid power systems to the industrial OEM marketplace, both domestically and internationally.

We expect that growth in domestic sales of our low-emission power systems will be driven by the substantial breadth of our emission-certified products, as well as increasing U.S. demand for alternative fuel power systems resulting from the adoption of increasingly stringent engine emission regulations. Additionally, we are seeing increasing demand for our power systems from international industrial OEMs, most significantly in Asia, that manufacture industrial equipment for the U.S. import market.

Industry and Market Overview

Industrial OEM Market

The off-highway industrial OEM market represents a diversified set of applications and industry categories that include power generation, oil and gas, material handling, aerial work platforms, sweepers, arbor, welding, airport ground support, agricultural, turf, construction and irrigation. While the power system requirements for the industrial OEM market bear similarities to the requirements for power systems used in automotive applications, there are substantial application differences between automotive and industrial equipment applications. Torque, start, stop, low speed and, with respect to certain applications, indoor use requirements make direct use of an automotive power system impractical for use in most industrial equipment applications. Recognizing these differences, the EPA and CARB have issued distinct emission standards and regulations for industrial applications, as compared to those for automotive applications. As a result, there is not a direct cross-over of available automotive power systems into the industrial OEM market. Power systems used in the industrial OEM market must satisfy these emission standards through a certification process with the EPA and CARB that includes durability testing of the engine emission system at zero and 5,000 hours, production line testing on a quarterly basis and field compliance audit testing. Given the level of engineering and financial resources that automotive engine manufacturers would need to dedicate to supply EPA emission-certified product into this industrial OEM marketplace, and that this marketplace does not represent a core business for these manufacturers, it is generally impractical for automotive engine manufacturers to compete in the industrial OEM marketplace.

Industrial OEM power systems use internal combustion engines (both diesel and spark-ignited), as well as electric motors. Diesel engine systems, which use compression to initiate ignition to burn fuel, in contrast to spark-ignited engine systems which use a spark plug to initiate the combustion process, currently represent the dominant power systems, depending on the specific industrial application involved. For example, diesel powered equipment is generally used in outdoor industrial applications, while electric motors and alternative fuel, spark-ignited power systems are used for indoor industrial applications where carbon monoxide and air quality issues must be addressed.

The following charts illustrate the industrial OEM market in 2009 for water-cooled, multi-cylinder diesel and spark-ignited power systems, broken down by geographic regions for which these systems are purchased, and between diesel and spark-ignited engine power systems, based upon data supplied by Power Systems Research, Inc., a global supplier of business information to the engine and power products industries.

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Both diesel power systems and electric motors have significant limitations. Diesel power systems present unique emission compliance challenges, while electric motors are often not feasible alternatives in industrial applications as a result of limitations on battery storage capacity. We expect demand for spark-ignited power systems within the industrial OEM marketplace, even without full consideration of the anticipated migration from diesel to spark-ignited power systems in the industrial OEM marketplace, to grow at a high rate. Worldwide demand is estimated by Power Systems Research, Inc. to be approximately 272,000 units in 2011, a 67% increase over the 2009 level of approximately 163,000 units, and approximately 357,000 units in 2015, an increase of approximately 119% over 2009 levels. Additionally, consistent with trends in the automotive marketplace, industrial OEMs are demonstrating strong interest in hybrid power systems.

Market Trends

The market for our power systems is continuing to grow globally as a result of several key drivers.

Increasingly Stringent Regulations and Growing Efforts to Reduce Emissions

Concerns regarding climate change and other environmental considerations have led to implementation of laws and regulations that restrict, cap or tax emissions in the automotive industry and throughout other industries. While emission standards vary significantly around the world, such standards have become increasingly more stringent. Over the last ten years in particular, there has been a significant increase in regulation of off-highway equipment emissions. Industrial OEMs have experienced pressure to redesign their products to address these emission regulations, as products that are unable to meet emission standards may not be sold in the marketplace. However, we believe few suppliers to industrial OEMs have been capable of providing, or are willing to make the investments of time and financial and other resources necessary to provide, products that meet the new EPA and CARB requirements.

Increased EPA and CARB emission regulations associated with diesel power systems due to take effect over the next several years are expected to increase both the cost and product footprint (in other words, the size of the power system) of diesel power products. Internal combustion engines generally produce emissions of carbon monoxide, unburned hydrocarbons (organic compounds consisting entirely of hydrogen and carbon that can be emitted as a result of incomplete fuel combustion and fuel evaporation), and oxides of nitrogen (highly reactive gases formed when oxygen and nitrogen in the air react with each other during combustion), and diesel engines produce particularly high levels of these pollutants. In addition, diesel engines produce particulate matter, which is among the areas of focus of these emission regulations. In 2004, the EPA adopted rules introducing Tier 4 emission standards which significantly reduce permitted emissions of oxides of nitrogen and particulate matter, and restrict hydrocarbon emissions, for off-road diesel engines of various sizes. The most recent standards adopted were initially implemented in 2008 and will continue to be phased in through 2015. As an example of the increasingly stringent standards to which diesel engines are subject, in 2012 permitted levels of particulate matter for nonroad diesel engines will be reduced by approximately 90% from 2009 permitted levels. As a result, manufacturers and suppliers of diesel power systems, in comparison to spark-ignited and hybrid power systems, face greater challenges in complying with the new emission regulations. A manufacturer of diesel power systems must expend significant resources to develop a compliant power system, often

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through incorporation of additional components into a power system to reduce levels of particulate and other emissions. This can be a lengthy and expensive process based upon our experience with customers and suppliers, and on additional information provided by Power Systems Research, Inc., industrial OEMs are experiencing cost increases of between 30% and 100% for a comprehensive diesel power system with combustion and aftertreatments incorporated to satisfy the new requirements. Furthermore, these emission regulations will create not only a cost but also a footprint disadvantage for a diesel power system, when compared to a spark-ignited, emission-certified power system.

Additionally, countries outside of the United States have historically adopted emission regulations aligned with those of the U.S., and accordingly, it is anticipated that regulations comparable to current and future EPA and CARB emission regulations will be implemented internationally. For example, recently implemented policies in Europe, generally referred to as Stage I, II, III and IV regulations, regulate emissions of off-road mobile equipment. Similar to emission regulations in the U.S., these regulations in Europe call for reductions in emissions of hydrocarbons, oxides of nitrogen and particulate matter, to be phased in over a period of time. If foreign jurisdictions continue to adopt emission regulations consistent with those of the U.S., it is expected that the international industrial OEM market will experience similar pressures to use cost effective, emission-certified power systems.

The chart below represents our estimate of the anticipated growth in sales of water-cooled, multi-cylinder, spark-ignited engines, relative to equivalent diesel engines, in the worldwide industrial OEM market for water-cooled, multi-cylinder diesel and spark-ignited engines over the next several years, based upon data supplied by Power Systems Research, Inc.

Projected Growth in Sales of Water-Cooled, Multi-Cylinder Spark-Ignited Engines in the Worldwide

Industrial OEM Market

Increased Use of Alternative Fuels

As a result of economic considerations, the drive for energy independence and the widespread availability of alternative fuels such as natural gas and propane, in addition to environmental concerns, the market for alternative fuel technology continues to grow. We believe that providers of industrial equipment in industrial OEM categories, such as power generation, that rely significantly on coal, diesel fuel and gasoline, will face increasing pressure to use alternative fuel power systems.

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In the United States, significant domestic alternative fuel reserves have been identified. These reserves include the Marcellus Gas Shale, with estimated resources recoverable using current technology of 262 trillion cubic feet of natural gas, and the Bakken Formation of the Williston Basin Province, Montana and North Dakota, with estimated undiscovered volumes of 3.65 billion barrels of oil, 1.85 trillion cubic feet of natural gas in the oil and 148 million barrels of natural gas liquids. It is believed that the alternative fuel reserves identified in the United States could satisfy much of the energy needs of the U.S. for many years.

Additionally, the infrastructure supporting alternative fuel in the United States continues to expand. Further, the United States and some other countries have taken action to increase demand and support for alternative fuels, in an effort to reduce dependence on imported oil, capitalize on domestic natural gas reserves and reduce emissions from diesel engines. For example, the EPA has provided subsidies in the form of grants and other financing programs for the advancement of alternative fuel technologies (to date directed primarily towards on-road vehicles). Additionally, industry organizations, such as the Propane Education and Research Council, an organization authorized by the U.S. Congress with the passage of the Propane Education and Research Act, award grants to a wide variety of institutions, universities, and government organizations for the continued research, development, demonstration and commercialization of alternative fuel technologies.

Industrial OEM Trend Toward Outsourcing

Industrial OEMs have been following the broader marketplace trend of outsourcing non-core functions. The dynamics of global sourcing and the need for cost competitiveness have led, and should continue to lead, industrial OEMs to assess what operations and system components are core to their business model and what they should outsource to their suppliers and partners. In particular, to comply with frequently changing environmental regulations while remaining competitive, industrial OEMs have been increasingly more reliant on outsourcing to third party suppliers and partners with specialized regulatory and design expertise. By looking to outside sources for power systems, power system components and subsystems, industrial OEMs are able to focus their resources on overall design and functionality of their products, rather than on developing the sophisticated technology associated with emission-certified power systems. We expect increasingly more industrial OEMs to outsource power systems, system components and subsystems to third party suppliers with the requisite experience and technology.

Penetration by International Suppliers into Regulated Markets

The implementation of emission regulations domestically and in non-U.S. markets also impacts international suppliers of industrial equipment products outside these regulated markets. International industrial OEMs that supply into regulated industrial OEM markets, including those already doing so and those recognizing emerging opportunities to sell their products into these markets, must meet applicable emission requirements, like those imposed by the EPA and CARB in the U.S. For example, Chinese and other Asian suppliers have recognized that, in order to effectively penetrate and sell into emission regulated industrial OEM markets like North America and Western Europe, their products must be emission-certified. These international industrial OEMs generally lack the regulatory and design expertise necessary to develop their own emission-certified power systems. Furthermore, they recognize that, even if they had or could acquire the relevant expertise, it can be much less time consuming and much more cost-effective for them to acquire compliant power systems from third-party suppliers, rather than internally developing and manufacturing their own solutions. Accordingly, just as domestic industrial OEMs are outsourcing this function, so too are international industrial OEMs, and we expect this trend to continue.

