FORM 8-K

Current report filing

Filing Date: **2013-07-03** | Period of Report: **2013-06-28**
SEC Accession No. 0001144204-13-038059

FILER

PIONEER POWER SOLUTIONS, INC.
CIK:**1449792**| IRS No.: **000000000** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **8-K** | Act: **34** | File No.: **001-35212** | Film No.: **13952463**
SIC: **3612** Power, distribution & specialty transformers

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 28, 2013

PIONEER POWER SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	333-155375	27-1347616
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One Parker Plaza 400 Kelby Street, 9th Floor Fort Lee, New Jersey	07024
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 867-0700

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement.

On June 28, 2013, Pioneer Power Solutions, Inc. (the "Company") and the Company's wholly-owned subsidiaries, entered into agreements that consolidated its bank lending arrangements in the United States and Canada with the Bank of Montreal.

United States Credit Facilities

In the United States, the Company's wholly-owned subsidiaries, Pioneer Critical Power Inc. ("PCP") and Jefferson Electric, Inc. ("Jefferson"), entered into a credit agreement (the "Credit Agreement") with Bank of Montreal, Chicago Branch (the "Bank"), pursuant to which the Bank will make certain credit facilities available to the Company. The new credit facilities provided for in the Credit Agreement (the "Credit Facilities") consist of:

- a $10.0 million demand revolving credit facility that is to be used to, among other things, pay off all amounts outstanding under the Loan and Security Agreement, dated as of January 2, 2008, by and between Jefferson and Johnson Bank, as amended (the "Johnson Bank Loan Agreement") and finance ongoing operations; and

- a $6.0 million term loan facility with principal repayments becoming due on a five year amortization schedule that is to be used to finance certain permitted acquisitions by the Company and its subsidiaries.

The Company's obligations under the Credit Agreement are guaranteed by PCP and Jefferson.

The Credit Facilities provided for in the Credit Agreement require the Company to comply with various financial covenants, including (a) maintaining a minimum fixed charge coverage ratio of (i) 1.25 for fiscal quarters ending June 30, 2013 to December 31, 2013, and (ii) 1.35 for fiscal quarters ending on or after March 31, 2014, (b) limiting funded debt to less than 50% of capitalization, and (c) maintaining a maximum funded debt to adjusted EBITDA ratio of (i) 5.25 for fiscal quarters ending June 30, 2013 to December 31, 2013, (ii) 5.00 for the fiscal quarter ending March 31, 2014, (iii) 4.50 for the fiscal quarter ending June 30, 2014, (iv) 4.00 for the fiscal quarter ending September 30, 2014, and (v) 3.75 for fiscal quarters ending on or after December 31, 2014. The Credit Facilities also restrict the ability of the Company and its U.S. subsidiaries to incur indebtedness, create or incur liens, make investments, make distributions or dividends and enter into merger agreements or agreements for the sale of any or all assets.

Borrowings under the demand revolving credit facility bear interest, at the Company's option, at the Bank's prime rate plus 1.00% per annum on U.S. prime rate loans, or an adjusted LIBOR rate plus 2.25% per annum on Eurodollar loans. Borrowings under the term loan facility bear interest, at the Company's option, at the Bank's prime rate plus 1.25% per annum on U.S. prime rate loans, or an adjusted LIBOR rate plus 2.50% per annum on Eurodollar loans. In addition, the term loan facility is subject to a standby fee from June 28, 2013 to December 28, 2013, which is calculated monthly, using the unused portion of the facility, at a rate of 0.625% per annum.

Amounts outstanding under the demand revolving credit facility are payable on demand. In addition, repayment of amounts outstanding under the Credit Facilities may be accelerated upon an event of default. Events of default include failure to pay principal and interest when due, breach of covenants or agreements related to the collateral, the occurrence of defaults under any of the documents or agreements entered into in connection with the Credit Agreement (with notice and cure periods as applicable), representations and warranties being materially incorrect, cross-default to any of the documents or agreements entered into in connection with the Credit Agreement or the termination or voiding of any such documents or agreements, failure of the Security Agreement and the related documents to create a valid security interest in the collateral, payment by the Company or any of its U.S. subsidiaries of any indebtedness subordinated to the indebtedness outstanding under the Credit Agreement, cross-default to material obligations or indebtedness of the Company, a judgment against the Company of greater than $500,000, any of the Company or its subsidiaries failing to pay obligations of greater than $500,000 due to any ERISA plans, a change in control of the Company, the bankruptcy or insolvency of any of the Company or its subsidiaries or the occurrence of a fact or circumstance that would result in a material adverse effect.

In connection with the Credit Agreement, the Company, PCP, Jefferson and the Bank entered into a security agreement, dated June 28, 2013 (the "Security Agreement"), pursuant to which the Company, PCP and Jefferson granted a security interest in substantially all of their assets, including 65% of the shares of PECI held by the Company, to secure the obligations of the Company for borrowed money under the Credit Agreement. The Security Agreement contains terms and conditions typical for the granting of security interests of this kind.

On June 28, 2013, immediately following the Company entering into the Credit Agreement, the Company borrowed funds of approximately $4.9 million under the $10.0 million demand revolving credit facility to pay off in full all of Jefferson's outstanding obligations under the Johnson Bank Loan Agreement, which terminated the Johnson Bank Loan Agreement. The Johnson Bank Loan Agreement consisted of a revolving credit facility with a borrowing base limit of $6.0 million, which was subject to variable interest rates tied to Jefferson meeting certain debt service coverage ratio requirements. The Johnson Bank Loan Agreement required Jefferson to comply with certain financial covenants, including a requirement to exceed minimum quarterly targets for tangible net worth and maintain a minimum debt service coverage ratio. The Johnson Bank Loan Agreement also restricted Jefferson's ability to pay dividends or make distributions, advances or other transfers of assets. Borrowings under the Johnson Bank Loan Agreement were collateralized by substantially all the assets of Jefferson and were guaranteed by an officer of Jefferson.

Canadian Credit Facilities

On June 28, 2013, Pioneer Electrogroup Canada Inc., a wholly-owned subsidiary of the Company ("PECI") and its subsidiaries Pioneer Transformers Ltd. ("PTL") and Bemag Transformer Inc. ("Bemag" and together with PECI and PTL, the "Borrowers"), entered into an Amended and Restated Letter Loan Agreement (the "A&R Loan Agreement") with Bank of Montreal (the "Canadian Bank") that amended and restated the Letter Loan Agreement by and among PECI, PTL, Bemag and the Canadian Bank, dated June 28, 2011, as amended (the "2011 Loan Agreement"). The A&R Loan Agreement is identical to the 2011 Loan Agreement in all material respects, including the maturity dates of the term loan facilities under the 2011 Loan Agreement, except that:

- the Borrowers have an additional six months to borrow any amounts not already drawn from the $10.0 million Canadian Dollar term loan facility; and

- in addition to being cross guaranteed by the Borrowers, the Borrowers' obligations under the A&R Loan Agreement are being guaranteed by the Company pursuant to the Guaranty Agreement (the "Guaranty Agreement").

Copies of the Credit Agreement, the Security Agreement, the A&R Loan Agreement and the Guaranty Agreement are filed as Exhibits 10.1, 10.2, 10.3 and 10.4 hereto, respectively, and incorporated herein by reference. The foregoing descriptions of the Credit Agreement, the Security Agreement, the A&R Loan Agreement and the Guaranty Agreement do not purport to be complete and are qualified in their entirety by reference to the Credit Agreement, the Security Agreement, the A&R Loan Agreement and the Guaranty Agreement, respectively.

Item 1.02. Termination of a Material Definitive Agreement.

The information set forth in Item 1.01 of this report is incorporated herein by reference.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information set forth in Item 1.01 of this report is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	Description
10.1	Credit Agreement, dated as of June 28, 2013, by and among Pioneer Power Solutions, Inc., as borrower, Pioneer Critical Power Inc. and Jefferson Electric, Inc., as guarantors, and Bank of Montreal, Chicago Branch, as lender.
10.2	Security Agreement, dated as of June 28, 2013, by and among Pioneer Power Solutions, Inc., Pioneer Critical Power Inc. and Jefferson Electric, Inc. and Bank of Montreal, Chicago Branch.
10.3	Amended and Restated Letter Loan Agreement, dated as of June 28, 2013, by and among Pioneer Electrogroup Canada Inc., Pioneer Transformers Ltd. and Bemag Transformer Inc., as borrowers, and Bank of Montreal, as lender.
10.4	Guaranty Agreement, dated as of June 28, 2013, by Pioneer Power Solutions, Inc. in favor of Bank of Montreal.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PIONEER POWER SOLUTIONS, INC.

Dated: July 3, 2013

By: /s/ Andrew Minkow
Name: Andrew Minkow
Title: Chief Financial Officer

EXHIBIT INDEX

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CREDIT AGREEMENT

DATED AS OF JUNE 28, 2013

AMONG

PIONEER POWER SOLUTIONS, INC.,

THE GUARANTORS FROM TIME TO TIME PARTY HERETO,

AND

BANK OF MONTREAL, CHICAGO BRANCH

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CREDIT AGREEMENT

This Credit Agreement is entered into as of June 28, 2013, by and among PIONEER POWER SOLUTIONS, INC., a Delaware corporation (the *"Borrower"*), the direct and indirect Domestic Subsidiaries of the Borrower from time to time party to this Agreement, as Guarantors, and BANK OF MONTREAL, a Canadian chartered bank acting through its Chicago branch (the "*Bank*"), as the lender as provided herein.

PRELIMINARY STATEMENT

The Borrower has requested, and the Bank has agreed to extend, certain credit facilities on the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS; INTERPRETATION.

Section 1.1. Definitions. The following terms when used herein shall have the following meanings:

"Account Debtor" means any Person obligated to make payment on any Receivable.

"Acquired Business" means the entity or assets acquired by the Borrower or another Loan Party in an Acquisition, whether before or after the date hereof.

"Acquisition" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition of in excess of 50% of the capital stock, partnership interests, membership interests or equity of any Person (other than a Person that is a Subsidiary), or otherwise causing any Person to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary) provided that the Borrower or another Loan Party is the surviving entity.

"Adjusted EBITDA" means, with reference to any period, EBITDA for such period, *plus* (a) the earnings before interest, taxes, depreciation and amortization (including, but not limited to, the amortization of any employee stock option (or similar) compensation plan) of any Acquired Business acquired by the Borrower during such period (calculated as if such Acquisition and the assumption or incurrence of Indebtedness occurred on the first day of such period) calculated in a manner satisfactory to the Bank, *minus* (b) the positive EBITDA of any Persons or assets which are the subject of a Disposition consummated during such period as if such Disposition occurred on the first day of such period.

"Adjusted LIBOR" means, for any Borrowing of Eurodollar Loans, a rate per annum determined in accordance with the following formula:

$$\text{Adjusted LIBOR} = \frac{\text{LIBOR}}{1 - \text{Eurodollar Reserve Percentage}}$$

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified; *provided that*, in any event for purposes of this definition, any Person that owns, directly or indirectly, 10% or more of the securities having the ordinary voting power for the election of directors or governing body of a corporation or 10% or more of the partnership or other ownership interest of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person.

"Agreement" means this Credit Agreement, as the same may be amended, modified, restated or supplemented from time to time pursuant to the terms hereof.

"Applicable Margin" means (a) with respect to U.S. Prime Rate Loans under the Revolving Facility and Reimbursement Obligations, 1.00% per annum, (b) with respect to Eurodollar Loans under the Revolving Facility and Letter of Credit Fees, 2.25% per annum, (c) with respect to U.S. Prime Rate Loans under the Term Loan Facility, 1.25% per annum, (d) with respect to Eurodollar Loans under the Term Loan Facility, 2.50% per annum, and (e) with respect to the Standby Fees payable under Section 3.1(a), 0.625% per annum.

"Application" is defined in Section 2.3(b).

"Assigned Accounts" is defined in Section 11.2.

"Authorized Representative" means those persons shown on the list of officers provided by the Borrower pursuant to Section 7.2 or on any update of any such list provided by the Borrower to the Bank, or any further or different officers of the Borrower so named by any Authorized Representative of the Borrower in a written notice to the Bank.

"Bank" means Bank of Montreal acting through its Chicago Branch, in its capacity as the lender hereunder, and any successor in such capacity.

"Bank Products" means each and any of the following bank products and services provided to any Loan Party by the Bank or any of its Affiliates: (a) credit cards for commercial customers (including, without limitation, "commercial credit cards" and purchasing cards), (b) stored value cards, and (c) depository, cash management, and treasury management services (including, without limitation, controlled disbursement, automated clearinghouse transactions, return items, overdrafts and interstate depository network services).

"Bank Product Obligations" of the Loan Parties means any and all of their obligations, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor) in connection with Bank Products.

"Borrower" is defined in the introductory paragraph of this Agreement.

"Borrowing" means the total of Loans of a single type advanced, continued for an additional Interest Period, or converted from a different type into such type by the Bank under a Facility on a single date and, in the case of Eurodollar Loans, for a single Interest Period. A Borrowing is *"advanced"* on the day the Bank advances funds comprising such Borrowing to the Borrower, is *"continued"* on the date a new Interest Period for the same type of Loans commences for such Borrowing, and is *"converted"* when such Borrowing is changed from one type of Loans to the other, all as determined pursuant to Section 2.6.

"Borrowing Base" means, as of any time it is to be determined, the sum of:

(a) 80% of the then outstanding unpaid amount of Eligible Receivables; *plus*

(b) the lesser of (i) $5,000,000 and (ii) 50% of the value (computed at the lower of market or cost using the first-in/first-out method of inventory valuation applied in accordance with GAAP) of Eligible Inventory; *plus*

(c) as long as the PECI Letter Loan Agreement remains in effect, the lower of: (a) the U.S. Dollar Equivalent of the excess of the *"Borrowing Base"* (solely for purposes of this clause (c), as defined in the PECI Credit Agreement) over the outstanding amounts under *"Facility A"* (as defined in the PECI Credit Agreement), and (b) $3,000,000 until December 31, 2013, and $2,000,000 from January 1, 2014 to March 31, 2014 and $0 at all times thereafter; *less*

(d) Reserves established by the Bank in its Permitted Discretion;

provided that (i) the Bank shall have the right upon five (5) Business Days' prior notice to the Borrower to reduce the advance rates against Eligible Receivables and Eligible Inventory in its Permitted Discretion based on results from any field audit or appraisal of the Collateral and (ii) the Borrowing Base shall be computed only as against and on so much of such Collateral as is included on the Borrowing Base Certificates furnished from time to time by the Borrower pursuant to this Agreement and, if required by the Bank pursuant to any of the terms hereof or any Collateral Document, as verified by such other evidence reasonably required to be furnished to the Bank pursuant hereto or pursuant to any such Collateral Document.

"Borrowing Base Certificate" means the certificate in the form of Exhibit D hereto, or in such other form acceptable to the Bank, to be delivered to the Bank pursuant to Sections 7.2 and 8.5.

"Business Day" means any day (other than a Saturday or Sunday) on which banks are not authorized or required to close in Chicago, Illinois, Toronto, Canada or New York, New York and, if the applicable Business Day relates to the advance or continuation of, or conversion into, or payment of a Eurodollar Loan, on which banks are dealing in U.S. Dollar deposits in the interbank eurodollar market in London, England.

"Canadian Credit Facilities" is defined in Section 7.2(r).

"Capital Expenditures" means, with respect to any Person for any period, the aggregate amount of all expenditures (whether paid in cash or accrued as a liability) by such Person during that period for the acquisition or leasing (pursuant to a Capital Lease) of fixed or capital assets or additions to property, plant, or equipment (including replacements, capitalized repairs, and improvements) which should be capitalized on the balance sheet of such Person in accordance with GAAP.

"Capital Lease" means any lease of Property which in accordance with GAAP is required to be capitalized on the balance sheet of the lessee.

"Capitalized Lease Obligation" means, for any Person, the amount of the liability shown on the balance sheet of such Person in respect of a Capital Lease determined in accordance with GAAP.

"Cash Collateralize" means, to pledge and deposit with or deliver to the Bank, as collateral for L/C Obligations, cash or deposit account balances subject to a first priority perfected security interest in favor of the Bank or, if the Bank agrees in its sole discretion, other credit support, in each case pursuant to documentation in form and substance satisfactory to the Bank.

"Cash Collateral" shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

"Cash Equivalents" means (a) marketable direct obligations issued by, or unconditionally guaranteed by, the United States or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one (1) year from the date of acquisition thereof, (b) marketable direct obligations issued or fully guaranteed by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within one (1) year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either S&P or Moody's, (c) commercial paper maturing within one (1) year from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody's, (d) certificates of deposit, time deposits, overnight bank deposits or bankers' acceptances maturing within one (1) year from the date of acquisition thereof issued by any bank organized under the laws of the United States or any state thereof or the District of Columbia having at the date of acquisition thereof combined capital and surplus of not less than $250,000,000, (e) deposit accounts maintained with (i) any bank that satisfies the criteria described in clause (d) above, or (ii) any other bank organized under the laws of the United States or any state thereof so long as the full amount maintained with any such other bank is fully insured by the Federal Deposit Insurance Corporation, (f) repurchase obligations of any commercial bank satisfying the requirements of clause (d) of this definition or recognized securities dealer having combined capital and surplus of not less than $250,000,000, having a term of not more than seven (7) days, with respect to securities satisfying the criteria in clauses (a) or (d) above, provided all such agreements require physical delivery of the securities securing such repurchase agreement, except those delivered through the Federal Reserve Book Entry System, and (g) investments in money market funds substantially all of whose assets are invested in the types of assets described in clauses (a) through (f) above.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§9601 *et seq.,* and any future amendments.

"Change in Law" means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority, or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; *provided* that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted or issued.

"Change of Control" means Nathan Mazurek ceases at any time and for any reason (including death or incapacity) to have voting control of at least 51% of the Voting Stock of the Borrower.

"Closing Date" means the date of this Agreement or such later Business Day upon which each condition described in Section 7.2 shall be satisfied or waived in a manner acceptable to the Bank in its discretion.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor statute thereto.

"Collateral" means all properties, rights, interests, and privileges from time to time subject to the Liens granted to the Bank by the Collateral Documents.

"Collateral Account" is defined in Section 9.4.