Growing Demand for Sophisticated Electronic Technology and Automotive Grade Quality Standards

Demanding automotive grade quality, as well as on-time delivery, has become standard practice in the industrial OEM marketplace. Consistent with the trend in the automotive industry, the level of technology and sophistication, including electronic controls, associated with industrial OEM power systems has advanced significantly to meet the growing demand for improved quality, reliability and performance. This has led to an ongoing reduction in the number of suppliers capable of supporting such product requirements.

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Our Competitive Strengths

We have a 25-year history and reputation as a proven supplier of cost-effective, technologically advanced products to the industrial OEM marketplace. We believe that our technological superiority and the comprehensive nature of our product offerings position us to capitalize on developing trends in the industrial OEM markets and drive significant future growth.

Our Deep and Broad Array of Green Product Offerings

Alternative Fuel Power Systems

Our power systems represent a broad range of EPA and CARB emission-certified, alternative fuel products for industrial applications in the world. We are one of only a few providers of industrial OEM products that meet, and in many cases produce emissions at levels significantly lower than those currently required by, current emission standards of the EPA and CARB. We also provide advanced, standardized fuel system and component technology across our entire range of emission-certified products, using a common fuel system and electronic controls on most of our power systems. As a result, our OEM customers are able to focus internal engineering and technical support resources, and train their personnel, on one standardized fuel system and one set of electronic controls employed throughout the range of power systems they acquire from us, and are able to reduce their product design and ongoing product support costs.

Our existing capability to provide a large range of emission-certified, alternative fuel products strategically positions us to capitalize on the cost and packaging disadvantage associated with diesel power systems that will result from increased EPA and CARB emission regulations scheduled to take effect over the next several years. Given the existing dominance of diesel power systems in the industrial OEM marketplace, even a minor shift in the marketplace from diesel to spark-ignited, alternative fuel power systems will represent a significant growth opportunity for us.

Additionally, as international OEMs desire to supply industrial equipment products into the United States that must meet required EPA and CARB emission requirements, we provide a fast, certain, cost-effective route for these foreign industrial OEMs to meet these emission requirements. Specifically, because we own the EPA and CARB compliance certificates specific to our power systems, we provide foreign industrial OEMs with immediate access to EPA and CARB compliant power systems through our lineup of emission-certified product and application engineering capabilities. We have already secured commercial sales relationships with some of Asia s largest industrial OEMs, and have begun supplying EPA and CARB compliant power systems to these industrial OEM customers for incorporation into their product lineups.

Furthermore, because we expect countries outside of the United States to implement emission regulations that are aligned with current and future U.S. emission standards, we anticipate an opportunity to further diversify and supplement our customer base with industrial OEMs that supply products outside of the U.S. If such emission regulations are implemented consistent with our expectation, we anticipate being able to provide power systems to industrial OEMs that meet applicable foreign emission standards, leveraging our technology and experience in developing our EPA and CARB emission-certified products.

In summary, we represent a one-stop power system solution for industrial OEMs desiring to meet the growing demands for green products with reduced emissions across their entire range of products. As such, we believe we are in a prime competitive position to continue to grow market share domestically, as well as internationally.

Hybrid Power Systems

We believe that, as increased emission standards are implemented, our existing OEM customers and other industrial OEMs may explore power system alternatives to standalone combustion engines. Accordingly, in addition to alternative fuel power systems, we are developing hybrid power systems that address future emission standards and today s environmental and cost related concerns, with the ability to operate over an extended range. We are developing versatile hybrid powertrain units for the industrial OEM market, and expect to be able to integrate our

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hybrid power systems within the powertrain as a parallel system, which is coupled to a traditional hydraulic pump or transmission, or series system, which is used to provide extended on-board electrical power to an electric drive system. We believe that our hybrid power systems will reduce fuel costs, increase torque and increase productivity of the power system. Additionally, our hybrid power systems are being designed to produce low levels of noise and exhaust emissions and excellent fuel economy. These systems should also enable customers to downsize current engine displacements (in other words, get the same power out of smaller engines).

Capitalizing on our extensive experience in developing both short and long term green power systems, we will be able to accurately specify the proper engine size, battery and voltage range, along with the proper integrated hybrid system and engine management controls for a specific industrial application. We believe our ability to provide fully integrated hybrid powertrain systems to our industrial OEM customers will be an advantage over our competitors and strengthen our ability to meet the alternative power system needs of industrial OEMs in the future.

Our Deep Market Penetration and Strong and Diverse Customer Base

Through industrial OEMs outsourcing component products to us, we are able to take advantage of opportunities for component standardization across industry categories, while still providing each industrial OEM with the flexibility to customize as required for particular design and application specifications. We aggregate our product development efforts, and can amortize associated costs, over our large and diverse OEM customer base and across industry categories. Furthermore, we capitalize on volume, economies of scale and global supply opportunities when sourcing component products. We can therefore provide our OEM customers with lower cost structures than they would otherwise be able to achieve and help them reduce their part numbers and supply base by consolidating their procurement and assembly efforts down to a single part number product supplied by us. Our component sourcing relationships further enable our OEM customers to recognize resource reductions, inventory reductions and engineering support advantages.

Additionally, our relationships with international OEM customers that supply their industrial equipment into the United States generate opportunities for us to further supplement our business. We believe that, once one of our emission-certified power systems is engineered into a foreign industrial OEM s product, that OEM is likely to also incorporate our power systems into its products that do not require emission-compliant power systems. This use by foreign industrial OEMs of our power systems for both their emission-certified and non-emission-compliant power system needs reduces ongoing engineering, aftermarket and field service support requirements, while supporting a product strategy that can easily be adjusted to any future worldwide changes in emission requirements. These relationships further provide us with growth opportunities beyond those dependent upon U.S. demand for emission regulated products, and solidify our supplier and partnership position with our foreign industrial OEM customers.

Moreover, even if our relationship with an international OEM customer is limited to United States compliant power systems, we are in an opportune position to provide additional emission-compliant power systems in the future, as emission regulations for industrial equipment begin to emerge in other countries around the world. Given our established expertise and worldwide presence, we provide a cost effective strategy to meet emerging emission regulations for both domestic and foreign industrial OEMs that can continue to benefit from our emission expertise and aggregation capabilities.

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Our Superior Technology

We are a recognized leader in providing industrial OEMs with highly engineered, technologically superior, emission-certified power systems that cover a wide range of possible fuel alternatives. Rather than dedicating the significant resources necessary to develop the in-house capabilities to design and manufacture technologically sophisticated, emission-certified power systems for their products, our OEM customers are able to take advantage of our proven power system technology, our application engineering expertise, the broad range of our EPA and CARB emission-certified power systems and our industrial equipment testing and certification processes. By using our emission-certified, technologically sophisticated power systems, our OEM customers recognize potentially significant cost reductions. They are able to focus their efforts on the development of operations and system components core to their business, without having to expend considerable resources associated with the emission certification process, which requires potentially years to perform durability testing of the engine emission system at zero and 5,000 hours, production line testing on a quarterly basis and field compliance audit testing, each of which is mandated and regulated by the EPA and CARB.

The level and range of our EPA and CARB emission-certified product offering further demonstrates the strength of our technology. Our emission-certified products meet all current existing emission standards of the EPA and CARB. We are able to maintain and enhance our position as a supplier of technologically sophisticated, emission-certified power systems through our experienced and technologically savvy team of application engineers. This team gives us the ability to support and integrate our power systems into a significant number of industrial OEM applications. We believe that our continued recruitment and development of talented personnel will augment our ability to stay ahead of emerging technologies in the industrial OEM marketplace.

The graph below illustrates the low level of emissions (in grams per kilowatt-hour of oxides of nitrogen and hydrocarbons (g/kW Hr NOx+HC)) produced by one of our technologically sophisticated, large spark-ignited (LSI) power systems (engines of greater than 25 horsepower), relative to permitted emissions levels, under EPA standards, for equivalent diesel power systems and standard LSI power systems.

Further, we are not captive of our own internal manufactured components and technology. Unlike some of our competitors that focus on developing and manufacturing most of their own product technology and components, we believe that superior technology is derived from having the flexibility to incorporate the best proven technology available in the marketplace. We focus on developing deep internal engineering and application expertise, more than on developing in-house components and technology. This affords us the flexibility to capitalize on current and emerging technology that best meets the requirements of any given application, as opposed to only using internally-developed technology that might not provide the best solution. Because we do not directly compete in the development of key technology, suppliers of underlying technology are interested in supplying their latest innovations to us. As a result, we believe we have access to the best proven technology in the marketplace. We believe this strategy puts us in a strong position to benefit from our significant OEM customer base and aggregation capabilities in order to provide the best available product and technology solutions for our OEM customers.

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Our Dedicated Customer-centric Product and Application Expertise

We have a customer-centric business focus. We commit our attention and efforts first on solidifying and expanding relationships with our existing customers by staying connected with our customers, being aware of challenges they face and understanding their evolving needs. Through our extensive experience in the industrial OEM marketplace and our adaptive technology strategy that we use in developing our power systems, we accept the specific requests of our individual customers and provide tailored power systems to their power system needs. We believe that satisfaction of our current customers needs helps generate new opportunities for us to expand our market presence and obtain new business. In addition, we are always looking for opportunities that may develop into new customer relationships.

Our goal is to be not only a leader in technology, but also a leader in customer satisfaction at all levels of customer interaction. Our product and application experience and expertise extends beyond our extensive design, prototyping, testing and application integration engineering capability. Our entire team, from production personnel to our customer support staff, is highly experienced in both the products we sell and the OEM customer applications into which they are integrated. This experience is derived from both industry experience with industrial equipment and formal training.

We assign a customer support engineer, holding an engine technology degree, to each of our OEM customers. Each customer support engineer provides dedicated application support for our OEM customers, providing a direct line of communication between the OEM s manufacturing line and our production operations. Our quality, field service support and service operations have similar capabilities and provide knowledgeable and responsive support to our OEM customers at every point of customer interface.

Growth Strategy

Our core strategy is to develop comprehensive power systems for the industrial OEM marketplace. We believe that, with our competitive advantages, our continued pursuit of our core strategy will drive growth in our business. More specifically, we intend to seek future growth as follows:

Expand Products and Services Provided to Existing OEM Customers

We are continually working to capitalize on organic growth opportunities, building upon our strong existing customer relationships, which in many cases are on a sole source basis. We plan to expand our business with our existing customers, including through the natural expansion of the products and services we supply to them, as their own businesses grow, their product lines evolve and they use our power systems throughout their product lines. As economic conditions improve and our existing OEM customers businesses and product lines expand, including into new market categories, we expect to continue to satisfy all of their emission-compliant, power system needs across their entire range of products. We continue to build upon our current range of emission-certified power systems, including further broadening our range of alternative fuel power systems and developing our hybrid power systems, positioning us to offer comprehensive green power systems that meet the emerging needs of our existing OEM customers.

Establish New Industrial OEM Relationships

We expect to strengthen our OEM customer base by developing new relationships with industrial OEMs. We seek to acquire new clients and gain new business from OEMs that we do not presently serve by focusing our marketing efforts toward these potential customers and capitalizing on our reputation, the depth, breadth and technological sophistication of our power systems, our commitment to customer service and the cost savings we can offer, to develop these new relationships. Emphasizing our experience and reputation in market categories in which our power systems are already well-established, such as power generation, we focus on establishing new industrial OEM relationships in these market categories, thereby capturing an increasingly greater share of the market opportunity in these industrial OEM categories.

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We aim to establish new relationships with, and supply our emission-certified power systems to, OEMs in a variety of industrial OEM market categories. In particular, we target expanding our OEM relationships in high-growth market categories, such as oil and gas applications, while maintaining and enhancing our penetration in market categories that are growing more slowly. As we gain traction in emerging industrial OEM categories that did not previously represent significant opportunities for our power systems, we plan to further focus our efforts on potential customers in those categories.

Expand Into New Geographic Markets

We plan to increase our penetration of international markets, expanding our business with existing and international OEM customers by satisfying their needs for EPA and CARB emission requirement compliant power systems for use in products sold in the U.S. and for non-compliant systems for use in products sold outside the U.S. Additionally, with our expertise in developing comprehensive, integrated green power systems, our expanding worldwide presence and our ability to provide beneficial cost structures to our customers as a result of our aggregation capabilities, we intend to take advantage of increases in demand for emission-compliant industrial OEM power systems from industrial OEMs that sell into international markets, as emissions regulations emerge in those markets.

Develop New Products

By leveraging the deep industry experience of our engineering and new product development teams, we are working to broaden the range of our power system product offerings, including with respect to engine classes and the industrial OEM market categories into which we supply our products. We capitalize on our technologically sophisticated, in-house design, prototyping, testing and application engineering capabilities to further refine our superior spark-ignited power system technology. We plan to apply our experience and expertise in developing comprehensive, integrated green power systems to expand our spark-ignited alternative fuel offerings and further develop our hybrid power systems. We also plan to develop new, complementary product offerings, such as MasterTrak, our telematics tool that we offer bundled with our power systems, as well as on a stand-alone basis, to our OEM customers and other businesses.

Selectively Pursue Complementary Strategic Transactions

We may enter into strategic transactions, such as acquisitions of, or joint ventures or partnerships with, companies that present complementary non-organic growth opportunities. Specifically, we will seek opportunities that extend or supplement our presence into new geographic markets or industrial OEM market categories, expand our customer base, add new products or service applications (such as our 2007 acquisition of the telematics technology for our MasterTrak product and services; see Our Products and Industry Categories Connected Asset Services) or provide significant operating synergies. We believe that there may be domestic or international strategic opportunities available to us, as the sophistication of technology and amount of resources necessary to develop and supply power systems that meet increasingly stringent emission standards continue to increase.

Company History

Founded in 1985, we sought to break the then-prevalent OEM focus on the diesel engine as a commodity by providing value-added engineering, procurement and packaging of products and services to the industrial OEM marketplace. Because of our expanded product and service offerings, we played a significant role in moving the industrial OEM marketplace from a simple, engine-centric model to a more comprehensive model. This comprehensive power system model includes engineering, procurement and packaging solutions for cooling, electronics, air intake, fuel systems, power takeoff, exhaust, hydraulics and packaging application requirements. Through implementation of our strategy, we grew our diesel power system sales and became one of the largest Perkins diesel power system distributors in the world, a position we still maintain today.

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Our desire to expand our product and service offerings, coupled with the success of our strategy in the diesel marketplace, motivated us to move into the marketplace for spark-ignited power systems. From the mid-1990s going forward, we have applied our strategy to spark-ignited gasoline and alternative fuel products. In applying our extensive, prior experience developing power systems for our diesel power system OEM customers to the spark-ignited industrial OEM marketplace, and addressing the growing demand for diesel alternatives as a result of environmental and economic considerations, we have developed a comprehensive range of alternative fuel power systems. As a result, we have become a significant supplier of power systems to prominent OEM customers located throughout North America. We also sell our power systems to OEM customers located throughout Asia and Europe, in which regions we intend to increase our sales efforts.

On April 29, 2011, The W Group completed a reverse acquisition transaction with Format, Inc. (which is now Power Solutions International, Inc.), in which PSI Merger Sub, Inc., a Delaware corporation that was newly-created as a wholly-owned subsidiary of Format, merged into The W Group, and The W Group remained as the surviving corporation of the merger. In that transaction, The W Group became a wholly-owned subsidiary of Power Solutions International, Inc.

Format was incorporated in the State of Nevada on March 21, 2001 for the purpose of providing EDGARizing services to various commercial and corporate entities. Immediately prior to the consummation of the reverse acquisition transaction, Format was engaged, to a limited extent, in EDGARizing corporate documents for filing with the SEC, and providing limited commercial printing services, and had assets that included cash, rights under a services agreement with Format s sole customer (which agreement was terminated in connection with the reverse recapitalization), a real property lease pursuant to which Format leased its sole office space (which lease was transferred to Ryan Neely in connection with the reverse recapitalization) and depreciated office equipment located in Format s transferred, leased office space. Due to the nominal operations and assets of Format immediately prior to the consummation of the reverse recapitalization and related transactions, this reverse acquisition transaction is accounted for as a recapitalization.

The reverse recapitalization transaction was consummated under Delaware corporate law pursuant to an agreement and plan of merger. Upon completion of the reverse recapitalization, Format changed its name to Power Solutions International, Inc. All of the outstanding shares of common stock of The W Group held by the three stockholders of The W Group at the closing of the reverse recapitalization converted into an aggregate of 10,000,000 shares of our common stock and 95,960.90289 shares of preferred stock. These shares represented a substantial majority of the shares of our common stock and shares of preferred stock outstanding immediately following the consummation of the reverse recapitalization transaction.

In connection with the reverse recapitalization transaction, Format entered into a stock repurchase and debt satisfaction agreement with Ryan Neely, Format s sole director and executive officer immediately prior to the closing of the reverse recapitalization, and his wife, Michelle Neely. Pursuant to this agreement, at the time the reverse recapitalization transaction was completed, (1) Format repurchased 3,000,000 shares of Format common stock, representing approximately 79.57% of the shares of Format common stock outstanding immediately prior to the consummation of the reverse recapitalization transaction, from Ryan and Michelle Neely, and (2) Ryan Neely and Michelle Neely terminated all of their interest in, and released Format from all obligations it had with respect to, the loans made by Ryan Neely and Michelle Neely to Format from time to time, in exchange for aggregate consideration of $360,000. In addition, Ryan and Michelle Neely released Format from any obligations Format had to them in respect of any other amounts (including any accrued compensation) that may have at any time been owing from Format prior to the closing of the reverse recapitalization. In connection with, but prior to, the closing of the reverse recapitalization, Format used all of its available cash to settle remaining liabilities that Format had prior to the completion of the reverse recapitalization. These included amounts owed to Format s accountants, independent auditors and legal counsel; provided that Format s legal counsel agreed to release Format from its obligation to pay a portion of legal fees incurred by Format in connection with the reverse recapitalization and related transactions. Further, in connection with, but prior to, the closing of the reverse recapitalization, Format entered into a termination agreement, pursuant to which Format terminated its services agreement with its sole customer. In connection with, but prior to, the closing of the reverse recapitalization, Format also transferred to Ryan Neely all of its rights and obligations under the real property lease relating to Format s sole office space.

As a result of the reverse recapitalization, Power Solutions International, Inc. has succeeded to the business of The W Group.

Our Products and Industry Categories

Power Systems for Off-Highway Industrial Equipment

Our power systems are customized to meet specific industrial OEM application requirements. Power system configurations range from a basic engine block 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.

Our power systems include (1) EPA and CARB emission-certified spark-ignited water cooled internal combustion engines ranging from 0.97 liters to 22.1 liters, which use alternative fuels and gasoline, (2) non-certified spark-ignited water cooled internal

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combustion engines ranging from 0.65 liters to 22.1 liters, which similarly use alternative fuels and gasoline, and (3) emission-certified Perkins engines ranging from 0.5 liters to 7.1 liters, which use diesel fuel. Our diesel and alternative fuel power systems use water-cooled (as opposed to air-cooled), multi-cylinder engines. We are also developing hybrid power systems.

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Our products are sold into a diversified set of markets within the industrial OEM industry, including power generation, oil and gas, material handling, aerial work platforms, sweepers, arbor, welding, airport ground support, agricultural, turf, construction and irrigation. Different types of power systems are used within different industry categories (from which we receive varying, unequal amounts of revenues).

Power Generation

We offer EPA and CARB emission-certified power systems, including 0.97 liter to 22.1 liter spark-ignited power systems that use alternative fuels, for stationary emergency and non-emergency power generation products. Emergency engines are stationary engines which operate solely in emergency situations and during required periodic testing and maintenance. Examples include engines used in generators to produce power for critical networks when electrical power from the local utility provider is interrupted, and stand-by engines that pump water in the event of a fire or flood. Non-emergency products include prime power generation products, which produce continuous generation of power for an extended period of time, and peak shaving products, which generate power at times of maximum power demand.

We currently supply our power systems to a substantial number of manufacturers of power generation products, including Cummins, Kohler and MTU, which we believe to be among the world s largest manufacturers of power generation products. We believe that our customers choose our power systems because of our broad range of emission-certified, spark-ignited power systems for this industry category. Additionally, by using a common fuel system and electronic controls across our range of power systems, we provide our customers with the opportunity to support and train their personnel on one standardized fuel system and one set of electronic controls employed throughout the range of products they acquire from us.