"Collateral Access Agreement" means any landlord waiver, warehouse, processor or other bailee letter or other agreement, in form and substance reasonably satisfactory to the Bank, between the Bank and any third party (including any bailee, consignee, customs broker, or other similar Person) in possession of any Collateral or any landlord of the Borrower or any Domestic Subsidiary for any real property where any Collateral is located, as such landlord waiver, bailee letter or other agreement may be amended, restated, or otherwise modified from time to time.

"Collateral Documents" means the Security Agreement, and all other mortgages, deeds of trust, security agreements, pledge agreements, assignments, financing statements, control agreements, and other documents as shall from time to time secure or relate to the Secured Obligations or any part thereof.

"*Commodity Exchange Act*" means the Commodity Exchange Act (7 U.S.C. § 1 et seq.), as amended from time to time, and any successor statute.

"Connection Income Taxes" means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profit Taxes.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with any Loan Party, are treated as a single employer under Section 414 of the Code.

"Credit Event" means the advancing of any Loan, or the issuance of, or extension of the expiration date or increase in the amount of, any Letter of Credit.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

"Default" means any event or condition which constitutes an Event of Default or any event or condition the occurrence of which would, with the passage of time or the giving of notice, or both, constitute an Event of Default.

"Designated Disbursement Account" means the account of the Borrower maintained with the Bank or its Affiliate and designated in writing to the Bank as the Borrower's Designated Disbursement Account (or such other account as the Borrower and the Bank may otherwise agree).

"Disposition" means the sale, lease, conveyance or other disposition of Property, other than (a) the sale or lease of inventory in the ordinary course of business, and (b) the sale, transfer, lease or other disposition of Property of a Loan Party to another Loan Party in the ordinary course of its business.

"Distribution" means the declaration or payment of any cash dividend on or in respect of any shares of any class of capital stock of the Borrower, the purchase, redemption, defeasance, retirement or other acquisition for cash of any shares of any class of capital stock of the Borrower, directly or indirectly through a subsidiary of the Loan Parties or otherwise (including the setting apart of assets for a sinking or other analogous fund to be used for such purpose); the return of capital by the Loan Parties to its shareholders as such in cash; or any other cash distribution on or in respect of any shares of any class of capital stock of the Loan Parties; and the payment or distribution of any management fees.

"Domestic Subsidiary" means a Subsidiary that is not a Foreign Subsidiary.

"Drawing Period End Date" is defined in Section 2.1.

"EBITDA" means, with reference to any period, Net Income for such period *plus* all amounts deducted in arriving at such Net Income amount in respect of (a) Interest Expense for such period, (b) federal, state, and local income taxes for such period, (c) depreciation of fixed assets and amortization (including, but not limited to, the amortization of any employee stock option (or similar) compensation plan) of intangible assets for such period, and (d) extraordinary fees or expenses not to exceed $500,000 during any twelve month period, including any fees and expenses paid by the Loan Parties during such period in connection with this Agreement and the consummation of any Permitted Acquisition.

"Eligible Inventory" means raw materials, work-in-process or finished goods inventory of each Loan Party that:

(a) is an asset of such Person to which it has good and marketable title, is freely assignable, and is subject to a perfected, first priority Lien in favor of the Bank free and clear of any other Liens, except for Liens which are junior to the Bank's Lien which arise by operation of law for amounts not past due;

(b) is located in the United States of America at a Permitted Collateral Location as set forth in the Security Agreement and, in the case of any location not owned by such Person, which is at all times subject either to a Collateral Access Agreement or, in the absence of such Collateral Access Agreement and the Bank so agrees in its sole discretion, Reserves established to the satisfaction of the Bank;

(c) is not bill-and-hold inventory or otherwise so identified to a contract to sell that it constitutes a Receivable;

(d) is not obsolete and is of good and merchantable quality conforming to all standards imposed by any governmental authority free from any defects which will adversely affect the market value thereof;

(e) is not covered by a warehouse receipt or similar document;

(f) does not constitute spare or replacement parts (other than spare or replacement parts to be sold to customers in the ordinary course), packaging and shipping material, manufacturing supplies, samples, prototypes, displays or display items, bill-and-hold goods, goods that are returned or marked for return (except to the extent such goods may be resold in the ordinary course of business), repossessed goods, defective or damaged goods, goods that have been discontinued or components thereof, goods held on consignment, or goods which are not of a type held for sale in the ordinary course of business;

(g) does not contain or bear any intellectual property rights licensed to the such Loan Party unless the Bank is satisfied that it may sell or otherwise dispose of such inventory without (i) infringing the rights of such licensor, (ii) violating any contract with such licensor, or (iii) incurring any liability with respect to payment of royalties other than royalties incurred pursuant to sale of such inventory under the current licensing agreement;

(h) all representations and warranties set forth in this Agreement and the Collateral Documents are true and correct in all material respects with respect thereto;

(i) is not otherwise deemed to be ineligible in the Permitted Discretion of the Bank (it being acknowledged and agreed that with five (5) Business Days prior written notice any inventory or categories thereof of any Loan Party may be deemed ineligible by the Bank acting in its Permitted Discretion); and

(j) does not cause the amount of Eligible Inventory constituting work-in-process to exceed $2,000,000.

"Eligible Line of Business" means any business engaged in as of the date of this Agreement by the Borrower or any other Loan Party or any business reasonably related thereto, including the transmission, distribution, control or protection of electrical power.

"Eligible Receivables" means any Receivable of a Loan Party that:

(a) (i) arises out of the sale of goods or the performance of services in the ordinary course of business that is not contingent upon the completion of any further performance by such Loan Party or any other Person on its/their behalf, (ii) does not represent a pre-billed Receivable or a progress billing or retainage amount, (iii) does not relate to the payment of interest, and (iv) is net of any deposits made by or for the account of the relevant Account Debtor;

(b) is payable in U.S. Dollars and the Account Debtor on such Receivable is located within the United States of America or Canada or, if such right has arisen out of the sale of such goods shipped to, or out of the rendition of services to, an Account Debtor located in any other country, such right is secured by a valid and irrevocable transferable letter of credit issued by a lender reasonably acceptable to the Bank for the full amount thereof or secured by an insurance policy in an amount and on such terms, and issued by an insurer, satisfactory to the Bank in its discretion, in each case which has been assigned or transferred to the Bank in a manner acceptable to the Bank;

(c) is the valid, binding and legally enforceable obligation of the Account Debtor obligated thereon and such Account Debtor (i) is not a Subsidiary or an Affiliate of any Loan Party, (ii) is not a shareholder, director, officer, or employee of any Loan Party or of any of its Subsidiaries, (iii) is not the United States of America or Canada, or any state, province, or political subdivision thereof, or any department, agency or instrumentality of any of the foregoing, unless the Assignment of Claims Act or any similar state, provincial, or local statute, as the case may be, is complied with to the satisfaction of the Bank, (iv) is not a debtor under any proceeding under any Debtor Relief Law, (v) is not an assignor for the benefit of creditors, or (vi) has not sold all or substantially all of its assets;

(d) is not evidenced by an instrument or chattel paper unless the same has been endorsed and delivered to the Bank;

(e) is an asset of such Person to which it has good and marketable title, is freely assignable, and is subject to a perfected, first priority Lien in favor of the Bank free and clear of any other Liens, except for Liens which are junior to the Bank's Lien which arise by operation of law for amounts not past due;

(f) is not owing from an Account Debtor who is also a creditor or supplier of such Person, and is not subject to any offset, counterclaim, or other known defenses with respect thereto;

(g) no surety bond was required or given in connection with said Receivable or the contract or purchase order out of which the same arose;

(h) it is evidenced by an invoice to the Account Debtor dated not more than five (5) Business Days subsequent to the shipment date of the relevant inventory or completion of performance of the relevant services and is issued on ordinary trade terms requiring payment within ninety (90) days of invoice date, and has not been invoiced more than once;

(i) is not unpaid more than 90 days after the date of the original invoice therefor (120 days with respect to Receivables owing from Siemens and its Affiliates), and which has not been written off the books of the Loan Parties or otherwise designated as uncollectible;

(j) is not owed by an Account Debtor who is obligated on Receivables more than 25% of the aggregate unpaid balance of which have been past due for longer than the relevant period specified in subsection (i) above unless the Bank has approved the continued eligibility thereof;

(k) would not cause the total Receivables owing from any one Account Debtor and its Affiliate to exceed any credit limit established for purposes of determining eligibility hereunder by the Bank in its Permitted Discretion for such Account Debtor and for which the Bank has given the Borrower at least fifteen (15) Business Days prior notice of the establishment of any such credit limit;

(l) is not owed by an Account Debtor located in any jurisdiction which requires filing of a "Notice of Business Activities Report" or other similar report in order to permit such Loan Party to seek judicial enforcement in such jurisdiction of payment of such Receivable, unless such Loan Party has filed such report or qualified to do business in such jurisdiction;

(m) complies in all material respects with the requirements of all applicable laws and regulations, whether Federal, state or local, including without limitation the Federal Consumer Credit Protection Act, the Federal Truth in Lending Act and Regulation Z of the Board;

(n) all representations and warranties set forth in this Agreement and the Collateral Documents are true and correct with respect thereto;

(o) does not arise from a sale on a bill-and-hold, guaranteed sale, sale-or-return, sale-on-approval, consignment, or any other repurchase or return basis; and

(p) is not otherwise deemed to be ineligible in the Permitted Discretion of the Bank (it being acknowledged and agreed that with five (5) Business Days prior written notice any Receivable of any Loan Party may be deemed ineligible by the Bank acting in its Permitted Discretion).

"Environmental Claim" means any investigation, notice, violation, demand, allegation, action, suit, injunction, judgment, order, consent decree, penalty, fine, lien, proceeding or claim (whether administrative, judicial or private in nature) arising (a) pursuant to, or in connection with an actual or alleged violation of, any Environmental Law, (b) in connection with any Hazardous Material, (c) from any abatement, removal, remedial, corrective or response action in connection with a Hazardous Material, Environmental Law or order of a governmental authority or (d) from any actual or alleged damage, injury, threat or harm to health, safety, natural resources or the environment.

"Environmental Law" means any current or future Legal Requirement pertaining to (a) the protection of health, safety and the indoor or outdoor environment, (b) the conservation, management or use of natural resources and wildlife, (c) the protection or use of surface water or groundwater, (d) the management, manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release, threatened Release, abatement, removal, remediation or handling of, or exposure to, any Hazardous Material or (e) pollution (including any Release to air, land, surface water or groundwater), and any amendment, rule, regulation, order or directive issued thereunder.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of any Loan Party or any Subsidiary of a Loan Party directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other legally enforceable consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute thereto.

"Eurodollar Loan" means a Loan bearing interest at the rate specified in Section 2.4(b).

"Eurodollar Reserve Percentage" means the maximum reserve percentage, expressed as a decimal, at which reserves (including, without limitation, any emergency, marginal, special, and supplemental reserves) are imposed by the Board of Governors of the Federal Reserve System (or any successor) on *"eurocurrency liabilities"*, as defined in such Board's Regulation D (or any successor thereto), subject to any amendments of such reserve requirement by such Board or its successor, taking into account any transitional adjustments thereto. For purposes of this definition, the relevant Loans shall be deemed to be *"eurocurrency liabilities"* as defined in Regulation D without benefit or credit for any prorations, exemptions or offsets under Regulation D. The Eurodollar Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in any such reserve percentage.

"Event of Default" means any event or condition identified as such in Section 9.1.

"Event of Loss" means, with respect to any Property, any of the following: (a) any loss, destruction or damage of such Property or (b) any condemnation, seizure, or taking, by exercise of the power of eminent domain or otherwise, of such Property, or confiscation of such Property or the requisition of the use of such Property.

"Excluded Property" means (a) any leased real property; (b) any equipment securing purchase money indebtedness or Capitalized Lease Obligations if the granting of a Lien to any third party is prohibited by the agreement(s) setting forth the terms and conditions applicable to such Indebtedness but only if such Indebtedness and the Liens securing the same are permitted by Sections 8.7(b) and 8.8(d) of the Credit Agreement, *provided* that if and when the prohibition which prevents the granting of a Lien in any such Property is removed, terminated or otherwise becomes unenforceable as a matter of law (including, without limitation, the termination of any such security interest resulting from the satisfaction of the Indebtedness secured thereby), and notwithstanding any previous release of Lien provided by the Bank requested in connection with respect to any such Indebtedness, the Excluded Property will no longer include such Property and the Bank will be deemed to have, and at all times to have had, a security interest in such property and the Collateral will be deemed to include, and at all times to have included, such Property without further action or notice by any Person; (c) any permit or license issued to any Loan Party as the permit holder or licensee thereof or any lease to which any Loan Party is lessee thereof, in each case only to the extent and for so long as the terms of such permit, license, or lease effectively (after giving effect to Sections 9-406 through 9-409, inclusive, of the Uniform Commercial Code in the applicable state (or any successor provision or provisions) or any other applicable law) prohibit the creation by such Loan Party of a security interest in favor of the Bank in such permit, license, or lease in favor of the Bank or would result in an effective invalidation, termination or breach of the terms of any such permit, license or lease (after giving effect to Sections 9-406 through 9-409, inclusive, of the Uniform Commercial Code in the applicable state (or any successor provision or provisions) or any other applicable law), in each case unless and until any required consents are obtained, *provided* that the Excluded Property will not include, and the Collateral shall include and the security interest granted in the Collateral shall attach to, (x) all proceeds, substitutions or replacements of any such excluded items referred to herein unless such proceeds, substitutions or replacements would constitute excluded items hereunder, (y) all rights to payment due or to become due under any such excluded items referred to herein, and (z) if and when the prohibition which prevents the granting of a security interest in favor of the Bank in any such Property is removed, terminated, or otherwise becomes unenforceable as a matter of law, the Bank will be deemed to have, and at all times to have had, a security interest in such property, and the Collateral will be deemed to include, and at all times to have included, such Property without further action or notice by any Person; and (d) equity interests of any Foreign Subsidiary owned by any Loan Party representing more than 65% of the total voting power of all outstanding voting equity interests of such Foreign Subsidiary, with equity interests of such Foreign Subsidiary constituting "stock entitled to vote" within the meaning of Treasury regulation section 1.956-2(c)(2) being treated as voting equity interests of such Foreign Subsidiary for purposes of this clause (d).

"*Excluded Swap Obligation*" means, with respect to any Guarantor, any Swap Obligation if, and to the extent that, all or a portion of the Guarantee of such Guarantor of, or the grant by such Guarantor of a security interest to secure, such Swap Obligation (or any Guarantee thereof) is or becomes illegal under the Commodity Exchange Act or any rule, regulation or order of the Commodity Futures Trading Commission (or the application or official interpretation of any thereof) by virtue of such Guarantor's failure for any reason not to constitute an "eligible contract participant" as defined in the Commodity Exchange Act and the regulations thereunder at the time the Guarantee of such Guarantor or the grant of such security interest becomes effective with respect to such related Swap Obligation. If a Swap Obligation arises under a master agreement governing more than one swap, such exclusion shall apply only to the portion of such Swap Obligation that is attributable to swaps for which such Guarantee or security interest is or becomes illegal.

"Excluded Taxes" means any of the following Taxes imposed on or with respect to the Bank or required to be withheld or deducted from a payment to the Bank, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of the Bank being organized under the laws of, or having its principal office or its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) U.S. federal withholding Taxes imposed on amounts payable to or for the account of the Bank with respect to an applicable interest in a Loan or Commitment pursuant to a law in effect on the date on which (i) the Bank acquires such interest in the Loan or Commitment or (ii) the Bank changes its lending office, except in each case to the extent that, pursuant to Section 4.1 amounts with respect to such Taxes were payable to the Bank immediately before it changed its lending office, and (c) any U.S. federal withholding Taxes imposed under FATCA.

"Facility" means any of the Revolving Facility or Term Loan Facility and *"Facilities"* means both.

"FATCA" means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, and any agreements entered into pursuant to Section 1471(b)(1) of the Code

"Federal Funds Rate" means the fluctuating interest rate per annum described in part (i) of clause (b) of the definition of U.S. Prime Rate.

"Financial Officer" of any Person means the chief financial officer, principal accounting officer, treasurer or controller of such Person.

"Fixed Charge Coverage Ratio" means, at any time the same is to be determined, the ratio of (a) Adjusted EBITDA for the four (4) consecutive fiscal quarters of the Borrower then most recently completed *less* the sum of (i) Unfinanced Capital Expenditures of the Loan Parties and their Non-Canadian Subsidiaries during such period, (ii) federal, state, and local income taxes (and franchise taxes in lieu of income taxes) paid or required to be paid in cash by the Loan Parties and their Non-Canadian Subsidiaries during such period, and (iii) Restricted Payments paid in cash during such period to (b) Fixed Charges for the same four (4) consecutive fiscal quarters of the Borrower then ended.

"Fixed Charges" means, with reference to any period, the sum of (a) all scheduled payments of principal paid or required to be paid during such period with respect to Indebtedness of the Loan Parties and their Non-Canadian Subsidiaries, and (b) Interest Expense paid or required to be paid for such period.

"Foreign Subsidiary" means each Subsidiary that (a) is organized under the laws of a jurisdiction other than the United States of America or any state thereof or the District of Columbia, (b) conducts substantially all of its business outside of the United States of America, and (c) has substantially all of its assets outside of the United States of America.

"Foreign Subsidiary Holding Company" means each Domestic Subsidiary of the Borrower whose sole assets are equity interests in Foreign Subsidiaries or other Foreign Subsidiary Holding Companies. As of the Closing Date, Nexus Custom Magnetics, LLC, a Texas limited liability company, JE Mexican Holdings, Inc., a Delaware corporation, and Jefferson Electric Mexico Holdings, LLC, a Wisconsin limited liability company, are the only Foreign Subsidiary Holding Companies.

"Funded Debt" means for any Person (without duplication) (a) all indebtedness created, assumed or incurred in any manner by such Person representing money borrowed (including by the issuance of debt securities), (b) all indebtedness for the deferred purchase price of property or services (other than trade accounts payable arising in the ordinary course of business, (c) all indebtedness secured by any Lien upon Property of such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness, (d) all Capitalized Lease Obligations of such Person, (e) all obligations of such Person on or with respect to letters of credit, bankers' acceptances and other extensions of credit whether or not representing obligations for borrowed money, (f) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any equity interest in such Person or any other Person or any warrant, right or option to acquire such equity interest (other than any obligation to make any payment on, or redemption of, any equity interests (x) with a stated maturity date that occurs after the Term Loan Maturity Date and (y) that are not payable at the option of the holder), valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends, (g) all net obligations (determined as of any time based on the termination value thereof) of such Person under any interest rate, foreign currency, and/or commodity swap, exchange, cap, collar, floor, forward, future or option agreement, or any other similar interest rate, currency or commodity hedging arrangement; and (h) all Guarantees of such Person in respect of any of the foregoing; *provided, however,* that Funded Debt shall exclude Subordinated Debt owed to Bemag Transformer Inc.