Oil and Gas

The oil and gas market category includes oil field pumps, progressing cavity pumps, and other components and machines used in drilling, evaluation, completion and production of oil and gas assets. Previously OEMs competing in these markets were generally not concerned about fuel economy, cost of repair or efficiency of operation. Today, however, there is a growing focus in this market category on, and understanding of, the costs associated with down time, the value of fuel savings with more economical solutions and the benefits of using product portfolios with consistent fuel systems and aftermarket support. We believe that these factors will create significant opportunities for our power systems in this market category. Furthermore, we believe that recent discoveries of oil and gas reserves in North America will drive domestic demand for the products of oil and gas OEMs, enhancing our growth opportunities.

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We are continuing to develop relationships with oil and gas companies for their well head jacks, compressors and power generators. We believe we are the only provider in this market that supplies pre-certified, as opposed to site-certified, power systems. Site certification is a tedious, and costly process for oil and gas equipment OEMs that can take many hours, to source components and integrate them into existing fuel system hardware (if even possible).

We also view this market category as an emerging market for our telematics tool, which further differentiates us from our competitors.

Material Handling Forklift Trucks

The material handling market category includes forklift trucks and other mobile products used for movement, handling and storage of materials within a facility or at a specific location. We provide spark-ignited power systems into the high volume 1.5, 3.5 and 5 ton capacity forklift markets, and may expand production in the future to support the 8 and 10 ton forklift markets in connection with anticipated increases in diesel prices resulting from regulations on diesel engines taking effect in 2011 through 2013. Currently, we provide our power systems to, among others, Toyota, NACCO, Mitsubishi Caterpillar Forklift America, Doosan, Clark Material Handling Company, Heli (a division of Anhui Forklift Truck Group) and Hyundai Heavy Industries, which we believe to be among the largest forklift truck OEMs in the world.

Demand is currently strong in the United States for our material handling power systems as a result of emission and OSHA regulations. Based upon data supplied by Power Systems Research, Inc., we believe that, in the United States, nearly 100% of the indoor forklift market uses spark-ignited liquid propane gas or electric powered units (with approximately equal market shares), in contrast to Asian and European forklift markets which currently use diesel in excess of 80% of all applications. In connection with the implementation of pending EPA Tier 4 and European Stage IV regulations, and the resulting price increases related to the compliance of diesel engines with these regulations, we expect foreign spark-ignited liquid propane gas markets to grow. We expect this growth to drive increased international demand for our power systems.

Aerial Work Platforms

The aerial work platforms market category consists of aerial work platforms, or machines used to provide access to areas typically inaccessible because of their height. Rental companies represent a majority of all purchasers in this industry category. We currently sell our liquid propane gas/gasoline dual fuel power systems to, among others, JLG, Skyjack, Haulotte and Snorkel, which we believe to be among the largest aerial work platform OEMs in the world.

As a result of the increase in diesel engine pricing related to the implementation of EPA Tier 4 regulations, we expect to see an increase in the number of OEMs in the aerial work platforms market which consider our liquid propane gas and gasoline powered power systems, as an alternative to diesel powered power systems.

Industrial Sweepers

The industrial indoor sweeper market category consists of machines that clean and sweep various indoor surfaces. The power systems for this market category use both spark-ignited and diesel engines, as well as electric motors. The industrial indoor sweeper market includes three significant OEMs Tennant Company, Nilfisk and PowerBoss. We currently supply to each of these OEMs 100% of their 30 to 80 horsepower liquid propane gas and gasoline power systems. We believe this market category represents a growth opportunity for our hybrid power systems.

Arbor Products

The arbor products market category includes wood chippers and grinders. We currently provide engines to four of the largest OEMs of wood chippers in the United States. We also design and manufacture our own proprietary power take-off clutch, which may be applied to any of our arbor product power systems. See Other Engine Power Products Power Take Off (PTO) Clutch Assemblies for Industrial Applications.

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We believe that our diesel power systems maintain a leading position in the market for wood chippers that use water-cooled engines. We believe that diesel regulations scheduled to take effect in the near future will cause EPA Tier 4 diesel engine packages to become more expensive and, as a result, open the market for consideration of our gasoline and other alternative fuel engine packages.

Other Industry Categories

We provide power systems within other industrial OEM markets, including welding, airport ground support, agricultural, turf, construction and irrigation.

Other Engine Power Products

Power Take Off (PTO) Clutch Assemblies for Industrial Applications

We design and manufacture our own proprietary PTO clutch assemblies, which are mechanical components that drive separate power to various parts of a given piece of industrial equipment, for industrial applications. Our PTO clutch assemblies are designed for heavy duty industrial applications.

Customized OEM Subsystems, Kits and Componentry

Through our global sourcing capabilities, we supply engine packaging, subsystems, kits and componentry associated with cooling systems, electronic systems, air intake systems, fuel systems, housings and power takeoff systems, exhaust systems, hydraulic systems and enclosures to industrial OEMs for incorporation into their applications, in addition to the complete engine power systems we provide to these OEMs.

Connected Asset Services

We have begun to offer connected asset services through MasterTrak, our telematics tool, which consists of a hardware unit and related services. This hardware unit is integrated into OEM equipment, collects critical data from this equipment and transmits this data back to an OEM, service provider or end-user through wireless telecommunications technology. The services allow our customers to see the data and monitor the performance of their equipment. We provide services to our OEM customers that allow these OEMs and their customers to remain connected to their equipment, even as the equipment is being operated in the field. These capabilities and services are in many respects similar to General Motors OnStar service. Our MasterTrak offering includes:

- GPS for location monitoring, geofencing and directions for rapid service dispatching;
- Automated and continuous remote asset monitoring with automatic alerts and notifications that can be transmitted via e-mail and text messaging;
- Maintenance management, which provides the ability to monitor and provide notice of impending equipment maintenance requirements based on actual equipment utilization (as opposed to random time intervals);
- Real-time, bi-directional communication capability for remote testing and troubleshooting; and
- Extensive web-based monitoring and reporting capability with multi-tiered system security available at all times.

Through MasterTrak, we provide our OEM customers and their customers the ability to track the location and functional status (including maintenance requirements) of their assets in real-time via web access and automated alerts. These monitoring capabilities provide information regarding the specific utilization characteristics of a connected asset, and allow our customers and their customers to efficiently and proactively schedule service maintenance. These attributes will help reduce unexpected equipment failures, which will help to further reduce the total cost of ownership of a given piece of equipment, and may generate additional sale and service opportunities for the OEM customer.

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We offer MasterTrak with our engine power systems as a bundled offering, and also on a stand-alone basis both to our OEM customers and to other businesses to which we do not currently supply our power systems. We have also developed a relationship with SmartEquip, based in Norwalk, Connecticut, to incorporate MasterTrak into SmartEquip s aftermarket service platform for industry suppliers. This product pairs data regarding failures and faults generated by MasterTrak with OEM-provided recommendations to remedy these faults, and produces a corrective or preventative maintenance solution.

While these connected asset services have not yet provided a material portion of our revenues, we believe our telematics tool represents a meaningful growth opportunity for us.

Service and Support

Aftermarket and Service Parts

We have extensive aftermarket and service parts programs. These programs consist of: (1) internal aftermarket service parts programs with worldwide sales and distribution capabilities, and (2) internal OEM developed service parts programs for components and products supplied by us. Recently, we have increased our focus on, and investment in, the aftermarket portion of our business. We have grown our industrial spark-ignited engine parts business by employing experts in the gas engine aftermarket field, increasing our investment in global sourcing of parts and expanding parts books and online ordering capabilities. We have also developed stocking programs and maintenance kits that enable OEMs, service dealers and distributors to reduce downtime and increase product use.

We have focused on capturing the aftermarket sales of the value added components that we include in our power systems. With a significant portion of the selling prices of our power systems coming from value added components, this is a large, continuing growth opportunity for our aftermarket business.

Product and Warranty Support

We provide technical support and training to our OEM customers. These services include in-plant training and support through web- and phone-based field service. Our dedicated team of product and application engineers delivers high quality, responsive technical support to our OEM customers. We further support our OEM customers by engaging regional providers to perform warranty service and offer support for our power systems. In general, we reimburse these third-party regional providers for the warranty services that they perform for our power systems.

Customers

Our customers include companies that are large, industry-leading and/or multinational organizations that demand first class engineering support, automotive grade product quality and on-time delivery. We believe that the number of competitors capable of supporting not just the sophisticated technology requirements, but also the world class automotive engineering, quality and delivery requirements emphasized by industrial OEMs is limited. We are solidly positioned to capitalize on the diminishing base of suppliers capable of meeting these increasingly stringent customer expectations. In almost every industrial OEM category, we maintain a supplier relationship with two or more of the largest OEMs in their respective industry category.

Our depth of expertise and broad range of product offerings is the underlying basis for our position as a sole source provider of products to a majority of our OEM customers. We estimate that over 70% of the power systems that we supply are provided to our major OEM customers on a sole-source basis. Our strong customer base, which includes a diversity of customers across industry categories, provides a broad range of opportunities for continued growth.

Our arrangements with our customers, including our relationships with our industrial OEM customers in Asia to which we have begun to supply our power systems, generally do not fix pricing terms or quantities of our power systems to be purchased and sold and typically do not mandate exclusivity. Purchases are made by customers on a purchase order basis, with pricing of our power systems driven in large part by the volume of power systems purchased by a particular customer and market-based factors, including the price of raw materials and other components incorporated into our power systems, as well as prices for comparable power systems, if any, offered by our competitors.

Our largest customers include Kohler, Bandit, Cummins, Baldor and Toyota, of which Kohler was the only one that represented more than ten percent of our consolidated revenues in 2010. Our relationships with these customers are all pursuant to terms and conditions substantially similar to the arrangements described above, including the manner in which prices are determined .

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Operations and Research and Development

Design and Engineering / Research and Development

Our research and development efforts are market driven. Our sales team first meets to identify and define market requirements and trends and then communicates that vision to our engineering and new product development groups. Our engineering and new product development groups then review our existing power system portfolio and develop new solutions that build upon the technology within that portfolio. We maintain in-house design, prototyping, testing and application engineering capability, including specialists in EPA and CARB certification, fuel systems, electronics, cooling systems, mechanical engineering and application engineering. Our design and application engineering expertise and capabilities include expertise in (1) emissions compliance, (2) design and development of standardized and customized products for incorporation into industrial equipment, (3) three-dimensional solid modeling, (4) computer-based modeling and testing, (5) rapid OEM product prototyping, (6) industrial OEM product retrofitting and testing and (6) support for application engineering and system integration.