"GAAP" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

"Governmental Authority" means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

"Guarantee" of or by any Person (the *"guarantor"*) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the *"primary obligor"*) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; *provided,* that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"Guaranty Agreements" means and includes the Guarantee of the Loan Parties provided for in Section 10, and any other guaranty agreement executed and delivered in order to guarantee the Secured Obligations or any part thereof in form and substance acceptable to the Bank.

"Guarantors" means (a) Jefferson Electric, Inc., (b) PCP and (c) any Domestic Subsidiary acquired pursuant to a Permitted Acquisition by Borrower after the date hereof that becomes a party to this Agreement pursuant to Section 11. For the avoidance of doubt, no Foreign Subsidiary shall be a Guarantor.

"Hazardous Material" means any substance, chemical, compound, product, solid, gas, liquid, waste, byproduct, pollutant, contaminant or material which is hazardous or toxic, and includes, without limitation, (a) asbestos, polychlorinated biphenyls and petroleum (including crude oil or any fraction thereof) and (b) any material classified or regulated as "hazardous" or "toxic" or words of like import pursuant to an Environmental Law.

"Hazardous Material Activity" means any activity, event or occurrence involving a Hazardous Material, including, without limitation, the manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release, threatened Release, abatement, removal, remediation, handling of or corrective or response action to any Hazardous Material.

"Hedging Agreement" means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; *provided* that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of any Loan Party or its Subsidiaries shall be a Hedging Agreement.

"Hedging Liability" means the liability of any Loan Party to the Bank or any Affiliates of the Bank in respect of any Hedging Agreement of the type permitted under Section 8.7(c) as such Loan Party may from time to time enter into with the Bank or its Affiliates, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor); *provided, however,* that, with respect to any Guarantor, the Hedging Liability of any Loan Party Guaranteed by such Guarantor shall exclude all Excluded Swap Obligations.

"Hostile Acquisition" means the acquisition of the capital stock or other equity interests of a Person through a tender offer or similar solicitation of the owners of such capital stock or other equity interests which has not been approved (prior to such acquisition) by resolutions of the Board of Directors of such Person or by similar action if such Person is not a corporation, or as to which such approval has been withdrawn.

"Indebtedness" means the indebtedness of any Loan Party and includes, without duplication (in each case, whether such obligation is with full or limited recourse):

(a) any obligation of such Loan Party for borrowed money;

(b) any obligation of such Loan Party evidenced by a bond, debenture, note or similar instrument;

(c) any obligation of such Loan Party to pay the deferred purchase price of property or services, except a trade account payable that arises in the ordinary course of business;

(d) any obligation of such Loan Party as lessee under any capital lease;

(e) any obligation of such Loan Party to reimburse any other person in respect of amounts drawn or drawable under any letter of credit or other guarantee or under any bankers' or trade acceptance issued or accepted by such other person, whether contingent or non-contingent;

(f) all obligations of such Loan Party to purchase, redeem retire, decrease or otherwise make any payment in respect of any capital stock of or other ownership or profit interest in such Loan Party or any other person, valued, in the case of redeemable preferred stock, at the greater of its voluntary liquidation preference plus accrued and unpaid dividends;

(g) any obligation of such Loan Party to purchase securities or other property that arises out of or in connection with the sale of the same or substantially similar securities or property;

(h) any Indebtedness of others secured by a Lien on any asset of such Loan Party;

(i) any Indebtedness of others guaranteed by such Loan Party; and

(j) all net obligations and liabilities of such Loan Party in respect of "Specified Transactions" (as such term is defined in the 1992 Multicurrency-Cross Border Master Agreement published by the International Swaps and Derivatives Associates, Inc.).

"Indemnified Taxes" means (a) all Taxes other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

"Interest Expense" means, with reference to any period, the sum of all interest charges (including imputed interest charges with respect to Capitalized Lease Obligations and all amortization of debt discount and expense) of the Loan Parties and their Non-Canadian Subsidiaries for such period determined on a consolidated basis in accordance with GAAP.

"Interest Payment Date" means (a) with respect to any Eurodollar Loan, the last day of each Interest Period with respect to such Eurodollar Loan and on the maturity date and, if the applicable Interest Period is longer than three (3) three months, on each day occurring every three (3) months after the commencement of such Interest Period, and (b) with respect to any U.S. Prime Rate Loan, the last day of every calendar month and on the maturity date.

"Interest Period" means the period commencing on the date a Borrowing of Eurodollar Loans is advanced, continued, or created by conversion and ending in the case of Eurodollar Loans, one (1), two (2), or three (3) months thereafter, *provided, however,* that:

(i) no Interest Period shall extend beyond the final maturity date of the relevant Loans;

(ii) no Interest Period with respect to any portion of the Term Loan shall extend beyond a date on which the Borrower is required to make a scheduled payment of principal on the Term Loan, unless the sum of (a) the aggregate principal amount of the Term Loan that constitutes U.S. Prime Rate Loans *plus* (b) the aggregate principal amount of the Term Loan that constitutes Eurodollar Loans with Interest Periods expiring on or before such date equals or exceeds the portion of the principal amount to be paid on the Term Loan, on such payment date;

(iii) whenever the last day of any Interest Period would otherwise be a day that is not a Business Day, the last day of such Interest Period shall be extended to the next succeeding Business Day, *provided* that, if such extension would cause the last day of an Interest Period for a Borrowing of Eurodollar Loans to occur in the following calendar month, the last day of such Interest Period shall be the immediately preceding Business Day; and

(iv) for purposes of determining an Interest Period for a Borrowing of Eurodollar Loans, a month means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month; *provided, however,* that if there is no numerically corresponding day in the month in which such an Interest Period is to end or if such an Interest Period begins on the last Business Day of a calendar month, then such Interest Period shall end on the last Business Day of the calendar month in which such Interest Period is to end.

"IRS" means the United States Internal Revenue Service.

"L/C Obligations" means the aggregate undrawn face amounts of all outstanding Letters of Credit and all unpaid Reimbursement Obligations.

"L/C Sublimit" means the U.S. Dollar Equivalent of $1,000,000, as reduced or otherwise amended pursuant to the terms hereof.

"Legal Requirement" means any treaty, convention, statute, law, regulation, ordinance, license, permit, governmental approval, injunction, judgment, order, consent decree or other requirement of any governmental authority, whether federal, state, or local.

"Lending Office" is defined in Section 4.7.

"Letter of Credit" is defined in Section 2.3(a).

"Letter of Credit Fee" is defined in Section 3.1(b).

"LIBOR" means, for an Interest Period for a Borrowing of Eurodollar Loans, (a) the LIBOR Index Rate for such Interest Period, if such rate is available, and (b) if the LIBOR Index Rate cannot be determined, the arithmetic average of the rates of interest per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) at which deposits in U.S. Dollars in immediately available funds are offered to the Bank at 11:00 a.m. (London, England time) two (2) Business Days before the beginning of such Interest Period by three (3) or more major banks in the interbank eurodollar market selected by the Bank for delivery on the first day of and for a period equal to such Interest Period and in an amount equal or comparable to the principal amount of the Eurodollar Loan scheduled to be made as part of such Borrowing.

"LIBOR Index Rate" means, for any Interest Period, the rate per annum (rounded upwards, if necessary, to the next higher one hundred-thousandth of a percentage point) for deposits in U.S. Dollars for a period equal to such Interest Period, which appears on the LIBOR01 Page as of 11:00 a.m. (London, England time) on the day two (2) Business Days before the commencement of such Interest Period.

"LIBOR01 Page" means the display designated as *"LIBOR01 Page"* on the Reuters Service (or such other page as may replace the LIBOR01 Page on that service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying British Bankers' Association Interest Settlement Rates for U.S. Dollar deposits).

"Lien" means any mortgage, lien, security interest, pledge, charge or encumbrance of any kind in respect of any Property, including the interests of a vendor or lessor under any conditional sale, Capital Lease or other title retention arrangement.

"Loan" means any Revolving Loan or Term Loan, whether outstanding as a U.S. Prime Rate Loan or Eurodollar Loan or otherwise, each of which is a *"type"* of Loan hereunder.

"Loan Documents" means this Agreement, the Notes (if any), the Applications, the Collateral Documents, the Guaranty Agreements, and each other instrument or document to be delivered hereunder or thereunder or otherwise in connection therewith.

"Loan Party" means the Borrower and each of the Guarantors.

"Material Adverse Effect" means (a) a material adverse change in, or material adverse effect upon, the operations, business, Property, financial condition or operating results of the Loan Parties taken as a whole, (b) a material impairment of the ability of any Loan Party to perform its material obligations under any Loan Document or (c) a material adverse effect upon (i) the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document or the material rights and remedies of the Bank thereunder or (ii) the perfection or priority of any Lien granted under any Collateral Document.

"Material Indebtedness" means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of the Loan Parties and its Subsidiaries in an aggregate principal amount exceeding $500,000. For purposes of determining Material Indebtedness, the "obligations" of any Loan Party or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that such Loan Party or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Mortgages" means, collectively, each Mortgage and Security Agreement with Assignment of Rents and each Deed of Trust and Security Agreement with Assignment of Rents between the Borrower or another Loan Party and the Bank relating to such Person's real property acquired in connection with a Permitted Acquisition and any other mortgages or deeds of trust delivered to the Bank pursuant to Section 11.4 as the same may be amended, modified, supplemented or restated from time to time.

"Moody's" means Moody's Investors Service, Inc.

"Net Cash Proceeds" means, as applicable, (a) with respect to any Disposition by a Person, cash and cash equivalent proceeds received by or for such Person's account, net of (i) reasonable direct costs relating to such Disposition (including, expenses, fees and commissions), (ii) sale, use or other transactional taxes paid or payable by such Person as a direct result of such Disposition, (iii) income taxes to be paid in connection with such Disposition, and (iv) the principal amount of any Indebtedness permitted hereby which is secured by a prior perfected Lien on the asset subject to such Disposition and is required to be repaid in connection with such Disposition, (b) with respect to any Event of Loss of a Person, cash and cash equivalent proceeds received by or for such Person's account (whether as a result of payments made under any applicable insurance policy therefor or in connection with condemnation proceedings or otherwise), net of reasonable direct costs incurred in connection with the collection of such proceeds, awards or other payments, and (c) with respect to any offering of equity securities of a Person or the issuance of any Indebtedness by a Person, cash and cash equivalent proceeds received by or for such Person's account, net of reasonable legal, underwriting, and other fees and expenses incurred as a direct result thereof.

"Net Income" means, with reference to any period, the net income (or net loss) of the Loan Parties and their Non-Canadian Subsidiaries for such period computed on a consolidated basis in accordance with GAAP; *provided* that there shall be excluded from Net Income (a) the net income (or net loss) of any Person accrued prior to the date it becomes a Subsidiary of, or has merged into or consolidated with, any Loan Party or another Non-Canadian Subsidiary, (b) the net income (or net loss) of any Person (other than a Subsidiary) in which any Loan Party or any of its Non-Canadian Subsidiaries has an equity interest, except to the extent of the amount of dividends or other distributions actually paid to a Loan Party or any of its Non-Canadian Subsidiaries during such period, (c) the undistributed earnings of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of any contractual obligation (other than under any Loan Document) or requirement of law applicable to such Subsidiary, and (d) extraordinary or non-recurring gains.

"Net Worth" means, for any Person and at any time the same is to be determined, total shareholder's equity (including capital stock, additional paid-in capital, and retained earnings after deducting treasury stock) which would appear on the balance sheet of such Person in accordance with GAAP.

"Non-Canadian Subsidiaries" means and includes all Subsidiaries of the Borrower which are not organized under the laws of Canada or a province or territory thereof.

"Note" and *"Notes"* each is defined in Section 2.10.

"Obligations" means all obligations of the Borrower to pay principal and interest on the Loans, all Reimbursement Obligations owing under the Applications, all fees and charges payable hereunder, and all other payment obligations of the Borrower or any other Loan Party arising under or in relation to any Loan Document, in each case whether now existing or hereafter arising, due or to become due, direct or indirect, absolute or contingent, and howsoever evidenced, held or acquired.

"*OFAC*" means the United States Department of Treasury Office of Foreign Assets Control.

"*OFAC Event*" means the event specified in Section 8.15.

"*OFAC Sanctions Programs*" means all laws, regulations, and Executive Orders administered by OFAC, including without limitation, the Bank Secrecy Act, anti-money laundering laws (including, without limitation, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. 107-56 (a/k/a the USA Patriot Act)), and all economic and trade sanction programs administered by OFAC, any and all similar United States federal laws, regulations or Executive Orders, and any similar laws, regulations or orders adopted by any State within the United States.

"*OFAC SDN List*" means the list of the Specially Designated Nationals and Blocked Persons maintained by OFAC.

"*Other Connection Taxes*" means, with respect to the Bank, Taxes imposed as a result of a present or former connection between the Bank and the jurisdiction imposing such Tax (other than connections arising from the Bank having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

"*Other Taxes*" means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment.

"PBGC" means the Pension Benefit Guaranty Corporation or any Person succeeding to any or all of its functions under ERISA.

"PCP" means Pioneer Critical Power Inc., a Delaware corporation.

"PECI" means Pioneer Electrogroup Canada Inc., a Quebec corporation.

"PECI Letter Loan Agreement" means that certain Amended and Restated Letter Loan Agreement dated as of June 28, 2013 among PECI and its Subsidiaries, as borrowers, and the Bank, as the same may be amended, modified or restated from time to time.

"Permitted Acquisition" means any Acquisition with respect to which all of the following conditions shall have been satisfied:

(a) the Acquired Business is in an Eligible Line of Business and has its primary operations within the United States of America;

(b) the Acquisition shall not be a Hostile Acquisition;

(c) the financial statements of the Acquired Business shall have been compiled or audited by a nationally recognized accounting firm or such financial statements shall have undergone review of a scope satisfactory to the Bank and in case of any Acquisition where the Total Consideration exceeds $2,000,000, the Bank shall have received a Quality of Earnings Report satisfactory to it;

(d) the Total Consideration for the Acquired Business shall not exceed $10,000,000;

(e) the Borrower shall have notified the Bank not less than thirty (30) days prior (or such shorter time period as permitted by the Bank) to any such Acquisition and furnished to the Bank at such time reasonable details as to such Acquisition (including sources and uses of funds therefor), and three (3)-year historical financial information, if available, and three (3)-year pro forma financial forecasts of the Acquired Business on a stand alone basis as well as of the Borrower on a consolidated basis after giving effect to the Acquisition and covenant compliance calculations reasonably satisfactory to the Bank demonstrating satisfaction of the condition described in clause (g) below;

(f) if a new Domestic Subsidiary is formed or acquired as a result of or in connection with the Acquisition, the Borrower shall have complied with the requirements of Section 11 in connection therewith; and

(g) after giving effect to the Acquisition and any Credit Event in connection therewith, no Default shall exist, including with respect to the financial covenants contained in Section 8.23 on a pro forma basis (looking back four completed fiscal quarters as if the Acquisition occurred on the first day of such period and after giving effect to the payment of the purchase price for the Acquired Business).

"Permitted Discretion" means a determination made in good faith and in the exercise of reasonable (from the perspective of a secured asset-based lender) business judgment.

"Person" means any natural Person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code that either (a) is maintained by a member of the Controlled Group for employees of a member of the Controlled Group or (b) is maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"Premises" means the real property owned or leased by any Loan Party or any Domestic Subsidiary of a Loan Party.

"Property" means, as to any Person, all types of real, personal, tangible, intangible or mixed property owned by such Person whether or not included in the most recent balance sheet of such Person and its subsidiaries under GAAP.

"*Qualified ECP Guarantor*" means, in respect of any Swap Obligation, each Loan Party that has total assets exceeding $10,000,000 at the time the relevant Guarantee or grant of the relevant security interest becomes effective with respect to such Swap Obligation or such other person as constitutes an "eligible contract participant" under the Commodity Exchange Act or any regulations promulgated thereunder and can cause another person to qualify as an "eligible contract participant" at such time by entering into a keepwell under Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

"RCRA" means the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. §§6901 *et seq.*, and any future amendments.

"Receivables" means all rights to the payment of a monetary obligation, now or hereafter owing, whether evidenced by accounts, instruments, chattel paper, or general intangibles.

"Reimbursement Obligation" is defined in Section 2.3(c).

"Related Parties" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents, trustees, administrators, managers, advisors and representatives of such Person and of such Person's Affiliates.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, migration, dumping, or disposing into the indoor or outdoor environment, including, without limitation, the abandonment or discarding of barrels, drums, containers, tanks or other receptacles containing or previously containing any Hazardous Material.

"Reserves" means any and all reserves which the Bank deems necessary, in its Permitted Discretion, to maintain (including, without limitation, an availability reserve, reserves for accrued and unpaid interest on the Secured Obligations, volatility reserves, reserves for rent at locations leased by any Loan Party and for consignee's, warehousemen's and bailee's charges, reserves for dilution of Receivables, reserves for Inventory shrinkage, reserves for customs charges and shipping charges related to any Inventory in transit, reserves for Hedging Liability and Bank Product Obligations, reserves for contingent liabilities of any Loan Party, reserves for uninsured losses of any Loan Party, reserves for uninsured, underinsured, un-indemnified or under-indemnified liabilities or potential liabilities with respect to any litigation and reserves for taxes, fees, assessments, and other governmental charges) with respect to the Collateral or any part thereof or any Loan Party; *provided* that in no event shall Reserves at one time exceed $500,000.

"Responsible Officer" of any person means any executive officer or Financial Officer of such Person and any other officer, general partner or managing member or similar official thereof with responsibility for the administration of the obligations of such person in respect of this Agreement whose signature and incumbency shall have been certified to the Bank on or after the Closing Date pursuant to an incumbency certificate of the type contemplated by Section 7.2.

"Revolving Facility" means the credit facility for making Revolving Loans and issuing Letters of Credit described in Sections 2.2 and 2.3.

"Revolving Credit Exposure" means, at any time, the aggregate principal amount at such time of the Bank's outstanding Revolving Loans and L/C Obligations at such time.

"Revolving Credit Line" means the maximum amount of Revolving Loans and Letters of Credit at any one time outstanding under the Revolving Facility, not to exceed the amount set forth in Section 2.2, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof.