We also rely upon engineering outsourcing relationships for design, development and product testing that allow us to fulfill demands for specialty services and satisfy fluctuating workload requirements. In particular, since 2009, we have used engineering relationships in India to quickly increase product design, development and testing services as dictated by demands from our industrial OEM customers. We have the ability to increase our outsourcing of these functions to effectively double our internal design, development and testing capabilities to meet our needs. Our arrangements with these outsourcing organizations include general pricing (based upon workers and time devoted to serving us) and other basic terms for services to be provided; however, these arrangements do not require us to engage these engineering outsourcing organizations for a minimum amount (whether in terms of time or number of workers) of design, development or product testing services. Accordingly, we are able to significantly and quickly reduce our use of these relationships as soon as our customer requirements have been satisfied. We require these third-party engineering service providers to treat all design, development and testing information provided to them as confidential. In 2010, these outsourced services accounted for approximately 7% of our research and development expenses. In addition to these engineering outsourcing relationships, where applicable, we also benefit from the design, development and testing capabilities of our supplier base.

We provide the design, durability testing, validation testing and compliance with other engineering and administrative requirements necessary to meet and obtain EPA and CARB certification for a range of spark-ignited engines. As a result, we provide our OEM customers with emission-certified power systems, without these OEMs having to expend considerable research and development time and resources related to obtaining power system certification. We further provide the tools and services necessary to support revalidation and other EPA and CARB requirements that exist beyond the initial emission compliance requirements. As a result of such revalidation, we become the manufacturer of record, which is the entity that holds the applicable regulatory certifications for a power system, for the emission-certified power system.

We staff our engineering support activities associated with released product and component sourcing programs with dedicated internal engineering personnel, separate from our product and application development engineering team. This allows us to provide committed engineering and technical attention to internal operational support, customer production support and component sourcing activities, thereby helping to buffer the demands placed on our product and application development engineering group. Through such attention and support, we are able to maximize the focus of our product and application development engineering group on current and future design, prototyping, testing and application development activities resulting in shorter design, prototyping and testing cycles for our OEM customer base.

Our research and development expenditures for our fiscal years 2010, 2009 and 2008 were approximately $3,005,000, $2,387,000 and $2,623,000, respectively.

Manufacturing

We currently manufacture our products at our facilities in Wood Dale, Illinois. We customize our power systems to meet specific requirements of industrial OEM applications and the needs of our industrial OEM customers. Our production operations encompass all aspects of manufacturing our power systems, which range from fitting a basic engine block with appropriate fuel system components to building a comprehensive power system that includes 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 manufacturing lines in our production facilities are technologically sophisticated and flexible, and we allocate production capacity on our manufacturing lines to accommodate the demand levels and product mix required by our OEM customers. Our manufacturing lines are equipped with display screens, through which our production personnel are able to monitor design and other technological specifications for each product being assembled on the manufacturing line at that time. The information displayed on these screens is supplied from a central server, which is updated in real-time with all current product information. Through this process, we ensure that the product manufacturing and other

specifications used by our production personnel is the most current information available. We have also developed efficient in-line methods to support specialized product testing, as required by a specific customer or product application.

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Our engineering and manufacturing systems use sophisticated, paperless, integrated software based management and control systems. Our warehouse systems include computerized management systems and high speed infrastructure such as wire guided racking systems and high density automated carousel systems. We use a dynamic, software-driven inventory management system, which allows us to accurately monitor inventory levels for our comprehensive power systems, subsystems and individual components. We also incorporate within our manufacturing process software that enables us to identify and deliver components and other parts to our OEM customers.

We focus on safety, quality and on-time delivery in our manufacturing operations. We are 9001-2008 ISO Certified, the highest ISO certification available. The ISO 9000 family of quality management standards, which must be met in order to become ISO certified, are designed to help organizations monitor and improve the delivery of products and/or services to their customers. We also use Six Sigma, a business management strategy designed to minimize variability in manufacturing and business processes, 5S, a workplace organization methodology designed to maximize efficiency and effectiveness, and other disciplines in our goal of continuous improvements in quality and on-time delivery. Structured staff training is a constant priority and includes closed-loop quality monitoring and feedback systems.

Supplier Relationships

Engine and Component Suppliers

We have established relationships with suppliers for the engines to be integrated into our comprehensive power systems, the most significant of which are General Motors, Perkins/Caterpillar and Doosan. We also source our other power system components from third party suppliers. We coordinate design efforts with suppliers for some of our key components. In addition, we internally design other parts and components for our products, own the tooling for such parts and components and globally source them from a variety of domestic and global suppliers. Because we design many of our parts and components in-house, we are generally not limited in our choice of suppliers. As such, we are able to select our supplier relationships based upon a supplier s reliability and performance.

We aggregate our product sourcing efforts across our large and diverse OEM customer base and across industry categories, capitalizing on volume, economies of scale and global supply opportunities. Our OEM customers benefit from the aggregation of our global sourcing, procurement, assembly and packaging services, obtaining cost benefits that they might not obtain if they were to rely on their own internal resources, capabilities and more limited demand requirements. Through this process, industrial OEMs are able to reduce their part numbers and supply base by consolidating their procurement and assembly efforts down to a single part number product supplied by us. We deliver this single assembly to an industrial OEM s production line as an integrated drop-in to the OEM s end product.

Arrangements with Key Suppliers

We enter into various arrangements with suppliers from which we source engines and other components which are incorporated into our power systems. These arrangements generally govern the terms and conditions upon which we purchase engines, components and other raw materials for use in our power systems. In general, the prices at which we purchase engines, components and other raw materials are based on market factors, including the prices offered by other suppliers operating in the same market and the prevailing market prices of raw materials. The terms of each of the individual arrangements are negotiated with each supplier on an individual basis, but are generally consistent with typical arrangements between manufacturers and suppliers in our industry.

Under our distribution agreement with Perkins, we are the exclusive distributor of specified Perkins engines within a territory consisting of the States of North Dakota, South Dakota, Minnesota, Wisconsin, Iowa, Michigan, Ohio and Indiana, as well as portions of the State of Illinois, and are a non-exclusive distributor of specified Perkins engines within a territory consisting of the States of Nebraska and Kansas, as well as portions of the State of Missouri. In exchange for this exclusive territory, we are required to purchase from Perkins all of our requirements for the same or similar engines covered by the agreement. As described in further detail below under Sales and Marketing; Value-Added Resellers; Distribution Sales and Marketing; Value-Added Resellers, under the distribution agreement, we are also required to establish a service and support network that provides various services to our customers that purchase power systems which use Perkins engines. This agreement with Perkins is currently scheduled to expire on December 31, 2013.

We are also party to a supply agreement with Doosan, under which we purchase and distribute, on a semi-exclusive basis, specified Doosan engines within a territory consisting of the United States, Canada and Mexico. Under this supply agreement, we are required to purchase from Doosan all of our requirements for the same or similar engines covered by the agreement. We are also required to purchase a minimum number of engines from Doosan during each year that the agreement is in effect and, if we do not meet these purchase requirements, then Doosan may terminate the exclusivity granted under the agreement. The term of our supply agreement with Doosan automatically renews annually for successive one-year periods, unless either party gives prior written notice.

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Unlike our arrangements with Perkins and Doosan, we do not maintain an exclusive relationship with GM. We receive a pricing package each year (or sometimes more frequently) containing applicable price quotations, as if we operate as an OEM that uses GM engines as a key component of our power systems. Purchases of engines from GM are executed through purchase orders at prices listed in the pricing package under the general terms of sale that GM offers to its OEM customers.

Sales and Marketing; Value-Added Resellers; Distribution

Sales and Marketing; Value-Added Resellers

We employ a direct sales and marketing approach to maintain maximum interface with, and service support for, our OEM customers. This direct interface incorporates our internal technical sales representatives. In Asia, we currently complement our direct OEM relationships with a local, independent sales and product support organization. This local sales and support organization provides the necessary knowledge of local customs and requirements, while also providing immediate sales assistance and customer support. In general, we engage third parties to provide local service and support functions for our power systems sold to our domestic OEM customers on a case by case basis, as necessary. Further, as required by our agreement with Perkins, we have also established a service and support network in our 12-state territory that provides various services to our customers that purchase power systems using Perkins engines, including warranty support, servicing of Perkins engines, technical support and parts support (including support for aftermarket parts).

In Europe, we enter into arrangements with third parties, pursuant to which these third parties resell our power systems (in some cases sold with add-on power system components) to European OEM customers. These value-added resellers also provide application and engineering support for these power systems sold in Europe. We currently sell our power systems to value-added resellers in Europe on a similar basis as our sales to our OEM customers. At any particular point in time, we are typically selling our power systems to between one and five value-added resellers in Europe.

Aftermarket Distribution

Our aftermarket and service parts distribution organization consist of three main sales and distribution programs:

OEM Customers With an In-House, Spark-Ignited Product Service Parts Program: For our OEM customers that maintain their own service parts distribution and product support programs, we supply them with the information and component products required to support an effective global OEM customer service parts program.

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OEM Customers Without an In-House Product Service Parts Program: For our OEM customers that do not maintain their own service parts distribution and product support programs, we maintain a web-based and internal sales oriented global aftermarket and service parts distribution system for our spark-ignited product and ancillary components. Through this product support program that we provide on behalf of our OEM customers, we capitalize on market opportunities that exist outside of those associated with our OEM customer base.

Perkins Diesel Service Parts Program: We provide Perkins diesel service parts through a network of established service and parts organizations located throughout our 12-state distributor territory, consisting of North Dakota, South Dakota, Nebraska, the Northern two-thirds of Missouri and Kansas, Iowa, Minnesota, Wisconsin, Indiana, Michigan, Ohio and all but the Southern tip of Illinois.

Intellectual Property

Our business depends, in substantial part, upon our proprietary technology, processes, know-how and other confidential and proprietary information. In particular, we consider portions of our emission certification process to be confidential and proprietary trade secrets. In addition to putting our OEM customers engines through initial emission compliance testing, including durability testing, production line testing and field compliance audit testing, we also provide the tools, and perform sophisticated testing and other services, on these engines to comply with EPA and CARB requirements. As a result of the lengthy and technologically sophisticated testing we perform to revalidate these engines, we become the manufacturer of record for the emission-certified power system that is incorporated into our OEM customers equipment. As the manufacturer of record, we are responsible for compliance with regulations as they relate to our emission-certified power systems (as more fully discussed below under Government Regulation). We incur the costs of certification of our power systems, as well as the risk of making sure that these systems remain compliant. Additionally, we use technologically sophisticated development, testing, launching and other manufacturing processes in connection with the manufacturing of our power systems, as well as in coordinating design efforts with power system component suppliers.