"Revolving Credit Termination Date" means the date demand for payment of the Revolving Loans and cash collateralization of the Letters of Credit is made by the Bank, or such earlier date on which the Revolving Credit Line is terminated in whole pursuant to Section 2.11, 9.2 or 9.3.

"Revolving Loan" is defined in Section 2.2 and, as so defined, includes a U.S. Prime Rate Loan or a Eurodollar Loan, each of which is a *"type"* of Revolving Loan hereunder.

"Revolving Note" is defined in Section 2.10.

"S&P" means Standard & Poor's Ratings Services Group, a Standard & Poor's Financial Services LLC business.

"Secured Obligations" means the Obligations, Hedging Liability, and Bank Product Obligations, in each case whether now existing or hereafter arising, due or to become due, direct or indirect, absolute or contingent, and howsoever evidenced, held or acquired (including all interest, costs, fees, and charges after the entry of an order for relief against any Loan Party in a case under the United States Bankruptcy Code or any similar proceeding, whether or not such interest, costs, fees and charges would be an allowed claim against such Loan Party in any such proceeding); *provided, however,* that, with respect to any Guarantor, Secured Obligations Guaranteed by such Guarantor shall exclude all Excluded Swap Obligations.

"Security Agreement" means that certain Security Agreement dated the date of this Agreement among the Loan Parties and the Bank, as the same may be amended, modified, supplemented or restated from time to time.

"Subordinated Debt" means Indebtedness which is subordinated in right of payment to the prior payment of the Secured Obligations pursuant to subordination provisions approved in writing by the Bank and is otherwise pursuant to documentation that is, which is in an amount that is, and which contains interest rates, payment terms, maturities, amortization schedules, covenants, defaults, remedies and other material terms that are in form and substance, in each case reasonably satisfactory to the Bank.

"Subsidiary" means, as to any particular parent corporation or organization, any other corporation or organization more than 50% of the outstanding Voting Stock of which is at the time directly or indirectly owned by such parent corporation or organization or by any one or more other entities which are themselves subsidiaries of such parent corporation or organization. Unless otherwise expressly noted herein, the term *"Subsidiary"* means a Subsidiary of the Borrower or of any of its direct or indirect Subsidiaries.

"*Swap Obligation*" means, with respect to any Guarantor, any obligation to pay or perform under any agreement, contract or transaction that constitutes a "swap" within the meaning of Section 1a(47) of the Commodity Exchange Act.

"Sweep to Loan Arrangement" means a cash management arrangement established by the Borrower with the Bank, pursuant to which the Bank is authorized (a) to make advances of Revolving Loans hereunder, the proceeds of which are deposited by the Bank into a designated account of the Borrower maintained at the Bank, and (b) to accept as prepayments of the Revolving Loans hereunder proceeds of excess targeted balances held in such designated account at the Bank, which cash management arrangement is subject to such agreement(s) and on such terms acceptable to the Bank.

"Taxes" means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"Term Loan Facility" means the credit facility for the Term Loan described in Section 2.1.

"Term Loan" is defined in Section 2.1 and, as so defined, includes a U.S. Prime Rate Loan or a Eurodollar Loan, each of which is a *"type"* of Term Loan hereunder.

"Term Loan Commitment" means the obligation of the Bank to make the Term Loan in the principal amount not to exceed the amount set forth in Section 2.1.

"*Term Loan Maturity Date*" means June 21, 2018.

"Term Note" is defined in Section 2.10.

"Total Consideration" means, with respect to an Acquisition, the sum (but without duplication) of (a) cash paid or payable in connection with any Acquisition, whether paid at or prior to or after the closing thereof, (b) indebtedness payable to the seller in connection with such Acquisition, including all "earn-out" and other future payment obligations subject to the occurrence of any contingency (provided that, in the case of any future payment subject to a contingency, such shall be considered part of the Total Consideration to the extent of the reserve, if any, required under GAAP to be established in respect thereof by any Loan Party or any Subsidiary of a Loan Party), (c) the fair market value of any equity securities, including any warrants or options therefor, delivered in connection with any Acquisition, (d) the present value of covenants not to compete entered into in connection with such Acquisition or other future payments which are required to be made over a period of time and are not contingent upon any Loan Party or its Subsidiary meeting financial performance objectives (exclusive of salaries paid in the ordinary course of business) (discounted at the U.S. Base Rate), but only to the extent not included in clause (a), (b) or (c) above, and (e) the amount of indebtedness assumed in connection with such Acquisition.

"Total Capitalization" means, at any time the same is to be determined, the sum of (a) Net Worth of the Loan Parties and their Non-Canadian Subsidiaries at such time and (b) Funded Debt of the Loan Parties and their Non-Canadian Subsidiaries at such time.

"Total Leverage Ratio" means, as of the last day of any fiscal quarter of the Borrower, the ratio of Funded Debt of the Loan Parties and their Non-Canadian Subsidiaries as of the last day of such fiscal quarter to Adjusted EBITDA of the Loan Parties and their Non-Canadian Subsidiaries for the period of four fiscal quarters then ended.

"Unfinanced Capital Expenditures" means, with respect to any period, the aggregate amount of Capital Expenditures made by the Loan Parties and their Non-Canadian Subsidiaries during such period to the extent permitted by this Agreement and not financed with proceeds of Indebtedness; *provided* that any Capital Expenditures financed under the Revolving Facility shall be considered Unfinanced Capital Expenditures.

"Unfunded Vested Liabilities" means, for any Plan at any time, the amount (if any) by which the present value of all vested nonforfeitable accrued benefits under such Plan exceeds the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the Controlled Group to the PBGC or the Plan under Title IV of ERISA.

"U.S. Dollar Equivalent" means (a) the amount of any Obligation or Letter of Credit denominated in U.S. Dollars, and (b) in relation to any Obligation or Letter of Credit denominated in another currency, the amount of U.S. Dollars which would be realized by converting such currency into U.S. Dollars at the exchange rate quoted to the Bank at the time of such calculation.

"U.S. Dollars" and *"$"* each means the lawful currency of the United States of America.

"U.S. Person" means any Person that is a "United States Person" as defined in Section 7701(a)(30) of the Code.

"U.S. Prime Rate" means, for any day, the rate per annum equal to the greater of: (a) the rate of interest announced or otherwise established by the Bank from time to time as the base rate it will use to determine rates of interest for U.S. Dollar loans to borrowers located in the United States as in effect on such day, with any change in the U.S. Prime Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said base rate (it being acknowledged and agreed that such rate may not be the Bank's best or lowest rate), and (b) the sum of (i) the rate determined by the Bank to be the average (rounded upward, if necessary, to the next higher 1/100 of 1%) of the rates per annum quoted to the Bank at approximately 10:00 a.m. (Chicago time) (or as soon thereafter as is practicable) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) by two or more Federal funds brokers selected by the Bank for sale to the Bank at face value of Federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, *plus* (ii) 1/2 of 1%.

"U.S. Prime Rate Loan" means a Loan bearing interest at a rate specified in Section 2.4(a).

"Voting Stock" of any Person means capital stock or other equity interests of any class or classes (however designated) having ordinary power for the election of directors or other similar governing body of such Person, other than stock or other equity interests having such power only by reason of the happening of a contingency.

"Welfare Plan" means a "welfare plan" as defined in Section 3(1) of ERISA.

"Withholding Agent" means any Loan Party and the Bank.

Section 1.2. *Interpretation*. The foregoing definitions are equally applicable to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein," "hereof" and "hereunder," and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (e) any reference to any law or regulation herein shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (f) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights. All references to time of day herein are references to Chicago, Illinois, time unless otherwise specifically provided. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, it shall be done in accordance with GAAP except where such principles are inconsistent with the specific provisions of this Agreement. The Borrower covenants and agrees with the Bank that whether or not the Borrower may at any time adopt Accounting Standards Codification 825 or account for assets and liabilities acquired in an acquisition on a fair value basis pursuant to Accounting Standards Codification 805, all determinations of compliance with the terms and conditions of this Agreement shall be made on the basis that the Borrower has not adopted Accounting Standards Codification 825 or Accounting Standards Codification 805.

Section 1.3. *Change in Accounting Principles*. If, after the date of this Agreement, there shall occur any change in GAAP from those used in the preparation of the financial statements referred to in Section 6.5 and such change shall result in a change in the method of calculation of any financial covenant, standard or term found in this Agreement, either the Borrower or the Bank may by notice to the Bank or the Borrower, respectively, require that the Bank and the Borrower negotiate in good faith to amend such covenants, standards, and terms so as equitably to reflect such change in accounting principles, with the desired result being that the criteria for evaluating the financial condition of the Borrower and its Subsidiaries shall be the same as if such change had not been made. No delay by the Borrower or the Bank in requiring such negotiation shall limit their right to so require such a negotiation at any time after such a change in accounting principles. Until any such covenant, standard, or term is amended in accordance with this Section, financial covenants shall be computed and determined in accordance with GAAP in effect prior to such change in accounting principles. Without limiting the generality of the foregoing, the Borrower shall neither be deemed to be in compliance with any financial covenant hereunder nor out of compliance with any financial covenant hereunder if such state of compliance or noncompliance, as the case may be, would not exist but for the occurrence of a change in accounting principles after the date hereof.

SECTION 2. THE FACILITIES.

Section 2.1. Term Loan Facility. Subject to the terms and conditions hereof, the Bank agrees to make loans (the *"Term Loan"*) in U.S. Dollars to the Borrower in the amount of $6,000,000. The Term Loan may be advanced in multiple Borrowings beginning on the Closing Date and ending on the date 6 months thereafter (the *"Drawing Period End Date"*), at which time the Term Loan Commitment shall expire. As provided in Section 2.6(a), the Borrower may elect that the Term Loan be outstanding as U.S. Prime Rate Loans or Eurodollar Loans. No amount repaid or prepaid on the Term Loan may be borrowed again.

Section 2.2. Revolving Facility; Revolving Credit Line. Subject to the terms and conditions hereof, the Borrower may request and the Bank shall consider in its discretion making a loan or loans (individually a *"Revolving Loan"* and collectively, the *"Revolving Loans"*) in U.S. Dollars to the Borrower from time to time on a revolving basis up to $10,000,000, subject to any reductions thereof pursuant to the terms hereof, before the Revolving Credit Termination Date; *provided that,* subject to the satisfaction of the conditions precedent set forth in Sections 7.1 and 7.2 hereof, the Bank has agreed to make an advance on the Closing Date of not less than $4,908,856.42. The sum of the aggregate principal amount of Revolving Loans and L/C Obligations at any time outstanding shall not exceed the lesser of (i) the Revolving Credit Line in effect at such time and (ii) the Borrowing Base as determined based on the most recent Borrowing Base Certificate. As provided in Section 2.6(a), the Borrower may elect that each Borrowing of Revolving Loans be either U.S. Prime Rate Loans or Eurodollar Loans. Revolving Loans may be repaid and the principal amount thereof reborrowed before the Revolving Credit Termination Date, subject to the terms and conditions hereof. THE BORROWER ACKNOWLEDGES THAT THE REVOLVING LOANS AND THE REVOLVING NOTE ARE PAYABLE UPON DEMAND AND THAT NOTHING CONTAINED HEREIN OR IN THE REVOLVING NOTE SHALL IN ANY MANNER AFFECT OR IMPAIR THE RIGHT OF THE BANK TO DEMAND PAYMENT OF THE REVOLVING LOANS AND REVOLVING NOTE, OR REFUSE TO EXTEND REVOLVING LOANS, AT ANY TIME IT DEEMS FIT, EVEN THOUGH NO DEFAULT HAS OCCURRED OR IS CONTINUING AND EVEN THOUGH THE BORROWER IS IN COMPLIANCE WITH THE TERMS OF THIS AGREEMENT AND THE REVOLVING NOTE.

Section 2.3. Letters of Credit. (a) *General Terms.* Subject to the terms and conditions hereof, as part of the Revolving Facility, the Bank shall issue standby and commercial letters of credit (each a *"Letter of Credit"*) for the account of the Borrower or for the account of the Borrower and one or more of its Subsidiaries in an aggregate undrawn face amount up to the L/C Sublimit. Letters of Credit shall constitute usage of the Revolving Credit Line in an amount equal to the L/C Obligations then outstanding.

(b) *Applications.* At any time before the Revolving Credit Termination Date, the Bank shall, at the request of the Borrower, issue one or more Letters of Credit in U.S. Dollars and other currencies approved by the Bank, in a form satisfactory to the Bank, with expiration dates no later than the earlier of 12 months from the date of issuance (or which are cancelable not later than 12 months from the date of issuance and each renewal) or thirty (30) days prior to the Revolving Credit Termination Date, in an aggregate face amount as set forth above, upon the receipt of an application duly executed by the Borrower and, if such Letter of Credit is for the account of one of its Subsidiaries, such Subsidiary for the relevant Letter of Credit in the form then customarily prescribed by the Bank for the Letter of Credit requested (each an *"Application"*). The Borrower agrees that if on the Revolving Credit Termination Date any Letters of Credit remain outstanding, the Borrower shall then deliver to the Bank, without notice or demand, Cash Collateral in an amount equal to 105% of the aggregate amount of each Letter of Credit then outstanding (which shall be held by the Bank pursuant to the terms of Section 9.4). Notwithstanding anything contained in any Application to the contrary: (i) the Borrower shall pay fees in connection with each Letter of Credit as set forth in Section 3.1, (ii) except as otherwise provided herein or in Section 2.8, unless an Event of Default exists, the Bank will not call for the funding by the Borrower of any amount under a Letter of Credit before being presented with a drawing thereunder, and (iii) if the Bank is not timely reimbursed for the amount of any drawing under a Letter of Credit on the date such drawing is paid, except as otherwise provided for in Section 2.6(b), the Borrower's obligation to reimburse the Bank for the amount of such drawing shall bear interest (which the Borrower hereby promises to pay) from and after the date such drawing is paid at a rate per annum equal to the sum of the Applicable Margin plus the U.S. Prime Rate from time to time in effect (computed on the basis of a year of 365 or 366 days, as the case may be, and the actual number of days elapsed). The Bank agrees to issue amendments to the Letter(s) of Credit increasing the amount, or extending the expiration date, thereof at the request of the Borrower subject to the conditions of Section 7 and the other terms of this Section.

(c) *The Reimbursement Obligations.* Subject to Section 2.3(b), the obligation of the Borrower to reimburse the Bank for all drawings under a Letter of Credit (a *"Reimbursement Obligation"*) shall be governed by the Application related to such Letter of Credit, except that reimbursement shall be made by no later than 12:00 Noon (Chicago time) on the date when each drawing is to be paid if the Borrower has been informed of such drawing by the Bank on or before 11:00 a.m. (Chicago time) on the date when such drawing is to be paid or, if notice of such drawing is given to the Borrower after 11:00 a.m. (Chicago time) on the date when such drawing is to be paid, by no later than 12:00 Noon (Chicago time) on the following Business Day, in immediately available funds at the Bank's principal office in Chicago, Illinois, or such other office as the Bank may designate in writing to the Borrower (who shall thereafter cause to be distributed to the Bank such amount(s) in like funds).

(d) *Obligations Absolute.* The Borrower's obligation to reimburse L/C Obligations shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement and the relevant Application under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Bank under a Letter of Credit against presentation of a draft or other document that does not strictly comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. The Bank shall not have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Bank; *provided* that the foregoing shall not be construed to excuse the Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower and each other Loan Party to the extent permitted by applicable law) suffered by the Borrower or any Loan Party that are caused by the Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Bank (as determined by a court of competent jurisdiction by final and nonappealable judgment), the Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(e) *Manner of Requesting a Letter of Credit.* The Borrower shall provide at least five (5) Business Days' advance written notice to the Bank of each request for the issuance of a Letter of Credit, such notice in each case to be accompanied by an Application for such Letter of Credit properly completed and executed by the Borrower and, in the case of an extension or amendment or an increase in the amount of a Letter of Credit, a written request therefor, in a form acceptable to the Bank, in each case, together with the fees called for by this Agreement.

Section 2.4. Applicable Interest Rates. (a) *U.S. Prime Rate Loans.* Each U.S. Prime Rate Loan made or maintained by the Bank shall bear interest (computed on the basis of a year of 365 or 366 days, as the case may be, and the actual days elapsed on the unpaid principal amount thereof from the date such Loan is advanced, or created by conversion from a Eurodollar Loan, until maturity (whether by acceleration or otherwise) at a rate per annum equal to the sum of the Applicable Margin plus the U.S. Prime Rate from time to time in effect, payable by the Borrower on each Interest Payment Date and at maturity (whether by acceleration or otherwise).

(b) *Eurodollar Loans.* Each Eurodollar Loan made or maintained by the Bank shall bear interest during each Interest Period it is outstanding (computed on the basis of a year of 360 days and actual days elapsed) on the unpaid principal amount thereof from the date such Loan is advanced or continued, or created by conversion from a U.S. Prime Rate Loan, until maturity (whether by acceleration or otherwise) at a rate per annum equal to the sum of the Applicable Margin plus the Adjusted LIBOR applicable for such Interest Period, payable by the Borrower on each Interest Payment Date and at maturity (whether by acceleration or otherwise).

(c) *Rate Determinations.* The Bank shall determine each interest rate applicable to the Loans and the Reimbursement Obligations hereunder in a manner consistent with the terms of this Agreement, and its determination thereof shall be conclusive and binding except in the case of manifest error.

Section 2.5. Minimum Borrowing Amounts; Maximum Eurodollar Loans. Each Borrowing of U.S. Prime Rate Loans advanced under a Facility shall be in an amount not less than $100,000. Each Borrowing of Eurodollar Loans advanced, continued or converted under a Facility shall be in an amount equal to $500,000 or such greater amount which is an integral multiple of $100,000. Without the Bank's consent, there shall not be more than five (5) Borrowings of Eurodollar Loans outstanding hereunder at any one time.