In addition, many of the components we source from our suppliers and which are integrated into our power systems embody proprietary intellectual property of such suppliers. To a limited extent, we also license proprietary software, much of which is off the shelf, from third parties for use in our manufacturing processes, and we also license and rely upon third party technology included in our telematics tool. We rely on a combination of trademark, trade secret and other intellectual property laws and various contract rights to protect our proprietary rights, as well as to protect the intellectual property rights of our suppliers and third party licensors. We do not currently own any material patents, but believe that the policies and safeguards we have in place, together with the costs associated with the development, testing, launch and marketing of competitive products, adequately protect our valuable trade secrets and other intellectual property rights.

Competition

We believe we are one of the few providers of comprehensive power systems to the industrial OEM market. However, the market for our products and related services is intensely competitive, subject to rapid change and sensitive to new product and service introductions and changes in technical requirements. Some competitors have longer operating histories, greater name recognition and greater financial and marketing resources. Competition in our markets may become more intense as additional companies enter them and as new technologies are adopted. Generally, we believe that the principal competitive factors for our business include the following:

Completeness and comprehensiveness of power systems;

Range of power systems employing common technology platform;

Emissions regulation (EPA and CARB) compliance and certification;

Ease of installation;

Pricing and cost effectiveness;

Breadth of product offerings, including system power and fuel alternatives;

Ability to tailor power system to specific customer needs;

Performance and quality; and

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Customer support and service.

We believe that, with our current product lineup and our ongoing research and product development efforts, as well as our global procurement capabilities, we are able to compete effectively based on each of these factors.

Among our competitors are fuel system providers such as Westport Innovations, Inc., Fuel System Solutions and Woodward Governor, Inc. These companies supply engines and engine system componentry into the industrial OEM marketplace. However, we do not believe that any of the other fuel system providers with which we compete are able to provide the single assembly, integrated, comprehensive power systems that our OEM customers demand and that we provide on a cost-effective basis. Further, some of our competitors do not have the internal resources or capabilities to enable them to meet these customer requirements and, in their efforts to compete, sometimes rely upon third party logistic companies to fit and dress engine systems with specific engine parts and components which these competitors are unable to provide themselves. As a result of the changing environment of the marketplace, some fuel system providers have been forced into non-core competency areas and some have exited the marketplace entirely.

Other competitors have been automotive engine companies, but a number have ceased directly supplying power systems to industrial OEMs (although they continue to supply their standard engines and components to producers of power systems for this market). They have left this market primarily because production of emission-compliant and certified industrial engines is not in their core competency areas and because the changing regulations create difficulties for them as engine life spans are short. More generally, we believe that the significant costs associated with developing and certifying emission-compliant power systems as applicable regulations change have led some companies to exit our markets and have deterred others from entering them.

Government Regulation

Our Products

Our Power Systems

Our power systems are subject to extensive statutory and regulatory requirements that directly or indirectly impose standards governing exhaust emissions and noise. Our power systems are subject to compliance with all current exhaust emissions standards imposed by the EPA, state regulatory agencies in the United States, including CARB, and other regulatory agencies around the world and established for power systems used in off-highway industrial equipment. EPA and CARB regulations imposed on engines used in industrial off-highway equipment generally serve to restrict exhaust emissions, with a primary focus on oxides of nitrogen, hydrocarbons and carbon monoxide. Exhaust emission regulations for engines used in off-highway industrial equipment vary based upon the use of the equipment into which the engine is incorporated (such as stationary power generation or mobile off-highway industrial equipment), and the type of fuel used to drive the power system. Further, applicable exhaust emission thresholds differ based upon the gross power of an engine used in industrial off-highway equipment.

The first EPA emissions regulations adopted for diesel engines, known as Tier 1, applied to diesel engines used in mobile off-highway applications in the U.S., and similar standards for diesel engines, known as Stage I regulations, were implemented thereafter in Europe. The EPA and applicable agencies in Europe have continued to develop emission regulations for diesel engines in the U.S. and Europe, respectively, and have adopted more restrictive standards, with Tier 3 and Stage III regulations currently in effect in the U.S. and Europe, respectively. Recently, the EPA adopted Tier 4 diesel emission requirements, applicable to nonroad diesel engines used in industrial equipment. Similarly, Europe has adopted more restrictive standards under its Stage IV regulations. Tier 4 and Stage IV regulations call for reductions in levels of particulate matter and oxides of nitrogen by approximately 90% from current levels in a majority of power categories. The phase-in of these regulations commenced at the beginning of 2011.

The EPA and CARB have similarly adopted regulations to reduce pollutant exhaust emissions for spark-ignited engines used in off-road equipment. Similar to standards which apply to diesel engines, these regulations serve to reduce exhaust emissions of hydrocarbon, oxides of nitrogen and carbon monoxide for engines of varying powers and industrial equipment applications. The EPA and CARB further enhanced existing emission regulations, including in 2007 and 2010, by amending existing emission standards and test procedures for large spark-ignited off-road engines, which are engines rated at 25 horsepower or greater, by further restricting exhaust emissions of hydrocarbon, oxides of nitrogen and carbon monoxide.

All of our emission-certified power systems meet existing exhaust emission standards of the EPA and CARB. Failure to comply with these standards could result in adverse effects on our future financial results.

The initial and on-going certification requirements vary by power system application. The process for certain of our exhaust emission certifications is described below.

Pursuant to the regulations of the EPA and CARB, we are presently required to obtain emission compliance certification from the EPA and CARB to sell our power systems generally throughout the United States and in California. The emission compliance and certification process begins with the planning and development of a base fuel and emission control system technology, which may be used as a platform that can be applied to the range of power systems requiring certification. The development of this platform generally begins approximately 18 months prior to the onset of the exhaust emission standard implementation date. A complete fuel and emission controls system platform is comprised of fuel handling, trimming and transport components, electronic engine controller,

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sensors and exhaust after-treatment technology. This process involves developing the system to meet the requirements of the environmental regulatory agencies, as well as industry expected quality standards and other commercial expectations, all at a cost that will allow us to sell our power system at a competitive market price.

After the base technology has been developed, the next step in the certification process is long-term emission durability testing. This testing involves configuring an engine and testing it for the regulated emission useful life as established by the regulatory agencies. Currently, this useful life is 5,000 hours of use. The test is conducted by installing a power system on a dynamometer, a machine that measures power, and testing its exhaust emissions at zero hours (when an engine produces stabilized emissions at an undeteriorated emission level) and then every 500 hours over a regulatory specified test cycle for the complete useful life. The deterioration of emissions (in other words, the change in emissions from zero hour to the end of an engine s useful life) is established by this test which takes approximately six to nine months to complete. Applicable regulations require a manufacturer of record to predict emission levels at the end of the engine s useful life. Accordingly, we develop the base technology and system to ensure that the end of useful life requirements will be met, as the lead time between the issuance of the new regulations and the effective date does not allow for multiple testing due to a failure in the development process. Regulatory agencies require that tests be repeated in the event of a test failure. Accordingly, anticipated results are thoroughly modeled during the base technology and system development program.

After the base system technology has been developed and while the emission deterioration factor testing is in process, the development of the application technology commences. Application technology involves the development and sourcing of brackets, adapters, exhaust after-treatment packaging, wiring and other ancillary systems of the comprehensive power system based, in part, on specifications of our customers. During this work, we take efforts to strictly adhere to guidelines established during base fuel and emission control system development. Once this work is complete, a model from each certified category of power systems is calibrated and tested for zero hour exhaust emissions in order to submit for exhaust emission certificates from the regulatory agencies. This process involves the creation of designs, testing of prototype samples, release of final design, development of tooled components and ultimately the zero hour exhaust emission testing.

When the deterioration factor testing and zero hour testing are complete, the applications for emission certification are prepared, as applicable, for the respective power systems and filed with appropriate regulatory agencies. The application process differs between regulatory agencies. The required documentation must be meticulously completed and the filing requirements for each applicable power system must be fully satisfied for the application to be successfully accepted by the agencies; that process may take several weeks to complete. Once an application is filed, the regulatory agencies can take up to 90 days per power system to review and respond to the application, which often includes requests for additional information. Once an application is approved, an emission certificate is valid for 12 months (usually in conjunction with a calendar year). Each certification is renewed annually. Certified power systems cannot be sold without approved certificates from applicable regulatory agencies. Failure to perform and submit the required periodic compliance testing would result in the termination of the power system certification.

Once a power system is certified, regulatory agencies have ongoing compliance requirements, which include testing newly produced power systems on a regular quarterly schedule to ensure compliance with applicable regulations. In addition, there are field audit requirements, which require the removal of power systems from service at specified stages of their useful lives to perform confirmatory exhaust emissions testing.

Our Telematics Tool

We are also subject to various laws and regulations relating to our telematics tool and connected asset services. Among other things, wireless transceiver products are required to be certified by the Federal Communications Commission and comparable authorities in foreign countries where they are sold. We currently maintain applicable certifications from governmental agencies in each of the jurisdictions in which our telematics tool is required to be so certified.

Our Operations

Our operations are also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. We may be required to incur significant costs to comply with such laws and regulations in the future. Any failure to comply with these laws or regulations could have a material adverse effect upon our ability to do business.

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Properties

We operate within approximately an aggregate of 365,000 square feet of space in five facilities located in the Chicago, Illinois area. The following table lists the location of each of our facilities material to our business (one of which we own, and the others of which are leased by us), that facility s principal use, the approximate square footage of that facility, and the current lease expiration date (to the extent applicable):

Location	Principal Use	Square Footage	Lease Expiration
Wood Dale, Illinois	Product Assembly	116,000	July 31, 2013
Wood Dale, Illinois	Sales, Engineering & Product Support Offices; Engineering Development and Product Assembly	99,000	April 30, 2012
Wood Dale, Illinois	Service Parts Sales; Warehousing & Distribution	90,000	July 31, 2013
Elk Grove Village, Illinois	Warehousing	18,000	April 30, 2012
Wood Dale, Illinois	Finance & Operations Offices; Product Assembly	42,000	Owned

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The facilities collectively house our manufacturing operations. We believe that our facilities are adequate to meet our current needs and that additional facilities will be available for lease, if necessary, to meet any of our future needs.