Section 2.6. Manner of Borrowing Loans and Designating Applicable Interest Rates. (a) *Notice to the Bank.* The Borrower shall give notice to the Bank by no later than 10:00 a.m. (Chicago time): (i) at least three (3) Business Days before the date on which the Borrower requests the Bank to advance a Borrowing of Eurodollar Loans and (ii) on the date the Borrower requests the Bank to advance a Borrowing of U.S. Prime Rate Loans. The Loans included in each Borrowing shall bear interest initially at the type of rate specified in such notice of a new Borrowing. Thereafter, subject to the terms and conditions hereof, the Borrower may from time to time elect to change or continue the type of interest rate borne by each Borrowing or, subject to the minimum amount requirement for each outstanding Borrowing set forth in Section 2.5, a portion thereof, as follows: (i) if such Borrowing is of Eurodollar Loans, on the last day of the Interest Period applicable thereto, the Borrower may continue part or all of such Borrowing as Eurodollar Loans or convert part or all of such Borrowing into U.S. Prime Rate Loans or (ii) if such Borrowing is of U.S. Prime Rate Loans, on any Business Day, the Borrower may convert all or part of such Borrowing into Eurodollar Loans for an Interest Period or Interest Periods specified by the Borrower. The Borrower shall give all such notices requesting the advance, continuation or conversion of a Borrowing to the Bank by telephone, telecopy, or other telecommunication device acceptable to the Bank (which notice shall be irrevocable once given and, if by telephone, shall be promptly confirmed in writing in a manner acceptable to the Bank), substantially in the form attached hereto as Exhibit A (Notice of Borrowing) or Exhibit B (Notice of Continuation/Conversion), as applicable, or in such other form acceptable to the Bank. Notice of the continuation of a Borrowing of Eurodollar Loans for an additional Interest Period or of the conversion of part or all of a Borrowing of U.S. Prime Rate Loans into Eurodollar Loans must be given by no later than 10:00 a.m. (Chicago time) at least three (3) Business Days before the date of the requested continuation or conversion. All such notices concerning the advance, continuation or conversion of a Borrowing shall specify the date of the requested advance, continuation or conversion of a Borrowing (which shall be a Business Day), the amount of the requested Borrowing to be advanced, continued or converted, the type of Loans to comprise such new, continued or converted Borrowing and, if such Borrowing is to be comprised of Eurodollar Loans, the Interest Period applicable thereto. Upon notice to the Borrower by the Bank (or, in the case of an Event of Default under Section 9.1(j) or 9.1(k) with respect to the Borrower, without notice), no Borrowing of Eurodollar Loans shall be advanced, continued, or created by conversion if any Event of Default then exists. The Borrower agrees that the Bank may rely on any such telephonic, telecopy or other telecommunication notice given by any person the Bank in good faith believes is an Authorized Representative without the necessity of independent investigation, and in the event any such notice by telephone conflicts with any written confirmation such telephonic notice shall govern if the Bank has acted in reliance thereon.

(b) *Borrower's Failure to Notify.* If the Borrower fails to give notice pursuant to Section 2.6(a) above of the continuation or conversion of any outstanding principal amount of a Borrowing of Eurodollar Loans before the last day of its then current Interest Period within the period required by Section 2.6(a) and such Borrowing is not prepaid in accordance with Section 2.8(a), such Borrowing shall automatically be converted into a Borrowing of U.S. Prime Rate Loans. In the event the Borrower fails to give notice pursuant to Section 2.6(a) above of a Borrowing equal to the amount of a Reimbursement Obligation and has not notified the Bank by 12:00 noon (Chicago time) on the day such Reimbursement Obligation becomes due that it intends to repay such Reimbursement Obligation through funds not borrowed under this Agreement, the Borrower shall be deemed to have requested a Borrowing of U.S. Prime Rate Loans under the Revolving Facility on such day in the amount of the Reimbursement Obligation then due, which Borrowing shall be applied to pay the Reimbursement Obligation then due.

(c) *Disbursement of Loans*. The Bank shall make the proceeds of each new Borrowing available to the Borrower at the Bank's principal office in Chicago, Illinois (or at such other location as the Bank shall designate), by depositing or wire transferring such proceeds to the credit of the Borrower's Designated Disbursement Account or as the Borrower and the Bank may otherwise agree.

(d) *Sweep to Loan Arrangement*. So long as a Sweep to Loan Arrangement is in effect, and subject to the terms and conditions thereof, Revolving Loans may be advanced and prepaid hereunder notwithstanding any notice, minimum amount, or funding and payment location requirements hereunder for any advance of Revolving Loans or for any prepayment of any Revolving Loans. The making of any such Revolving Loans shall otherwise be subject to the other terms and conditions of this Agreement. All Revolving Loans advanced or prepaid pursuant to such Sweep to Loan Arrangement shall be Base Rate Loans. The Bank shall have the right in its sole discretion to suspend or terminate the making and/or prepayment of Revolving Loans pursuant to such Sweep to Loan Arrangement with notice to the Borrower (which may be provided on a same-day basis), whether or not any Default exists. The Bank shall not be liable to the Borrower or any other Person for any losses directly or indirectly resulting from events beyond the Bank's reasonable control, including without limitation any interruption of communications or data processing services or legal restriction or for any special, indirect, consequential or punitive damages in connection with any Sweep to Loan Arrangement.

Section 2.7. Maturity of Loans. (a) *Scheduled Payments of Term Loan.* The Borrower shall make principal payments on the Term Loan in installments on the last day of each March, June, September, and December in each year, commencing with the calendar quarter ending March 31, 2014, with the amount of each such principal installment to equal the percentage of the outstanding principal balance of the Term Loan on the Drawing Period End Date set forth in Column B below shown opposite of the relevant due date as set forth in Column A below:

COLUMN A PAYMENT DATE	COLUMN B PERCENTAGE
03/31/14	3.00%
06/30/14	3.00%
09/30/14	3.00%
12/31/14	3.00%
03/31/15	3.50%
06/30/15	3.50%
09/30/15	3.50%
12/31/15	3.50%
03/31/16	4.00%
06/30/16	4.00%
09/30/16	4.00%
12/31/16	4.00%
03/31/17	4.50%
06/30/17	4.50%
09/30/17	4.50%
12/31/17	4.50%
03/31/18	4.50%

, with a final payment of all principal and interest not sooner paid on the Term Loan due and payable on the Term Loan Maturity Date.

(b) *Revolving Loans.* Each Revolving Loan, both for principal and interest not sooner paid, shall mature and be due and payable by the Borrower on demand.

Section 2.8. Prepayments. (a) *Optional*. The Borrower may prepay in whole or in part (but, if in part, then: (i) if such Borrowing is of U.S. Prime Rate Loans, in an amount not less than $100,000, (ii) if such Borrowing is of Eurodollar Loans, in an amount not less than $100,000, and (iii) in each case, in an amount such that the minimum amount required for a Borrowing pursuant to Section 2.5 remains outstanding) upon not less than three (3) Business Days prior notice by the Borrower to the Bank in the case of any prepayment of a Borrowing of Eurodollar Loans and notice delivered by the Borrower to the Bank no later than 10:00 a.m. (Chicago time) on the date of prepayment in the case of a Borrowing of U.S. Prime Rate Loans (or, in any case, such shorter period of time then agreed to by the Bank), such prepayment to be made by the payment of the principal amount to be prepaid and, in the case of the Term Loan or any Eurodollar Loans, accrued interest thereon to the date fixed for prepayment plus any amounts due the Bank under Section 4.5.

(b) *Mandatory*. (i) The Borrower shall, on each date the Revolving Credit Line is reduced pursuant to Section 2.11 or at any time when the unpaid principal balance of Revolving Loans and L/C Obligations outstanding exceeds the Revolving Credit Line, prepay the Revolving Loans, and, if necessary, prefund the L/C Obligations by the amount, if any, necessary to reduce the sum of the aggregate principal amount of Revolving Loans and L/C Obligations then outstanding to the amount to which the Revolving Credit Line has been so reduced.

(ii) If at any time the sum of the unpaid principal balance of the Revolving Loans and the L/C Obligations then outstanding shall be in excess of the Borrowing Base as determined on the basis of the most recent Borrowing Base Certificate, the Borrower shall within 2 Business Days' pay over the amount of the excess to the Bank as and for a mandatory prepayment on such Obligations, with each such prepayment first to be applied to the Revolving Loans until paid in full with any remaining balance to be held by the Bank in the Collateral Account as security for the Obligations owing with respect to the Letters of Credit.

(iii) If the Borrower or any Domestic Subsidiary shall at any time or from time to time make or agree to make a Disposition or shall suffer an Event of Loss with respect to any Property, then the Borrower shall promptly notify the Bank of such proposed Disposition or Event of Loss (including the amount of the estimated Net Cash Proceeds to be received by the Borrower or such Domestic Subsidiary in respect thereof) and, within 2 Business Days of receipt by the Borrower or such Domestic Subsidiary of the Net Cash Proceeds of such Disposition or Event of Loss, the Borrower shall prepay the Obligations in an aggregate amount equal to 100% of the amount of all such Net Cash Proceeds; *provided* that (x) so long as no Event of Default then exists, this subsection shall not require any such prepayment with respect to Net Cash Proceeds received on account of an Event of Loss so long as (A) such Net Cash Proceeds are applied to replace or restore the relevant Property in accordance with the relevant Collateral Documents or (B) the Net Cash Proceeds received from such Event of Loss are less than $25,000, (y) this subsection shall not require any such prepayment with respect to Net Cash Proceeds received on account of Dispositions during any fiscal year of the Borrower not exceeding $100,000 in the aggregate so long as no Default then exists, and (z) in the case of any Disposition not covered by clause (y) above, so long as no Default then exists, if the Borrower states in its notice of such event that the Borrower or the relevant Domestic Subsidiary intends to reinvest, within 180 days of the applicable Disposition, the Net Cash Proceeds thereof in assets similar to the assets which were subject to such Disposition, then the Borrower shall not be required to make a mandatory prepayment under this subsection in respect of such Net Cash Proceeds to the extent such Net Cash Proceeds are actually reinvested in such similar assets with such 180-day period. Promptly after the end of such 180-day period, the Borrower shall notify the Bank whether the Borrower or such Domestic Subsidiary has reinvested such Net Cash Proceeds in such similar assets, and, to the extent such Net Cash Proceeds have not been so reinvested, the Borrower shall promptly prepay the Obligations in the amount of such Net Cash Proceeds not so reinvested. The amount of each such prepayment shall be applied first to the outstanding Term Loan until paid in full and then to the Revolving Facility, *provided* that proceeds from an Event of Loss relating to Eligible Inventory and Eligible Receivables then included in the Borrowing Base shall first be applied to the Revolving Facility, but without a reduction of the Revolving Credit Line. If the Bank so requests, all proceeds of such Disposition or Event of Loss shall be deposited with the Bank (or its agent) and held by it in the Collateral Account. So long as no Event of Default exists, the Bank shall disburse amounts representing such proceeds from the Collateral Account to or at the Borrower's direction for application to or reimbursement for the costs of replacing, rebuilding or restoring such Property.

(iv) If after the Closing Date the Borrower or any Domestic Subsidiary shall issue any Indebtedness, other than Indebtedness permitted by Section 8.7, the Borrower shall promptly notify the Bank of the estimated Net Cash Proceeds of such issuance to be received by or for the account of the Borrower or such Domestic Subsidiary in respect thereof. Within 2 Business Days of receipt by the Borrower or such Domestic Subsidiary of Net Cash Proceeds of such issuance, the Borrower shall prepay the Obligations in an aggregate amount equal to 100% of the amount of such Net Cash Proceeds. The amount of each such prepayment shall be applied first to the outstanding Term Loan until paid in full and then to the Revolving Facility, but without a reduction of the Revolving Credit Line. The Borrower acknowledges that its performance hereunder shall not limit the rights and remedies of the Bank for any breach of Section 8.7 or any other terms of the Loan Documents.

(v) Unless the Borrower otherwise directs, prepayments of Loans under this Section 2.8(b) shall be applied first to Borrowings of U.S. Prime Rate Loans until payment in full thereof with any balance applied to Borrowings of Eurodollar Loans in the order in which their Interest Periods expire. Each prepayment of Loans under this Section 2.8(b) shall be made by the payment of the principal amount to be prepaid and, in the case of the Term Loan or any Eurodollar Loans, accrued interest thereon to the date of prepayment together with any amounts due the Bank under Section 4.5. Each prefunding of L/C Obligations shall be made in accordance with Section 9.4.

(c) Any amount of Revolving Loans paid or prepaid before the Revolving Credit Termination Date may, subject to the terms and conditions of this Agreement, be borrowed, repaid and borrowed again. No amount of the Term Loan paid or prepaid may be reborrowed, and, in the case of any partial prepayment, such prepayment shall be applied to the remaining payments on the relevant Loans in the inverse order of maturity.

Section 2.9. Default Rate. Notwithstanding anything to the contrary contained herein, while any Event of Default exists or after acceleration, the Borrower shall pay interest (after as well as before entry of judgment thereon to the extent permitted by law) on the principal amount of all Loans and Reimbursement Obligations, letter of credit fees and other amounts at a rate per annum equal to:

(a) for any U.S. Prime Rate Loan, the sum of 2.0% *plus* the Applicable Margin *plus* the U.S. Prime Rate from time to time in effect;

(b) for any Eurodollar Loan, the sum of 2.0% *plus* the rate of interest in effect thereon at the time of such Event of Default until the end of the Interest Period applicable thereto and, thereafter, at a rate per annum equal to the sum of 2.0% *plus* the Applicable Margin for U.S. Prime Rate Loans *plus* the U.S. Prime Rate from time to time in effect;

(c) for any Reimbursement Obligation, the sum of 2.0% *plus* the amounts due under Section 2.3 with respect to such Reimbursement Obligation;

(d) for any Letter of Credit, the sum of 2.0% *plus* the Letter of Credit Fee due under Section 3.1(b) with respect to such Letter of Credit; and

(e) for any other amount owing hereunder not covered by clauses (a) through (d) above, the sum of 2% *plus* the Applicable Margin *plus* the U.S. Prime Rate from time to time in effect;

provided, however, that in the absence of acceleration pursuant to Section 9.2 or 9.3, any adjustments pursuant to this Section shall be made at the election of the Bank, with written notice to the Borrower (which election may be retroactively effective to the date of such Event of Default). While any Event of Default exists or after acceleration, interest shall be paid on demand of the Bank.

Section 2.10. Evidence of Indebtedness. (a) The Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower resulting from each Loan made by the Bank from time to time, including the amounts of principal and interest payable and paid to the Bank from time to time hereunder.

(b) The Bank shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to the Bank hereunder and (iii) the amount of any sum received by the Bank hereunder from the Borrower.

(c) The entries maintained in the accounts maintained pursuant to subsections (a) and (b) above shall be *prima facie* evidence of the existence and amounts of the Obligations therein recorded; *provided, however,* that the failure of the Bank to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) The Borrower shall prepare, execute and deliver to the Bank a promissory note or notes payable to the Bank or its registered assigns in the forms of Exhibit C-1 (in the case of the Term Loan and referred to herein as a *"Term Note"*) and C-2 (in the case of the Revolving Loans and referred to herein as a *"Revolving Note"*) (the Term Note and Revolving Note being hereinafter referred to collectively as the *"Notes"* and individually as a *"Note"*).

Section 2.11. Commitment Terminations. (a) *Optional Revolving Credit Terminations.* The Borrower shall have the right at any time and from time to time, upon five (5) Business Days prior written notice to the Bank (or such shorter period of time agreed to by the Bank), to terminate the Revolving Credit Line without premium or penalty and in whole or in part, any partial termination to be in an amount not less than $1,000,000, provided that the Revolving Credit Line may not be reduced to an amount less than the sum of the aggregate principal amount of Revolving Loans and L/C Obligations then outstanding. Any termination of the Revolving Credit Line below the L/C Sublimit then in effect shall reduce the L/C Sublimit by a like amount.

(b) Any termination of the Revolving Credit Line pursuant to this Section may not be reinstated.

SECTION 3. FEES.

Section 3.1. *Fees*. (a) *Standby Fee*. During the period from the Closing Date to the Drawing Period End Date, the Borrower shall pay to the Bank a standby fee at the rate per annum equal to the Applicable Margin (computed on the basis of a year of 365 or 366 days, as applicable, and the actual number of days elapsed) times the daily amount by which the Term Loan Commitment exceeds the principal amount of Term Loans then outstanding. Such standby fee shall be payable monthly in arrears on the last day of each month in each year (commencing on the first such date occurring after the Closing Date) and on the Drawing Period End Date. For the avoidance of doubt, no further standby fee shall be due with respect to any time after the Drawing Period End Date.

(b) *Administration Fee*. On each anniversary of the Closing Date until the Revolving Loans are terminated, the Borrower shall pay to the Bank an administration fee equal to 0.10% of the Revolving Credit Line then in effect, whether or not in use.

(c) *Letter of Credit Fees.* Quarterly in arrears, on the last day of each March, June, September, and December, commencing on the first such date occurring after the Closing Date, the Borrower shall pay to the Bank a letter of credit fee (the *"Letter of Credit Fee"*) at a rate per annum equal to the Applicable Margin (computed on the basis of a year of 360 days and the actual number of days elapsed) in effect during each day of such quarter applied to the daily average face amount of Letters of Credit outstanding during such quarter. In addition, the Borrower shall pay to the Bank the Bank's standard issuance, drawing, negotiation, amendment, assignment, and other administrative fees for each Letter of Credit as established by the Bank from time to time.

(d) *Closing Fee.* The Borrower shall pay to the Bank on the date hereof a non-refundable closing fee in the amount of $40,000.

(e) *Late Fees.* In addition to any other amounts due hereunder, if any payment due hereunder is not received by the Bank on or before 1:00 p.m. (Chicago time) of the tenth (10th) day after such payment is due, the Borrower shall pay to the Bank on demand a late fee equal to the greater of (i) five percent (5%) of the amount due and (ii) $15.00.

SECTION 4. TAXES; CHANGE IN CIRCUMSTANCES, INCREASED COSTS, AND FUNDING INDEMNITY.

Section 4.1. *Taxes*. (a) *Certain Defined Terms.* For purposes of this Section, the term "applicable law" includes FATCA.

(b) *Payments Free of Taxes.* Any and all payments by or on account of any obligation of any Loan Party under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable law. If any applicable law (as determined in the good faith discretion of an applicable Withholding Agent) requires the deduction or withholding of any Tax from any such payment by a Withholding Agent, then the applicable Withholding Agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law and, if such Tax is an Indemnified Tax, then the sum payable by the applicable Loan Party shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section) the Bank receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(c) *Payment of Other Taxes by the Loan Parties.* The Loan Parties shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of the Bank timely reimburse it for the payment of, any Other Taxes.

(d) *Indemnification by the Loan Parties.* The Loan Parties shall jointly and severally indemnify the Bank, within ten (10) days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section) payable or paid by the Bank or required to be withheld or deducted from a payment to the Bank and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by the Bank shall be conclusive absent manifest error.