Employees

As of July 15, 2011, our workforce consisted of approximately 248 persons, including approximately 86 full-time and two part-time employees, as well as members of our production team whose services we obtain through an arrangement with a professional employer organization and other individuals whose services we obtain through a temporary employment agency. Of these persons, approximately 24 were in Product Development and Emissions Compliance, 17 were in Sales, 19 were in Customer Support Engineering, Quality and Service, 18 were in Executive Management and Finance, 24 were in Operations Management and approximately 146 were in Production. In addition, Product Development and Engineering supplements fluctuating demands for resources through external design and drafting outsourcing services located in India, and Asian sales and procurement activities are supported through an external dedicated outsourced service organization located in Asia.

None of the members of our workforce are represented by a union or covered by a collective bargaining agreement. We believe we have a good relationship with the members of our workforce.

Legal Proceedings

From time to time, in the normal course of business, we are a party to various legal proceedings. We do not currently expect that any currently pending proceedings will have a material adverse effect on our business, results of operations or financial condition.

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Management

Prior to the closing of the reverse recapitalization and the private placement, Ryan Neely was the sole member of Format s board of directors, and the only executive officer of Format. Our articles of incorporation and bylaws provide that our board of directors has the authority to set the size of the board of directors from between one and 15 directors and, pursuant thereto, immediately prior to the consummation of the reverse recapitalization, the repurchase of common stock from Ryan Neely and Michelle Neely and the private placement, Format s board of directors expanded the size of the board of directors to six members. Pursuant to the terms of our articles of incorporation, our board of directors is classified with respect to the terms for which its members will hold office by dividing the members into three classes, with the terms of the directors of one class expiring at each annual meeting of our shareholders, subject to the appointment and qualification of their successors. See Terms of Office below. However, pursuant to the purchase agreement entered into with the investors in the private placement, we agreed to a form of certificate of incorporation for the surviving entity in the migratory merger, which certificate of incorporation will declassify our board of directors. Accordingly, upon the consummation of the migratory merger, and the declassification of our board of directors, each of our directors will hold office until the next annual meeting of stockholders and until his or her successor is duly elected and qualified.

Mr. Neely, as the sole member of Format s board of directors, approved the appointment of Gary Winemaster to fill one of the newly-created vacancies on our board of directors as a member of Class I of our board of directors, effective immediately following the closing of the reverse recapitalization and the private placement, and approved the appointments of (1) Thomas Somodi as a member of Class III of our board of directors, (2) each of Kenneth Winemaster and Kenneth Landini as a member of Class II of our board of directors, and (3) H. Samuel Greenawalt as a member of Class I of our board of directors, to fill the remaining vacancies on our board of directors, in each case effective as of the date (May 23, 2011) that was ten days after the date on which we filed with the SEC and mailed to our shareholders an information statement in accordance with Rule 14f-1 of the Securities Exchange Act of 1934, as amended, regarding such appointments. In connection with such action, Mr. Neely designated himself as a member of Class III of our board of directors.

Concurrently with the appointment and designation by Mr. Neely of the new members of our board of directors in connection with the reverse recapitalization and the private placement, Mr. Neely appointed the following persons as our new executive officers, effective immediately following the closing of the reverse recapitalization and the private placement: Gary Winemaster Chairman of the Board, Chief Executive Officer and President; Thomas Somodi Chief Operating Officer and Chief Financial Officer, and Kenneth Winemaster Senior Vice President and Secretary. These individuals held prior to the reverse recapitalization, and currently hold, the same positions with The W Group, our wholly-owned subsidiary through which we conduct our business, provided that Gary Winemaster was also appointed as the Chairman of the Board effective immediately following the closing of the reverse recapitalization and the private placement. In connection with the consummation of the reverse recapitalization and the private placement, we agreed to endeavor to hire a new Chief Financial Officer as soon as reasonably possible. We believe that our hiring of a new Chief Financial Officer will allow Mr. Somodi (who is expected to continue as our Chief Operating Officer) to focus his efforts on his operational and strategic responsibilities with us. Our officers are elected annually by our board of directors and serve at the discretion of our board of directors.

Prior to the closing of the reverse recapitalization and the private placement, Ryan Neely delivered his irrevocable resignation from each office held by him with Format, effective immediately following the closing of the reverse recapitalization and the private placement, and from our board of directors, effective on May 23, 2011, the date that is ten days after the date on which we filed with the SEC and mailed to our shareholders the information statement. On April 29, 2011, our board of directors accepted Mr. Neely s resignation from the offices held by him with us, effective immediately following the closing of the reverse recapitalization and the private placement, and accepted his resignation from our board of directors, effective on May 23, 2011.

Gary Winemaster, Thomas Somodi, Kenneth Winemaster, Kenneth Landini and H. Samuel Greenawalt were all directors of The W Group immediately prior to the closing of the reverse recapitalization. Pursuant to the terms of the purchase agreement entered into with the investors in the private placement, we agreed to take action such that, no later than 180 days following the closing of the private placement, our board of directors will consist of five or greater directors, a majority of whom will constitute independent directors as defined by the marketplace rules of The NASDAQ Stock Market. See Composition of the Board of Directors and Director Independence below.

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The following table sets forth information concerning our executive officers and directors, including their ages and their position(s) with us and, with respect to our directors, the expiration of their current terms and the class of directors of which they are members. For purposes of the discussion below, unless the context otherwise requires, we, our, us, our company and similar expressions used in this section refer to The W Group prior to the closing of the reverse recapitalization on April 29, 2011, and Power Solutions International, Inc. (f/k/a Format, Inc.), as successor to the business of The W Group, following the closing of the reverse recapitalization. In other words, references below to service on our board of directors or as one of our executive officers prior to the reverse recapitalization means service on the board of directors, or as an executive officer, as applicable, of The W Group.

Name	Age	Position	Executive Officer Since (1)	Director Since	Term Expires	Class of Director
Gary Winemaster	53	Chairman of the Board, Chief Executive Officer and President	2001	2001(2)	2013	I
Thomas Somodi	58	Director, Chief Operating Officer and Chief Financial Officer	2005	2005(2)	2011	III
Kenneth Winemaster	47	Director, Senior Vice President and Secretary	2001	2001(2)	2012	II
Kenneth Landini	54	Director	N/A	2001(2)	2012	II
H. Samuel Greenawalt	82	Director	N/A	2001(2)	2013	I

(1) Includes service as an executive officer of The W Group, our wholly-owned subsidiary through which we now operate our business, through the consummation of the reverse recapitalization.
(2) Includes service as a member of the board of directors of The W Group through the consummation of the reverse recapitalization.

Executive Officers/Directors

The following information pertains to our executive officers who also serve as directors, their principal occupations and other public company directorships for at least the last five years and information regarding their specific experiences, qualifications, attributes and skills.

Gary Winemaster has served as our Chief Executive Officer and President and as a director since 2001, and served as the Chief Executive Officer and President of Power Great Lakes (which, prior to the incorporation of our company in 2001, was the parent operating company of our business, and is currently our wholly-owned subsidiary) from 1992 until our incorporation in 2001. In connection with the reverse recapitalization, Mr. Winemaster was also appointed as the Chairman of the Board. Mr. Winemaster is a co-founder of our company, and has played a significant role in developing and expanding our presence as a distributor of alternative fuel spark-ignited and diesel power systems. Prior to serving in his role as Chief Executive Officer and President of our company and of Power Great Lakes, Mr. Winemaster served as the Vice President of Sales for Power Great Lakes. Prior to founding our company, Mr. Winemaster worked in sales management for the European operations, with territory responsibility for the German, Scandinavian and Benelux markets, of Guardian Industries, a United States glass manufacturer. Mr. Winemaster holds a Bachelor of Science degree from the Wharton School at the University of Pennsylvania.

Our board of directors believes that Mr. Winemaster, as our Chief Executive Officer and President and as a co-founder of our company, should serve as a director because of Mr. Winemaster s unique understanding of the opportunities and challenges that we face and his in-depth knowledge about our business, including our customers, products, operations and key business drivers, and our long-term growth strategies, derived from his long service as our Chief Executive Officer and President.

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Thomas Somodi has served as our Chief Operating Officer and Chief Financial Officer and as a director since 2005, and previously served as a consultant to us from 2002 to 2005. Mr. Somodi has over 30 years of experience in domestic and international corporate reorganizations, acquisitions, divestitures and greenfield expansions covering the U.S., the United Kingdom, South Africa, Canada, Mexico, Japan, the Caribbean, Germany and Australia. From 1980 to 1998, Mr. Somodi served as the Corporate Controller and, for a portion of such period, as VP of Finance of International Operations for Albert Trostel & Sons Company/Everet Smith Group, LTD, an international holding company with a significant presence in the leather tanning, precision molding, metal fabrication and foundry industries. Mr. Somodi served as an executive consultant for Crowe Chizek and Company LLC, a consulting and accounting practice company, from 1998 to 2000, and has personally owned and overseen eight independent companies covering pallet & crate manufacturing, packaging, lumber mill operations, furniture manufacturing, internet technology, media & advertising, access control/security and merchant processing services. Mr. Somodi holds a Masters of Science in management from the University of Wisconsin-Milwaukee, and a Bachelor of Business Administration in finance from the University of Wisconsin-Milwaukee. Mr. Somodi is also a certified public accountant in the state of Wisconsin.

Our board of directors believes that Mr. Somodi should serve as a director because of his significant executive experience, his financial and accounting expertise, and his extensive knowledge of our business and operations, which he has acquired through his service as our Chief Operating Officer and Chief Financial Officer.

Kenneth Winemaster has served as our Senior Vice President and Secretary and as a director since 2001. Mr. Winemaster has primary responsibility for our relationships and operations with Caterpillar and Perkins. Mr. Winemaster has expertise in raw material procurement, assembly and shipping.

Our board of directors believes that Mr. Winemaster, as our Senior Vice President, should serve as a director because of his extensive knowledge of our industry and in-depth knowledge of our business and operations.

Other Directors

The following information pertains to our non-employee directors, their principal occupations and other public company directorships for at least the last five years and information regarding their specific experiences, qualifications, attributes and skills.