(e) *Evidence of Payments.* As soon as practicable after any payment of Taxes by any Loan Party to a Governmental Authority pursuant to this Section, such Loan Party shall deliver to the Bank the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Bank.

(f) *Treatment of Certain Refunds.* If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section (including by the payment of additional amounts pursuant to this Section), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this subsection (f) (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this subsection (f), in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this subsection (f) the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts giving rise to such refund had never been paid. This subsection shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

(g) *Survival.* Each party's obligations under this Section shall survive any assignment of rights by the Bank, the termination of the Facilities and the repayment, satisfaction or discharge of all obligations under any Loan Document.

Section 4.2. Change of Law. Notwithstanding any other provisions of this Agreement or any other Loan Document, if at any time any Change in Law makes it unlawful for the Bank to make or continue to maintain any Eurodollar Loans or to perform its obligations as contemplated hereby, the Bank shall promptly give notice thereof to the Borrower and the Bank's obligations to make or maintain Eurodollar Loans under this Agreement shall be suspended until it is no longer unlawful for the Bank to make or maintain Eurodollar Loans. The Borrower shall prepay on demand the outstanding principal amount of any such affected Eurodollar Loans, together with all interest accrued thereon and all other amounts then due and payable to the Bank under this Agreement; *provided, however,* subject to all of the terms and conditions of this Agreement, the Borrower may then elect to borrow the principal amount of the affected Eurodollar Loans from the Bank by means of U.S. Prime Rate Loans.

Section 4.3. Unavailability of Deposits or Inability to Ascertain, or Inadequacy of, LIBOR. If on or prior to the first day of any Interest Period for any Borrowing of Eurodollar Loans:

(a) the Bank determines that deposits in U.S. Dollars (in the applicable amounts) are not being offered to it in the interbank eurodollar market for such Interest Period, or that by reason of circumstances affecting the interbank eurodollar market adequate and reasonable means do not exist for ascertaining the applicable LIBOR, or

(b) the Bank determines that (i) LIBOR as determined by the Bank will not adequately and fairly reflect the cost to the Bank of funding Eurodollar Loans for such Interest Period or (ii) that the making or funding of Eurodollar Loans become impracticable,

then the Bank shall forthwith give notice thereof to the Borrower, whereupon until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Bank to make Eurodollar Loans shall be suspended.

Section 4.4. Increased Costs. (a) *Increased Costs Generally.* If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, the Bank (except any reserve requirement reflected in the Adjusted LIBOR);

(ii) subject the Bank to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in clauses (b) through (d) of the definition of Excluded Taxes and (C) Connection Income Taxes) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on the Bank or the London interbank market any other condition, cost or expense (other than Taxes) affecting this Agreement or Loans made by the Bank or any Letter of Credit issued by the Bank;

and the result of any of the foregoing shall be to increase the cost to the Bank of making, converting to, continuing or maintaining any Loan or of maintaining its obligation to make any such Loan, or to increase the cost to the Bank of issuing or maintaining any Letter of Credit (or of maintaining its obligation to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by the Bank hereunder (whether of principal, interest or any other amount) then, upon request of the Bank, the Borrower will pay to the Bank such additional amount or amounts as will compensate the Bank for such additional costs incurred or reduction suffered.

(b) *Capital Requirements.* If the Bank determines that any Change in Law affecting the Bank or any lending office of the Bank or the Bank's holding company, if any, regarding capital or liquidity requirements, has or would have the effect of reducing the rate of return on the Bank's capital or on the capital of the Bank's holding company, if any, as a consequence of this Agreement, the Facilities of the Bank or the Loans made by, or the Letters of Credit issued by the Bank, to a level below that which the Bank or the Bank's holding company could have achieved but for such Change in Law (taking into consideration the Bank's policies and the policies of the Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to the Bank such additional amount or amounts as will compensate the Bank or the Bank's holding company for any such reduction suffered.

(c) *Certificates for Reimbursement.* A certificate of the Bank setting forth the amount or amounts necessary to compensate the Bank or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower, shall be conclusive absent manifest error. The Borrower shall pay the Bank the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) *Delay in Requests.* Failure or delay on the part of the Bank to demand compensation pursuant to this Section shall not constitute a waiver of the Bank's right to demand such compensation; *provided* that the Borrower shall not be required to compensate the Bank pursuant to this Section for any increased costs incurred or reductions suffered more than 180 days prior to the date that the Bank notifies the Borrower of the Change in Law giving rise to such increased costs or reductions, and of the Bank's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

Section 4.5. *Funding Indemnity*. If the Bank shall incur any loss, cost or expense (including, without limitation, any loss, cost or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by the Bank to fund or maintain any Eurodollar Loan or the relending or reinvesting of such deposits or amounts paid or prepaid to the Bank) as a result of:

(a) any payment, prepayment or conversion of a Eurodollar Loan on a date other than the last day of its Interest Period,

(b) any failure (because of a failure to meet the conditions of Section 7 or otherwise) by the Borrower to borrow or continue a Eurodollar Loan, or to convert a U.S. Prime Rate Loan into a Eurodollar Loan on the date specified in a notice given pursuant to Section 2.6(a) or 2.2(b),

(c) any failure by the Borrower to make any payment of principal on any Eurodollar Loan when due (whether by acceleration or otherwise), or

(d) any acceleration of the maturity of a Eurodollar Loan as a result of the occurrence of any Event of Default hereunder,

then, upon the demand of the Bank, the Borrower shall pay to the Bank such amount as will reimburse the Bank for such loss, cost or expense. If the Bank makes such a claim for compensation, it shall provide to the Borrower a certificate setting forth the amount of such loss, cost or expense in reasonable detail and the amounts shown on such certificate shall be conclusive absent manifest error.

Section 4.6. *Discretion of the Bank as to Manner of Funding*. Notwithstanding any other provision of this Agreement, the Bank shall be entitled to fund and maintain its funding of all or any part of its Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder with respect to Eurodollar Loans shall be made as if the Bank had actually funded and maintained each Eurodollar Loan through the purchase of deposits in the interbank eurodollar market having a maturity corresponding to such Loan's Interest Period, and bearing an interest rate equal to LIBOR for such Interest Period.

Section 4.7. *Lending Offices; Mitigation Obligations*. The Bank may, at its option, elect to make its Loans hereunder at the branch, office or affiliate specified on the appropriate signature page hereof (each a *"Lending Office"*) for each type of Loan available hereunder or at such other of its branches, offices or affiliates as it may from time to time elect and designate in a written notice to the Borrower. If the Bank requests compensation under Section 4.4, or requires the Borrower to pay any Indemnified Taxes or additional amounts to the Bank or any Governmental Authority for the account of the Bank pursuant to Section 4.1, then the Bank shall (consistent with its internal policy and legal and regulatory restrictions) designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of the Bank, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 4.1 or 4.4, as the case may be, in the future, and (ii) would not subject the Bank to any unreimbursed cost or expense and would not otherwise be disadvantageous to the Bank.

SECTION 5. PLACE AND APPLICATION OF PAYMENTS.

Section 5.1. Place and Application of Payments. All payments of principal of and interest on the Loans and the Reimbursement Obligations, and all other Obligations payable by the Borrower under this Agreement and the other Loan Documents, shall be made by the Borrower to the Bank by no later than 12:00 Noon (Chicago time) on the due date thereof at the office of the Bank or its Affiliate, BMO Harris Bank N.A., in Chicago, Illinois (or such other location as the Bank may designate to the Borrower). Any payments received after such time shall be deemed to have been received by the Bank on the next Business Day. All such payments shall be made in U.S. Dollars, in immediately available funds at the place of payment, in each case without set-off or counterclaim.

Section 5.2. Non-Business Days. Subject to the definition of Interest Period, if any payment hereunder becomes due and payable on a day which is not a Business Day, the due date of such payment shall be extended to the next succeeding Business Day on which date such payment shall be due and payable. In the case of any payment of principal falling due on a day which is not a Business Day, interest on such principal amount shall continue to accrue during such extension at the rate per annum then in effect, which accrued amount shall be due and payable on the next scheduled date for the payment of interest.

Section 5.3. Payments Set Aside. To the extent that any payment by or on behalf of the Borrower or any other Loan Party is made to the Bank or the Bank exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Bank in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred

Section 5.4. Account Debit. The Borrower hereby irrevocably authorizes the Bank to charge any of the Borrower's deposit accounts maintained with the Bank or any of its Affiliates for the amounts from time to time necessary to pay any then due Obligations; *provided* that the Bank acknowledges and agrees that the Bank shall not be under an obligation to do so and the Bank shall not incur any liability to the Borrower or any other Person for the Bank's failure to do so.

SECTION 6. REPRESENTATIONS AND WARRANTIES.

The Borrower, for itself and each other Loan Party represents and warrants to the Bank as follows:

Section 6.1. *Organization and Qualification*. Each Loan Party is duly organized, validly existing, and in good standing as a corporation, limited liability company, or partnership, as applicable, under the laws of the jurisdiction in which it is organized, has full and adequate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying, except where the failure to do so would not have a Material Adverse Effect.

Section 6.2. *Subsidiaries*. Each Subsidiary that is not a Loan Party is duly organized, validly existing, and in good standing under the laws of the jurisdiction in which it is organized, has full and adequate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying, except where the failure to do so would not have a Material Adverse Effect. Schedule 6.2 hereto identifies each Subsidiary (including Subsidiaries that are Loan Parties), the jurisdiction of its organization, the percentage of issued and outstanding shares of each class of its capital stock or other equity interests owned by any Loan Party and its Subsidiaries and, if such percentage is not 100% (excluding directors' qualifying shares as required by law), a description of each class of its authorized capital stock and other equity interests and the number of shares of each class issued and outstanding. All of the outstanding shares of capital stock and other equity interests of each Subsidiary are validly issued and outstanding and fully paid and nonassessable and all such shares and other equity interests indicated on Schedule 6.2 as owned by the relevant Loan Party or another Subsidiary are owned, beneficially and of record, by such Loan Party or such Subsidiary free and clear of all Liens other than the Liens granted in favor of the Bank pursuant to the Collateral Documents or otherwise permitted by this Agreement. There are no outstanding commitments or other obligations of any Subsidiary to issue, and no options, warrants or other rights of any Person to acquire, any shares of any class of capital stock or other equity interests of any Subsidiary.

Section 6.3. *Authority and Validity of Obligations*. Each Loan Party has full right and authority to enter into this Agreement and the other Loan Documents executed by it, to make the borrowings herein provided for (in the case of the Borrower), to guarantee the Secured Obligations (in the case of each Guarantor), to grant to the Bank the Liens described in the Collateral Documents executed by such Loan Party, and to perform all of its obligations hereunder and under the other Loan Documents executed by it. The Loan Documents delivered by the Loan Parties have been duly authorized, executed, and delivered by such Persons and constitute valid and binding obligations of such Loan Parties enforceable against each of them in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting creditors' rights generally and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law); and this Agreement and the other Loan Documents do not, nor does the performance or observance by any Loan Party or any Subsidiary of any of the matters and things herein or therein provided for, (a) contravene or constitute a default under any material provision of law or any judgment, injunction, order or decree binding upon any Loan Party or any Subsidiary of a Loan Party or any provision of the organizational documents (*e.g.,* charter, certificate or articles of incorporation and by-laws, certificate or articles of association and operating agreement, partnership agreement, or other similar organizational documents) of any Loan Party or any Subsidiary of a Loan Party, (b) contravene or constitute a default under any material covenant, indenture or agreement of or affecting any Loan Party or any Subsidiary of a Loan Party or any of their respective Property, in each case where such contravention or default, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, or (c) result in the creation or imposition of any Lien on any Property of any Loan Party or any Subsidiary of a Loan Party other than the Liens granted in favor of the Bank pursuant to the Collateral Documents.

Section 6.4. *Use of Proceeds; Margin Stock*. The Borrower shall use the proceeds of the Term Loan to finance Permitted Acquisitions and to pay fees and expenses incurred in connection therewith; and the Borrower shall use the proceeds of the Revolving Facility to refinance existing Indebtedness outstanding on the Closing Date, repay working capital loans made by PECI, and for its general working capital purposes and for such other legal and proper purposes as are consistent with all applicable laws. No Loan Party nor any of its Subsidiaries is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Loan or any other extension of credit made hereunder will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock. Margin stock (as hereinabove defined) constitutes less than 25% of the assets of the Loan Parties and their Subsidiaries which are subject to any limitation on sale, pledge or other restriction hereunder.

Section 6.5. *Financial Reports*. The consolidated balance sheet of the Borrower and its Subsidiaries as at December 31, 2012, and the related consolidated statements of income, retained earnings and cash flows of such Persons for the fiscal year then ended, and accompanying notes thereto, which financial statements are accompanied by the audit report of Richter LLP, independent public accountants, and the unaudited interim consolidated balance sheet of the Borrower and its Subsidiaries as at March 31, 2013, and the related consolidated statements of income, retained earnings and cash flows of the Borrower and its Subsidiaries for the 3 months then ended, heretofore furnished to the Bank, fairly present the consolidated financial condition of the Borrower and its Subsidiaries as at said dates and the consolidated results of their operations and cash flows for the periods then ended in conformity with GAAP applied on a consistent basis. No Loan Party nor any of its Subsidiaries has contingent liabilities which are material to it other than as indicated on such financial statements or, with respect to future periods, on the financial statements furnished pursuant to Section 8.5.

Section 6.6. *No Material Adverse Change.* Since March 31, 2013, there has been no change in the condition (financial or otherwise) or business prospects of any Loan Party or any Subsidiary of a Loan Party except those occurring in the ordinary course of business, which individually or in the aggregate would reasonably be expected to have a Material Adverse Effect.

Section 6.7. *Full Disclosure*. The statements and information furnished to the Bank in connection with the negotiation of this Agreement and the other Loan Documents and the commitment by the Bank to provide all or part of the financing contemplated hereby do not (taken as a whole) contain any untrue statements of a material fact or omit a material fact necessary to make the material statements contained herein or therein not materially misleading, the Bank acknowledging that as to any projections furnished to the Bank, the Loan Parties only represent that the same were prepared on the basis of information and estimates the Loan Parties believed to be reasonable.

Section 6.8. *Trademarks, Franchises, and Licenses*. Except as would be expected to have a Material Adverse Effect, the Loan Parties and their Subsidiaries own, possess, or have the right to use all necessary patents, licenses, franchises, trademarks, trade names, trade styles, copyrights, trade secrets, know how, and confidential commercial and proprietary information to conduct their businesses as now conducted, without known conflict with any patent, license, franchise, trademark, trade name, trade style, copyright or other proprietary right of any other Person.

Section 6.9. *Governmental Authority and Licensing*. The Loan Parties and their Subsidiaries have received all licenses, permits, and approvals of all federal, state, and local governmental authorities, if any, necessary to conduct their businesses, in each case where the failure to obtain or maintain the same would reasonably be expected to have a Material Adverse Effect. No investigation or proceeding which, if adversely determined, would reasonably be expected to result in revocation or denial of any material license, permit or approval is pending or, to the knowledge of the any Loan Party, threatened.

Section 6.10. *Good Title*. The Loan Parties and their Subsidiaries have good and defensible title (or valid leasehold interests) to their assets as reflected on the most recent consolidated balance sheet of the Loan Parties and their Subsidiaries furnished to the Bank (except for sales of assets in the ordinary course of business), subject to no Liens other than such thereof as are permitted by Section 8.8.

Section 6.11. *Litigation and Other Controversies.* Except as set forth on Schedule 6.10, there is no litigation or governmental or arbitration proceeding or labor controversy pending, nor to the knowledge of any Loan Party threatened, against any Loan Party or any Subsidiary of a Loan Party or any of their respective Property which if adversely determined, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 6.12. *Taxes*. All federal and material state, local, and foreign Tax returns required to be filed by any Loan Party or any Subsidiary of a Loan Party in any jurisdiction have, in fact, been filed, and all Taxes upon any Loan Party or any Subsidiary of a Loan Party or upon any of their respective Property, income or franchises, which are shown to be due and payable in such returns, have been paid, except such Taxes, if any, as are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and as to which adequate reserves established in accordance with GAAP have been provided. No Loan Party knows of any proposed additional Tax assessment against it or its Subsidiaries for which adequate provisions in accordance with GAAP have not been made on their accounts. Adequate provisions in accordance with GAAP for Taxes on the books of each Loan Party and each of its Subsidiaries have been made for all open years, and for its current fiscal period.

Section 6.13. *Approvals*. No authorization, consent, license or exemption from, or filing or registration with, any court or governmental department, agency or instrumentality, nor any approval or consent of any other Person, is or will be necessary to the valid execution, delivery or performance by any Loan Party or any Subsidiary of a Loan Party of any Loan Document, except for (i) such approvals which have been obtained prior to the date of this Agreement and remain in full force and effect, (ii) filings which are necessary to perfect the security interests under the Collateral Documents, and (iii) where failure to obtain, effect or make any such approval, authorization, consent, exemption, or other action, notice or filing would not reasonably be expected to have a Material Adverse Effect.

Section 6.14. *Affiliate Transactions.* No Loan Party nor any of its Subsidiaries is a party to any contracts or agreements with any of its Affiliates on terms and conditions which are less favorable to such Loan Party or such Subsidiary than would be usual and customary in similar contracts or agreements between Persons not affiliated with each other.

Section 6.15. *Investment Company.* No Loan Party nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 6.16. *ERISA*. Each Loan Party and each other member of its Controlled Group has fulfilled its obligations under the minimum funding standards of and is in compliance in all material respects with ERISA and the Code to the extent applicable to it and has not incurred any liability to the PBGC or a Plan under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA. No Loan Party nor any of its Subsidiaries has any contingent liabilities with respect to any post-retirement benefits under a Welfare Plan, other than liability for continuation coverage described in article 6 of Title I of ERISA.

Section 6.17. *Compliance with Laws*. (a) No Loan Party nor any Subsidiary of a Loan Party is in violation of any law, statute, regulation, ordinance, judgment, order, or decree applicable to it, where such violation would reasonably be expected to have a Material Adverse Effect.

(b) Without limiting the representations and warranties set forth in Section 6.17(a) above, except for such matters, individually or in the aggregate, which would not reasonably be expected to result in a Material Adverse Effect, the Loan Parties represent and warrant that: (i) the Loan Parties and their Subsidiaries, and each of the Premises, comply in all material respects with all applicable Environmental Laws; (ii) the Loan Parties and their Subsidiaries have obtained all material governmental approvals required for their operations and each of the Premises by any applicable Environmental Law; (iii) the Loan Parties and their Subsidiaries have not, and no Loan Party has knowledge of any other Person who has, caused any Release, threatened Release or disposal of any Hazardous Material at, on, about, or off any of the Premises in any material quantity and, to the knowledge of each Loan Party, none of the Premises are adversely affected by any Release, threatened Release or disposal of a Hazardous Material originating or emanating from any other property; (iv) none of the Premises contain and have contained any: (1) underground storage tank, (2) material amounts of asbestos containing building material, (3) landfills or dumps, (4) hazardous waste management facility as defined pursuant to RCRA or any comparable state law, or (5) site on or nominated for the National Priority List promulgated pursuant to CERCLA or any state remedial priority list promulgated or published pursuant to any comparable state law; (v) the Loan Parties and their Subsidiaries have not used a material quantity of any Hazardous Material and have conducted no Hazardous Material Activity at any of the Premises; (vi) the Loan Parties and their Subsidiaries have no material liability for response or corrective action, natural resource damage or other harm pursuant to CERCLA, RCRA or any comparable state law; (vii) the Loan Parties and their Subsidiaries are not subject to, have no notice or knowledge of and are not required to give any notice of any Environmental Claim involving any Loan Party or any Subsidiary of a Loan Party or any of the Premises, and there are no conditions or occurrences at any of the Premises which could reasonably be anticipated to form the basis for an Environmental Claim against any Loan Party or any Subsidiary of a Loan Party or such Premises; (viii) none of the Premises are subject to any, and no Loan Party has knowledge of any imminent restriction on the ownership, occupancy, use or transferability of the Premises in connection with any (1) Environmental Law or (2) Release, threatened Release or disposal of a Hazardous Material; and (ix) there are no conditions or circumstances at any of the Premises which pose an unreasonable risk to the environment or the health or safety of Persons.

Section 6.18. OFAC. (a) Each Loan Party is in compliance in all material respects with the requirements of all OFAC Sanctions Programs applicable to it, (b) each Subsidiary of each Loan Party is in compliance in all material respects with the requirements of all OFAC Sanctions Programs applicable to such Subsidiary, (c) each Loan Party has provided to the Bank all information requested by them regarding such Loan Party and its Affiliates and Subsidiaries necessary for the Bank to comply with all applicable OFAC Sanctions Programs, and (d) to the best of each Loan Party's knowledge, no Loan Party nor any of its Affiliates or Subsidiaries is, as of the date hereof, named on the current OFAC SDN List.

Section 6.19. Labor Matters. There are no strikes, lockouts or slowdowns against any Loan Party or any Subsidiary of a Loan Party pending or, to the knowledge of any Loan Party, threatened. Except as set forth on Schedule 6.19, there are no collective bargaining agreements in effect between any Loan Party or any Subsidiary of a Loan Party and any labor union; and no Loan Party nor any of its Subsidiaries is under any obligation to assume any collective bargaining agreement to or conduct any negotiations with any labor union with respect to any future agreements. Each Loan Party and its Subsidiaries have remitted on a timely basis all amounts required to have been withheld and remitted (including withholdings from employee wages and salaries relating to income tax, employment insurance, and pension plan contributions), goods and services tax and all other amounts which if not paid when due could result in the creation of a Lien against any of its Property, except for Liens permitted by Section 8.8.

Section 6.20. Other Agreements. No Loan Party nor any of its Subsidiaries is in default under the terms of any covenant, indenture or agreement of or affecting such Person or any of its Property, which default if uncured would reasonably be expected to have a Material Adverse Effect.

Section 6.21. *Solvency*. The Loan Parties and their Subsidiaries are solvent, able to pay their debts as they become due, and have sufficient capital to carry on their business and all businesses in which they are about to engage.

Section 6.22. *No Default.* No Default has occurred and is continuing.

Section 6.23. *No Broker Fees*. No broker's or finder's fee or commission will be payable with respect hereto or any of the transactions contemplated thereby; and the Loan Parties hereby agree to indemnify the Bank against, and agree that they will hold the Bank harmless from, any claim, demand, or liability for any such broker's or finder's fees alleged to have been incurred in connection herewith or therewith and any expenses (including reasonable attorneys' fees) arising in connection with any such claim, demand, or liability.

SECTION 7. CONDITIONS PRECEDENT.

Section 7.1. *All Credit Events*. At the time of each Credit Event hereunder:

(a) each of the representations and warranties set forth herein and in the other Loan Documents shall be true and correct in all material respects as of said time (where not already qualified by materiality, otherwise in all respects), except to the extent the same expressly relate to an earlier date, in which case they shall be true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as of such earlier date;

(b) no Default shall have occurred and be continuing or would occur as a result of such Credit Event;

(c) after giving effect to such extension of credit the aggregate principal amount of all Revolving Loans and L/C Obligations outstanding under this Agreement shall not exceed the lesser of (i) the Revolving Credit Line and (ii) the Borrowing Base as then determined and computed;

(d) in the case of a Borrowing the Bank shall have received the notice required by Section 2.6, in the case of the issuance of any Letter of Credit the Bank shall have received a duly completed Application for such Letter of Credit together with any fees called for by Section 3.1, and, in the case of an extension or increase in the amount of a Letter of Credit, a written request therefor in a form acceptable to the Bank together with fees called for by Section 3.1; and

(e) such Credit Event shall not violate any order, judgment or decree of any court or other authority or any provision of law or regulation applicable to the Bank (including, without limitation, Regulation U of the Board of Governors of the Federal Reserve System) as then in effect.

Each request for a Borrowing hereunder and each request for the issuance of, increase in the amount of, or extension of the expiration date of, a Letter of Credit shall be deemed to be a representation and warranty by the Borrower on the date on such Credit Event as to the facts specified in subsections (a) through (d), both inclusive, of this Section; *provided, however,* that the Bank may continue to make advances under the Revolving Facility in its sole discretion, notwithstanding the failure of the Borrower to satisfy one or more of the conditions set forth above and any such advances so made shall not be deemed a waiver of any Default or other condition set forth above that may then exist.

Section 7.2. Initial Credit Event. Before or concurrently with the initial Credit Event:

(a) the Bank shall have received this Agreement duly executed by the Borrower and each Guarantor, and the Bank;

(b) the Bank shall have received duly executed Notes of the Borrower dated the date hereof and otherwise in compliance with the provisions of Section 2.10;

(c) the Bank shall have received the Security Agreement duly executed by the Loan Parties, together with (i) original stock certificates or other similar instruments or securities representing all of the issued and outstanding shares of capital stock or other equity interests in each Domestic Subsidiary and PECI (limited in the case of any first tier Foreign Subsidiary to 65% of the Voting Stock and 100% of any other equity interests as provided in Section 11.1) as of the Closing Date, (ii) stock powers executed in blank and undated for the Collateral consisting of the stock or other equity interest in each Subsidiary, (iii) UCC financing statements to be filed against each Loan Party, as debtor, in favor of the Bank, as secured party, (iv) patent, trademark, and copyright collateral agreements to the extent requested by the Bank, and (v) deposit account, securities account, and commodity account control agreements to the extent requested by the Bank;

(d) the Bank shall have received evidence of insurance required to be maintained under the Loan Documents, naming the Bank as mortgagee/lender's loss payee and as an additional insured, as applicable;

(e) the Bank shall have received copies of each Loan Party's articles of incorporation and bylaws (or comparable organizational documents) and any amendments thereto, certified in each instance by its Secretary or Assistant Secretary (or comparable Responsible Officer);

(f) the Bank shall have received copies of resolutions of each Loan Party's Board of Directors (or similar governing body) authorizing the execution, delivery and performance of this Agreement and the other Loan Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby, together with specimen signatures of the persons authorized to execute such documents on each Loan Party's behalf, all certified in each instance by its Secretary or Assistant Secretary (or comparable Responsible Officer);

(g) the Bank shall have received copies of the certificates of good standing for each Loan Party (dated no earlier than 30 days prior to the date hereof) from the office of the secretary of the state of its incorporation or organization and of each state in which it is qualified to do business as a foreign corporation or organization;

(h) the Bank shall have received a list of the Borrower's Authorized Representatives;

(i) the Bank shall have received a certificate as to the Borrower's Designated Disbursement Account;

(j) the Bank shall have received the initial fees called for by Section 3.1;

(k) the capital and organizational structure of the Loan Parties and their Subsidiaries shall be satisfactory to the Bank;

(l) the Bank shall have received (i) a Borrowing Base Certificate prepared by the Borrower and certified to by a Financial Officer of the Borrower as of the Closing Date after giving effect to the initial Credit Event and payment of all costs and expenses in connection therewith; (ii) certificate from a Responsible Officer of the Borrower certifying as to the solvency of the Loan Parties and their Subsidiaries as of the Closing Date after giving effect to the initial Credit Event and the transactions contemplated hereby and payment of all costs and expenses in connection therewith; and (iii) a certificate from a Responsible Officer of the Borrower certifying that since March 31, 2013, no Material Adverse Effect has occurred and that there is no litigation, action or other legal proceeding pending or known to be threatened against the Borrower or any Guarantor which could reasonably be expected to have a Material Adverse Effect on the Borrower or any Guarantor;

(m) the Bank shall have received financing statement, tax, and judgment lien search results against each Loan Party and its Property evidencing the absence of Liens thereon except as permitted by Section 8.8;

(n) the Bank shall have received pay-off and lien release letters from secured creditors of the Loan Parties (other than secured parties intended to remain outstanding after the Closing Date with Indebtedness and Liens permitted by Sections 8.7 and 8.8) setting forth, among other things, the total amount of indebtedness outstanding and owing to them (or outstanding letters of credit issued for the account of any Loan Party or its Subsidiaries) and containing an undertaking to cause to be delivered to the Bank UCC termination statements and any other lien release instruments necessary to release their Liens on the assets of any Loan Party or any Subsidiary of a Loan Party, which pay-off and lien release letters shall be in form and substance acceptable to the Bank;

(o) the Bank shall have received the favorable written opinion of counsel to each Loan Party, in form and substance satisfactory to the Bank;

(p) the Bank shall have received, sufficiently in advance of the Closing Date, all documentation and other information requested by the Bank required by bank regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including without limitation, the United States Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) including, without limitation, the information described in Section 12.16; and the Bank shall have received a fully executed Internal Revenue Service Form W-9 (or its equivalent) for the Borrower and each other Loan Party;

(q) the Bank shall have received a subordination agreement by Bemag Transformer Inc. for the debt owed by Jefferson Electric, Inc. in form and substance satisfactory to the Bank;

(r) confirmation that all conditions precedent for the facilities granted by the Bank to the PECI and its Subsidiaries (the *"Canadian Credit Facilities"*) have been met to the satisfaction of the Bank and its legal counsel;

(s) Orbian Financial Services II, LLC (*"Orbian"*) shall have either (i) executed a lien subordination agreement in form and substance satisfactory to the Bank, (ii) terminated its UCC financing statement filed against Jefferson Electric, Inc., or (iii) amended the same to cover only receivables which have previously been purchased by Orbian, and the Borrower shall have delivered copies of all current documents with Orbian;

(t) the Bank shall have received such other agreements, instruments, documents, certificates, and opinions as the Bank may reasonably request.

Section 7.3. Term Loan Advances. Before or concurrently with the initial advance of the Term Loan:

(a) the Bank shall have received certified copies of the acquisition documents for the Permitted Acquisition which are satisfactory to the Administrative Agent in form and substance;

(b) the Permitted Acquisition shall have been consummated in accordance with the acquisition documents for such Permitted Acquisition, without giving effect to any amendment, modification or waiver by the acquirer thereof or thereunder that is in any manner materially adverse to the Bank in its capacity as such that has not been approved in writing by the Bank;

(c) the Bank shall have received an Additional Guarantor Supplement, and a supplement to the Security Agreement, together with (i) original stock certificates or other similar instruments or securities representing all of the issued and outstanding shares of capital stock or other equity interests in the acquired entity, (ii) stock powers executed in blank and undated for the Collateral consisting of the stock or other equity interest in the acquired entity, and (iii) Collateral Access Agreements to the extent requested by the Bank;

(d) to the extent any Real Property is to be acquired by Borrower or any Loan Party (and in addition to the requirement set forth in Section 11.4):

(i) the Bank shall have received a mortgagee's title insurance policy (or a prepaid binding commitment therefor) in form and substance acceptable to the Bank from a title insurance company acceptable to the Bank in an amount acceptable to the Bank insuring the Lien of the Mortgage to be a valid first priority Lien subject to no defects or objections which are unacceptable to the Bank, together with such endorsements as the Bank may require;

(ii) the Bank shall have received a survey in form and substance acceptable to the Bank prepared by a licensed surveyor on each parcel of real property subject to the Lien of the Mortgage, which survey shall also state whether or not any portion of the real property is in a federally designated flood hazard area;

(iii) the Bank shall have received a report as to whether or not any portion of the real property is in a federally designated flood hazard area and, if any improvements thereon are in a federally designated flood hazard area, evidence of the maintenance of flood insurance as may be required by applicable law;

(iv) the Bank shall have received a report of an independent firm of environmental engineers acceptable to the Bank concerning the environmental hazards and matters with respect to the parcels of real property subject to the Lien of the Mortgage, together with a reliance letter thereon acceptable to the Bank; and

(v) the Bank shall have received an appraisal report prepared for the Bank by a state certified appraiser selected by the Bank, which appraisal report describes the fair market value of the property subject to the Lien of the Mortgage and otherwise meets the requirements of applicable law for appraisals prepared for federally insured depository institutions.

(e) the Bank shall have received a compliance certificate in the form attached hereto as Exhibit E showing compliance with the financial covenants set forth in Section 8.23 hereof as of June 30, 2013 calculated on a pro forma basis as if the Permitted Acquisition had occurred (and all Indebtedness incurred in connection therewith had been incurred) on June 30, 2013; and

(f) the Bank shall have received such other agreements, instruments, documents, certificates, and opinions as the Bank may reasonably request.

SECTION 8. COVENANTS.

Each Loan Party agrees that, so long as any credit is available to or in use by the Borrower hereunder, except to the extent compliance in any case or cases is waived in writing by the Bank:

Section 8.1. Maintenance of Business. Each Loan Party shall, and shall cause each of its Subsidiaries to, preserve and maintain its existence, except as otherwise provided in Section 8.10(c); *provided, however,* that nothing in this Section shall prevent the Borrower from dissolving any of its Subsidiaries if such action is, in the reasonable business judgment of the Borrower, desirable in the conduct of its business and is not disadvantageous in any material respect to the Bank. Each Loan Party shall, and shall cause each of its Subsidiaries to, preserve and keep in force and effect all licenses, permits, franchises, approvals, patents, trademarks, trade names, trade styles, copyrights, and other proprietary rights necessary to the proper conduct of its business where the failure to do so would reasonably be expected to have a Material Adverse Effect.

Section 8.2. Maintenance of Properties. Each Loan Party shall, and shall cause each of its Subsidiaries to maintain its material property, plant, and equipment in good repair, working order and condition (ordinary wear and tear and casualty events excepted), and shall from time to time make all needful and proper repairs, renewals, replacements, additions, and betterments thereto so that at all times the efficiency thereof shall be fully preserved and maintained, except to the extent that, in the reasonable business judgment of such Person, any such Property is no longer necessary for the proper conduct of the business of such Person.

*Section 8.3. Taxes and Assessment*s. Each Loan Party shall duly pay and discharge, and shall cause each of its Subsidiaries to duly pay and discharge, all federal and material state, local, and foreign Taxes, rates, assessments, fees, and governmental charges upon or against it or its Property, in each case before the same become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves are provided therefor.

Section 8.4. Insurance. Each Loan Party shall maintain and shall cause their Subsidiaries to maintain, with financially sound and reputable insurers, such insurance as is customary for Persons engaged in the same or similar business, and the Loan Parties shall maintain flood insurance with respect to any improvements on real Property consisting of building or parking facilities in an area designated by a governmental body as having special flood hazards. The Loan Parties shall in any event maintain insurance on the Collateral to the extent required by the Collateral Documents. All such policies of insurance shall contain satisfactory mortgagee/lender's loss payable endorsements, naming the Bank (or its security trustee) as mortgagee or a loss payee, assignee or additional insured, as appropriate, as its interest may appear, and showing only such other loss payees, assignees and additional insureds as are satisfactory to the Bank. Each policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than thirty (30) days' (ten (10) days' in the case of nonpayment of insurance premiums) prior written notice to the Bank in the event of cancellation of the policy for any reason whatsoever and a clause specifying that the interest of the Bank shall not be impaired or invalidated by any act or neglect of any Loan Party or any Subsidiary of a Loan Party, or the owner of the premises or Property or by the occupation of the premises for purposes more hazardous than are permitted by said policy. The Borrower shall deliver to the Bank (a) on the Closing Date and at such other times as the Bank shall reasonably request, certificates evidencing the maintenance of insurance required hereunder, (b) prior to the termination of any such policies, certificates evidencing the renewal thereof, and (c) promptly following request by the Bank, copies of all insurance policies of the Loan Parties and their Subsidiaries. The Borrower also agrees to deliver to the Bank, promptly as rendered, true copies of all reports made in any reporting forms to insurance companies.