H. Samuel Greenawalt has served as a director since 2001. Mr. Greenawalt has over 50 years of experience in the banking industry. Over the past 25 years, Mr. Greenawalt has served an instrumental advisory role in helping us achieve our growth initiatives and address our financial requirements. Since 2000, Mr. Greenawalt has served as a vice president of Sulpho Technologies, LLC, an automotive component service-provider, for which Mr. Greenawalt is also a partner and owner. From 1959 to 1995 Mr. Greenawalt served as executive vice president at Michigan National Bank, a mid-sized Midwestern bank. Mr. Greenawalt has served as a director of Williams Controls, Inc., a publicly held manufacturer of electronic throttle controls for commercial vehicles, since 1993 and currently serves as the chairman of the audit committee and as a member of the governance and nominating committee of the board of directors of Williams Controls. Mr. Greenawalt holds a Bachelor of Science degree from the Wharton School at the University of Pennsylvania, and is a graduate of the University of Wisconsin Banking School.

Our board of directors believes that Mr. Greenawalt should serve as a director because of his experience on the board of directors of another public company, which our board of directors believes will be beneficial to us as we move forward as a public company, as well as Mr. Greenawalt s relevant business experience and his extensive financial expertise, which he has acquired through his years of experience in the banking industry.

Kenneth Landini has served as a director since 2001 and assisted in the development and growth of the business of our company since 1985. Mr. Landini previously served as the Vice President of Finance for our subsidiary, Power Great Lakes, Inc., from December 1985 to March 1988, and assisted us in establishing distributor relationships and expanding the territories into which we provide our power systems. Mr. Landini is a partner and co-founder of Landini, Reed & Dawson, P.C., a certified public accounting and consulting firm in southeastern

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Michigan, which was established in 1988. Mr. Landini has served as a certified public accountant for Landini, Reed & Dawson, P.C. since its inception. Mr. Landini holds a Bachelor of Arts degree from Albion College and is a licensed certified public accountant in the state of Michigan.

Our board of directors believes that Mr. Landini should serve as a director because of his significant knowledge of our industry, his prior experience with our business and his financial expertise, which will be important as our board of directors exercises its oversight responsibility regarding the quality and integrity of our accounting and financial reporting processes and the auditing of our financial statements.

Terms of Office

Our board of directors consists of five directors. Pursuant to the terms of our articles of incorporation, our board of directors is classified with respect to the terms for which its members will hold office by dividing the members into three classes, with the terms of the directors of one class expiring at each annual meeting of our shareholders, subject to the appointment and qualification of their successors. The term of service for directors on our board of directors is as follows: (1) Class I will expire at the 2013 annual meeting of our shareholders, (2) Class II will expire at the 2012 annual meeting of our shareholders, and (3) Class III will expire at the 2011 annual meeting of our shareholders. Each director will continue to serve as a director until such director s term expires and such director s successor is duly elected and qualified.

Family Relationships

Gary Winemaster, our Chairman of the Board, Chief Executive Officer and President, and Kenneth Winemaster, our Senior Vice President, Secretary and a member of our board of directors, are brothers. There are no other family relationships among the members of our board of directors or our executive officers.

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Executive Compensation

Compensation Discussion and Analysis

Philosophy and objectives

The primary objective of the compensation program for the executive officers of The W Group, which program we have now adopted for our executive officers, has been to retain and motivate our talented and qualified members of management to lead our business. Prior to the consummation of the reverse recapitalization, The W Group s compensation package consisted primarily of base salary, certain perquisites and other personal benefits and, on limited occasions, special performance-based bonuses. In 2010, The W Group paid its executive officers a mix of base salary and certain perquisites and other personal benefits, with compensation decisions being made by Gary Winemaster individually, or, where determined by Mr. Winemaster to be necessary or appropriate, in consultation with, and/or with the approval of, the board of directors of The W Group. The compensation in prior years for Mr. Somodi, The W Group s and our current Chief Operating Officer and Chief Financial Officer, was determined based upon his employment agreement with The W Group, which expired in April 2010. See Employment Agreements below for a description of Mr. Somodi s prior employment agreement, as well as a description of our new employment agreement entered into with Mr. Somodi. As a private company, The W Group s compensation plans were developed informally as indicated above.

Prior to the consummation of the reverse recapitalization, Format, Inc. paid Ryan Neely, its only executive officer and its sole director, minimal compensation for services provided to Format, which compensation was determined by him in his discretion. Ryan Neely is no longer an executive officer or a member of our board of directors.

All future decisions regarding executive compensation will be the responsibility of our board of directors. While our board of directors has not yet established formal executive compensation programs going forward, we anticipate that such programs will focus on providing competitive levels of compensation to attract and retain qualified executives to contribute to our long-term success. We expect that our compensation program will include a mix of compensation awards that will serve both long-term and short-term goals, which may include base salary, cash bonus payments based upon the achievement of short-term individual and corporate goals, long-term equity-based awards and other benefits.

Elements of executive compensation

Base salary

Historically, The W Group has focused on providing its senior management with a level of base salary in the form of cash compensation appropriate for their roles and responsibilities. Base salaries for The W Group s executives have been, and going forward we anticipate that base salaries of our executive officers will be, established based on the executive s qualifications, experience, scope of responsibilities, future potential and past performance and cash available to pay executive compensation. The base salaries paid to the executive officers of The W Group in 2010 are reflected in the Summary Compensation Table below. In 2010, in determining the base salaries of The W Group s executive officers, other than Mr. Somodi whose compensation was established by his employment agreement then in effect, The W Group considered such factors as past individual performance, cash available to pay executive compensation, and total compensation each executive officer previously received while employed with The W Group. The first factor (past performance) was measured subjectively by Mr. Winemaster individually or, where determined by Mr. Winemaster to be necessary or appropriate, in consultation with the board of directors of The W Group. The last two factors (cash available and total previous compensation) were measured objectively based on The W Group s financial records. While our board of directors intends to re-evaluate our compensation program in its entirety, we anticipate that our board of directors will focus on similar criteria when determining annual base salaries for our executive officers. We anticipate that base salaries will be reviewed annually and adjusted from time to time by our board of directors to realign salaries with market levels after taking into account individual responsibilities, performance and experience.

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Perquisites and other benefits

Historically, The W Group has provided certain of its executive officers with perquisites and other personal benefits, but has not provided a defined benefit pension arrangement, post-retirement health coverage or similar benefits for any of its executive officers. The W Group s executive officers have also been eligible to receive the same benefits that are generally available to all employees. We do not view perquisites as a significant element of our compensation structure, but do believe that perquisites can be useful in attracting, motivating and retaining executive talent. Our board of directors intends to re-evaluate our policies regarding perquisites and other personal benefits and may make changes as it deems appropriate.

Equity compensation

Each of our three executive officers has a significant equity interest in our company. However, The W Group has not granted equity awards as a component of compensation in the past (other than the equity in The W Group awarded to Mr. Somodi in connection with his joining The W Group as an executive officer, which equity has been converted into other securities pursuant to the reverse recapitalization), and we presently do not have a stock option plan or other similar equity compensation plan for officers, directors and employees. As of the date hereof, no stock options, restricted stock or stock appreciation rights were outstanding.

We believe, however, that successful long-term performance may be achieved through an ownership culture that encourages long-term performance by our executive officers through the use of stock and stock-based awards. In the future, we may adopt and establish an equity incentive plan pursuant to which equity awards may be granted to eligible employees (including our executive officers), directors and consultants, if our board of directors determines that it is in our best interest and the best interest of our shareholders to do so. We believe that, if such an equity incentive program is adopted, stock-based awards may be used to incentivize officers to continue their employment with us, provide our executive officers with an opportunity to obtain an (or increase his or her, as applicable) ownership interest in our company and encourage our executive officers to focus on our long-term profitable growth. We believe that the use of stock-based awards would serve to promote our overall executive compensation objectives.

Incentive cash bonuses

While The W Group generally has not awarded incentive cash bonuses in the past to its executive officers, other than the cash bonus paid to Mr. Somodi pursuant to his prior employment agreement with The W Group (see Employment Agreements for a description of this cash bonus paid to Mr. Somodi), our board of directors may determine that it is in the best interest of our company and our shareholders to do so. If adopted, we expect that any program awarding incentive cash bonuses would award executive officers based upon such criteria as their individual performance, as well as our overall business and strategic objectives, including corporate financial and operational goals.

Policies related to compensation

Guidelines for equity awards

We have not formalized a policy as to the amount or timing of equity grants to our executive officers. If our board of directors decides to adopt an equity incentive plan as a component of our executive compensation program, we expect that our board of directors would approve and adopt guidelines for equity awards. Among other things, we expect that such guidelines would specify procedures for equity awards to be made under various circumstances, address the timing of equity awards in relation to the availability of information about us and provide procedures for grant information to be communicated to and tracked by our finance department. We anticipate that such guidelines would require that any stock options or stock appreciation rights have an exercise or strike price not less than the fair market value of our common stock on the date of the grant.

Stock ownership guidelines

As of the date hereof, we have not established ownership guidelines for our executive officers or directors, but we intend to consider adopting such guidelines in the future.

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Compliance with Sections 162(m) and 409A of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code limits the deductibility of compensation in excess of $1 million paid to certain executive officers, unless such compensation qualifies as performance-based compensation. Among other things, in order to be deemed performance-based compensation for Section 162(m) purposes, the compensation must be based on the achievement of pre-established, objective performance criteria and must be pursuant to a plan that has been approved by our shareholders. At least for the next few years, we expect the cash compensation paid to our executive officers to be below the threshold for non-deductibility provided in Section 162(m), and, if our board of directors adopts an equity compensation plan in the future, and our shareholders approve such an equity plan, we expect that any such plan will afford our board of directors with the flexibility to make a variety of types of equity awards to our executive officers that will qualify as performance-based compensation under Section 162(m). However, we do not know whether any such equity incentive plan will be established and, accordingly, whether any awards which may be granted in the future will satisfy the requirements for deductibility under Section 162(m).

We also currently intend for our executive compensation program to satisfy the requirements of Internal Revenue Code Section 409A, which addresses the tax treatment of certain nonqualified deferred compensation benefits.

Summary Compensation Table

Power Solutions International, Inc. (f/k/a Format, Inc.)

The table below summarizes the compensation earned for the fiscal years indicated for services rendered to Power Solutions International, Inc. (f/k/a Format, Inc.), in all capacities, by Ryan Neely, its only executive officer during the last fiscal year.