Section 8.5. *Financial Reports.* The Loan Parties shall, and shall cause each of their Subsidiaries to, maintain proper books of records and accounts reasonably necessary to prepare financial statements required to be delivered pursuant to this Section 8.5 in accordance with GAAP and shall furnish to the Bank:

(a) as soon as available, and in any event no later than 20 days after the last day of each calendar month, a Borrowing Base Certificate showing the computation of the Borrowing Base in reasonable detail as of the close of business on the last day of such month, together with an accounts receivable and accounts payable aging, and an inventory stock status report prepared by the Borrower and certified to by a Financial Officer of the Borrower;

(b) as soon as available, and in any event no later than 45 days after the last day of the first three fiscal quarters of each fiscal year of the Borrower, a copy of the consolidated and consolidating balance sheet of the Loan Parties as of the last day of such fiscal quarter and the consolidated and consolidating statements of income, retained earnings, and cash flows of the Loan Parties for the fiscal quarter and for the fiscal year-to-date period then ended, each in reasonable detail showing in comparative form the figures for the corresponding date and period in the previous fiscal year, prepared by the Borrower in accordance with GAAP (subject to the absence of footnote disclosures and year-end audit adjustments) and certified to by a Financial Officer of the Borrower;

(c) as soon as available, and in any event no later than 120 days after the last day of each fiscal year of the Borrower, a copy of the consolidated balance sheet of the Loan Parties and their Non-Canadian Subsidiaries as of the last day of the fiscal year then ended and the consolidated statements of income, retained earnings, and cash flows of the Loan Parties and their Non-Canadian Subsidiaries for the fiscal year then ended, and accompanying notes thereto and a supplemental informational section that contains consolidating financial statements for the fiscal year then ended, each in reasonable detail showing in comparative form the figures for the previous fiscal year, accompanied in the case of the consolidated financial statements by an unqualified opinion of Richter LLP or another firm of independent public accountants of recognized standing, selected by the Borrower and reasonably satisfactory to the Bank, to the effect that the consolidated financial statements have been prepared in accordance with GAAP and present fairly in accordance with GAAP the consolidated financial condition of the Loan Parties and Non-Canadian Subsidiaries of the close of such fiscal year and the results of their operations and cash flows for the fiscal year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;

(d) as soon as available, and in any event no later than 120 days after the last day of each fiscal year of the Borrower, a copy of the consolidated and consolidating balance sheet of the Borrower and its Subsidiaries as of the last day of the fiscal year then ended and the consolidated and consolidating statements of income, retained earnings, and cash flows of the Borrower and its Subsidiaries for the fiscal year then ended, and accompanying notes thereto, each in reasonable detail showing in comparative form the figures for the previous fiscal year, accompanied in the case of the consolidated financial statements by an unqualified opinion of Richter LLP or another firm of independent public accountants of recognized standing, selected by the Borrower and reasonably satisfactory to the Bank, to the effect that the consolidated financial statements have been prepared in accordance with GAAP and present fairly in accordance with GAAP the consolidated financial condition of the Borrower and its Subsidiaries as of the close of such fiscal year and the results of their operations and cash flows for the fiscal year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;

(e) as soon as available, and in any event no later than 120 days after the last day of each fiscal year of PECI, a copy of the consolidated balance sheet of PECI and its Subsidiaries as of the last day of the fiscal year then ended and the consolidated statements of income, retained earnings, and cash flows of PECI and its Subsidiaries for the fiscal year then ended, and accompanying notes thereto and a supplemental informational section that contains consolidating financial statements for the fiscal year then ended, each in reasonable detail showing in comparative form the figures for the previous fiscal year, accompanied in the case of the consolidated financial statements by an unqualified opinion of Richter LLP or another firm of independent public accountants of recognized standing, selected by PECI and reasonably satisfactory to the Bank, to the effect that the consolidated financial statements have been prepared in accordance with GAAP and present fairly in accordance with GAAP the consolidated financial condition of PECI and its Subsidiaries as of the close of such fiscal year and the results of their operations and cash flows for the fiscal year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;

(f) promptly after receipt thereof, any additional written reports, management letters or other detailed information contained in writing concerning significant aspects of any Loan Party's or any of its Subsidiary's operations and financial affairs given to it by its independent public accountants;

(g) promptly after the sending or filing thereof, copies of each Form 10-K, Form 10-Q, Form 8-K, Form S-1 and Form S-3 reports filed by any Loan Party or any Subsidiary of a Loan Party with any securities exchange or the Securities and Exchange Commission or any successor agency;

(h) promptly after receipt thereof, a copy of each audit made by any regulatory agency of the books and records of any Loan Party or any Subsidiary of a Loan Party or of notice of any material noncompliance with any applicable law, regulation or guideline relating to any Loan Party or any Subsidiary of a Loan Party or their respective business;

(i) as soon as available, and in any event no later than 30 days prior to the end of each fiscal year of the Borrower, a copy of the consolidated and consolidating business plan for the Loan Parties and their Subsidiaries for following fiscal year, such business plan to show the projected consolidated and consolidating revenues, expenses and balance sheet of the Loan Parties on a quarter-by-quarter basis, such business plan to be in reasonable detail prepared by the Borrower and in form satisfactory to the Bank (which shall include a summary of all assumptions made in preparing such business plan);

(j) notice of any Change of Control;

(k) promptly after knowledge thereof shall have come to the attention of any Responsible Officer of any Loan Party, written notice of (i) any threatened or pending litigation or governmental or arbitration proceeding or labor controversy against any Loan Party or any Subsidiary of a Loan Party or any of their Property which, if adversely determined, would reasonably be expected to have a Material Adverse Effect, (ii) the occurrence of any Material Adverse Effect, or (iii) the occurrence of any Default;

(l) with each of the financial statements delivered pursuant to subsections (b) and (c) above, a written certificate in the form attached hereto as Exhibit E signed by a Financial Officer of the Borrower to the effect that to the best of such officer's knowledge and belief no Event of Default has occurred during the period covered by such statements or any Default exists or, if any such Event of Default has occurred during such period or Default exists, setting forth a description of such Default and specifying the action, if any, taken by the relevant Loan Party or its Subsidiary to remedy the same. Such certificate shall also set forth the calculations supporting such statements in respect of Section 8.23 (Financial Covenants); and

(m) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of any Loan Party or any Subsidiary of a Loan Party, or compliance with the terms of any Loan Document, as the Bank may reasonably request.

Section 8.6. Inspection; Field Audits. Each Loan Party shall, and shall cause each of its Subsidiaries to, permit the Bank and each of their duly authorized representatives and agents to visit and inspect any of its Property, corporate books, and financial records, to examine and make copies of its books of accounts and other financial records, and to discuss its affairs, finances, and accounts with, and to be advised as to the same by, its officers, employees and independent public accountants (and by this provision the Loan Parties hereby authorize such accountants to discuss with the Bank the finances and affairs of the Loan Parties and their Subsidiaries) at such reasonable times and intervals as the Bank may designate and, so long as no Default exists, with reasonable prior notice to the Borrower; *provided, however,* that in the absence of any Default, the Borrower shall not be required to pay the Bank for more than one (1) such inspection per calendar year. The Borrower shall pay to the Bank charges for field audits of the Collateral, inspections and visits to Property, inspections of corporate books and financial records, examinations and copies of books of accounts and financial record and other activities permitted in this Section performed by the Bank or its agents or third party firms, in such amounts as the Bank may from time to time request (the Bank acknowledging and agreeing that any internal charges for such audits and inspections shall be computed in the same manner as it at the time customarily uses for the assessment of charges for similar collateral audits, but in no event exceeding $25,000 per audit); *provided, however,* that in the absence of any Default, the Borrower shall not be required to pay the Bank for more than one (1) such audit per calendar year and the Bank does not have the present intention of conducting field audits.

Section 8.7. Borrowings and Guaranties. No Loan Party shall, nor shall it permit any of its Domestic Subsidiaries to, issue, incur, assume, create or have outstanding any Indebtedness, or incur liabilities under any Hedging Agreement, or be or become liable as endorser, guarantor, surety or otherwise for any Indebtedness or undertaking of any Person, or otherwise agree to provide funds for payment of the obligations of another, or supply funds thereto or invest therein or otherwise assure a creditor of another against loss, or apply for or become liable to the issuer of a letter of credit which supports an obligation of another, or subordinate any claim or demand it may have to the claim or demand of any Person; *provided, however,* that the foregoing shall not restrict nor operate to prevent:

(a) the Secured Obligations (and any guarantees of such obligations) of the Loan Parties owing to the Bank (and its Affiliates);

(b) purchase money indebtedness and Capitalized Lease Obligations of the Loan Parties in an amount not to exceed $500,000 in the aggregate at any one time outstanding;

(c) obligations of the Loan Parties arising out of interest rate, foreign currency, and commodity Hedging Agreements entered into with financial institutions in connection with bona fide hedging activities in the ordinary course of business and not for speculative purposes;

(d) endorsement of items for deposit or collection of commercial paper received in the ordinary course of business;

(e) intercompany advances from time to time owing between the Loan Parties or owing from a Loan Party to PECI and its Subsidiaries, in each case, in the ordinary course of business;

(f) Subordinated Debt in an amount not to exceed $1,750,000 in the aggregate on the Closing Date, as reduced by permitted payments thereon;

(g) Indebtedness owed to any Person providing workers' compensation, health, disability or other employee benefits (including contractual and statutory benefits) or property, casualty, liability or credit insurance, pursuant to reimbursement or indemnification obligations to such Person, in each case incurred in the ordinary course of business;

(h) Indebtedness in respect of bids, trade contracts (other than for debt for borrowed money), leases (other than Capitalized Lease Obligations), statutory obligations, surety, stay, customs and appeal bonds, performance, performance and completion and return of money bonds, government contracts and similar obligations, in each case, provided in the ordinary course of business;

(i) Indebtedness in respect of netting services, overdraft protection and similar arrangements, in each case, in connection with cash management and deposit accounts;

(j) Indebtedness representing deferred compensation to directors, officers, employees of any Loan Party incurred in the ordinary course of business;

(k) Indebtedness consisting of the financing of insurance premiums in the ordinary course of business;

(l) Indebtedness arising from agreements of a Loan Party providing for indemnification, adjustment of purchase or acquisition price or similar obligations, in each case, incurred or assumed in connection with a Permitted Acquisition;

(m) guaranty from the Borrower of Indebtedness of PECI, Pioneer Transformers Ltd. and Bemag Transformer Inc. owing to the Bank or its Affiliates; and guaranties from Loan Parties of Indebtedness of Subsidiaries which are not Loan Parties in an amount not to exceed $2,750,000;

(n) any guarantee by a Loan Party of Indebtedness of any other Loan Party, so long as the incurrence of such Indebtedness is otherwise permitted under the terms of this Agreement; and

(o) unsecured Indebtedness of the Loan Parties and their Subsidiaries not otherwise permitted by this Section in an amount not to exceed $200,000 in the aggregate at any one time outstanding.

Section 8.8. *Liens.* No Loan Party shall, nor shall it permit any of its Domestic Subsidiaries to, create, incur or permit to exist any Lien of any kind on any Property owned by any such Person; *provided, however,* that the foregoing shall not apply to nor operate to prevent:

(a) Liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, Taxes, assessments, statutory obligations or other similar charges (other than Liens arising under ERISA), good faith cash deposits in connection with tenders, contracts or leases to which any Loan Party or any Subsidiary of a Loan Party is a party or other cash deposits required to be made in the ordinary course of business, provided in each case that the obligation is not for borrowed money and that the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(b) mechanics', workmen's, materialmen's, landlords', carriers' or other similar Liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest;

(c) judgment liens and judicial attachment liens not constituting an Event of Default under Section 9.1(g) and the pledge of assets for the purpose of securing an appeal, stay or discharge in the course of any legal proceeding, provided that the aggregate amount of such judgment liens and attachments and liabilities of the Loan Parties secured by a pledge of assets permitted under this subsection, including interest and penalties thereon, if any, shall not be in excess of $200,000 at any one time outstanding;

(d) Liens on equipment of any Loan Party created solely for the purpose of securing indebtedness permitted by Section 8.7(b), representing or incurred to finance the purchase price of such Property, provided that no such Lien shall extend to or cover other Property of such Loan Party other than the respective Property so acquired, and the principal amount of indebtedness secured by any such Lien shall at no time exceed the purchase price of such Property, as reduced by repayments of principal thereon;

(e) any interest or title of a lessor under any operating lease, including the filing of Uniform Commercial Code financing statements solely as a precautionary measure in connection with operating leases entered into by any Loan Party in the ordinary course of its business;

(f) easements, rights-of-way, restrictions, and other similar encumbrances against real property incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not materially detract from the value of the Property subject thereto or materially interfere with the ordinary conduct of the business of any Loan Party or any Subsidiary of a Loan Party;

(g) bankers' Liens, rights of setoff and other similar Liens (including under Section 4-210 of the Uniform Commercial Code) in one or more deposit accounts maintained by any Loan Party or any Subsidiary of a Loan Party, in each case granted in the ordinary course of business in favor of the bank or banks with which such accounts are maintained, securing amounts owing to such bank with respect to cash management and operating account arrangements, including those involving pooled accounts and netting arrangements; *provided* that, unless such Liens are non-consensual and arise by operation of law, in no case shall any such Liens secure (either directly or indirectly) the repayment of any Indebtedness;

(h) Liens granted in favor of the Bank pursuant to the Collateral Documents;

(i) Liens arising out of conditional sale, title retention, consignment or similar arrangements (including Liens arising under Section 2-502 of the Uniform Commercial Code) for the sale of goods entered into by any Loan Party or any Subsidiary of a Loan Party in the ordinary course of business;

(j) non-exclusive licenses of intellectual property granted in the ordinary course of business and not interfering in any material respect with the ordinary conduct of business of any Loan Party or any Subsidiary of a Loan Party;

(k) Liens on insurance policies and the proceeds thereof securing the financing of the premiums with respect thereto permitted by Section 8.7(k);

(l) Liens in favor of a Loan Party;

(m) Liens securing refinancing Indebtedness to the extent such Liens do not extend to or cover any property of a party not previously subjected to Liens relating to the Indebtedness being refinanced;

(n) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(o) Liens (i) on cash advances in favor of the seller of any Property to be acquired in a Permitted Acquisition to be applied against the purchase price for such Property, or (ii) consisting of an agreement to dispose of any Property in a disposition permitted under Section 8.10, in each case, solely to the extent such Acquisition or disposition, as the case may be, would have been permitted on the date of the creation of such Lien; and

(p) Liens on cash collateral to secure Subordinated Debt in existence on the Closing Date in an amount not to exceed $165,280.50 so long as such cash collateral is required to be maintained by the lender to the holder of the Subordinated Debt.

Section 8.9. Investments, Acquisitions, Loans and Advances. No Loan Party shall, nor shall it permit any of its Domestic Subsidiaries to, directly or indirectly, make, retain or have outstanding any investments (whether through purchase of stock or obligations or otherwise) in, or loans or advances to (other than for travel advances and other similar cash advances made to employees in the ordinary course of business), any other Person, or acquire all or any substantial part of the assets or business of any other Person or division thereof; *provided, however,* that the foregoing shall not apply to nor operate to prevent:

(a) Cash Equivalents;

(b) the Loan Parties' existing investments in their respective Subsidiaries outstanding on the Closing Date;

(c) intercompany advances (and the repayment of intercompany advances) made from time to time between the Loan Parties in the ordinary course of business;

(d) investments by any Loan Party and its Subsidiaries in connection with interest rate, foreign currency, and commodity Hedging Agreements entered into with financial institutions in connection with bona fide hedging activities in the ordinary course of business and not for speculative purposes;

(e) promissory notes and other non-cash consideration received in connection with dispositions permitted by Section 8.10;

(f) investments (including debt obligations and equity interests) received in connection with the bankruptcy or reorganization of suppliers and customers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business and upon the foreclosure with respect to any secured investment or other transfer of title with respect to any secured investment;

(g) Permitted Acquisitions;

(h) guaranties permitted by Section 8.7(m);

(i) any Acquisition for which the Total Consideration in the aggregate is less than $1,000,000 in any calendar year; and

(j) other investments, loans, and advances in addition to those otherwise permitted by this Section in an amount not to exceed $5,000,000 in the aggregate at any one time outstanding.

In determining the amount of investments, acquisitions, loans, and advances permitted under this Section, investments and acquisitions shall always be taken at the original cost thereof (regardless of any subsequent appreciation or depreciation therein), and loans and advances shall be taken at the principal amount thereof then remaining unpaid.

Section 8.10. Mergers, Consolidations and Sales. No Loan Party shall, nor shall it permit any of its Subsidiaries to, be a party to any merger or consolidation or amalgamation, or sell, transfer, lease or otherwise dispose of all or any part of its Property, including any disposition of Property as part of a sale and leaseback transaction, or in any event sell or discount (with or without recourse) any of its notes or accounts receivable; *provided, however,* that this Section shall not apply to nor operate to prevent:

(a) the sale or lease of inventory in the ordinary course of business;

(b) the sale, transfer, lease or other disposition of Property of any Loan Party to one another in the ordinary course of its business;

(c) the merger of any Loan Party with and into the Borrower or any other Loan Party, provided that, in the case of any merger involving the Borrower, the Borrower is the corporation surviving the merger;

(d) the sale of delinquent notes or accounts receivable in the ordinary course of business for purposes of collection only (and not for the purpose of any bulk sale or securitization transaction);

(e) the sale, transfer or other disposition of any tangible personal property that, in the reasonable business judgment of the relevant Loan Party or its Subsidiary, has become obsolete or worn out, and which is disposed of in the ordinary course of business;

(f) normal cash discounts on normal trade terms in the ordinary course of business; and

(g) the Disposition of Property of any Loan Party or any Subsidiary of a Loan Party (including any Disposition of Property as part of a sale and leaseback transaction) aggregating for all Loan Parties and their Subsidiaries not more than $200,000 during any fiscal year of the Borrower; *provided, however,* that this clause (g) shall not permit any Loan Party to factor any of its Receivables with any party. For the avoidance of doubt, the Loan Parties acknowledge that this Section 8.10 prohibits any factoring of Receivables with Orbian or any other party.

Section 8.11. Maintenance of Subsidiaries. No Loan Party shall assign, sell or transfer, nor shall it permit any of its Subsidiaries to issue, assign, sell or transfer, any shares of capital stock or other equity interests of a Subsidiary; *provided, however,* that the foregoing shall not operate to prevent (a) the issuance, sale, and transfer to any person of any shares of capital stock of a Subsidiary solely for the purpose of qualifying, and to the extent legally necessary to qualify, such person as a director of such Subsidiary, (b) any transaction permitted by Section 8.10(c) above, and (c) Liens on the capital stock or other equity interests of Subsidiaries granted to the Bank pursuant to the Collateral Documents or the Canadian Credit Facilities.

Section 8.12. Dividends and Certain Other Restricted Payments. No Loan Party shall, nor shall it permit any of its Subsidiaries to, make any Distributions; *provided, however,* that the foregoing shall not operate to prevent:

(i) the making of dividends or distributions by any Subsidiary to any Borrower;

(ii) so long as no Default exists or would exist after giving effect thereto, the making of any payment on preferred equity issued to a seller in connection with a Permitted Acquisition; and

(iii) so long as no Default exists or would exist after giving effect thereto, Distributions made by Borrower in any calendar year in an aggregate amount less than or equal to 25% of Borrower's Net Income in the immediately preceding calendar year.

Section 8.13. ERISA. Each Loan Party shall, and shall cause each of its Subsidiaries to, promptly pay and discharge all obligations and liabilities arising under ERISA of a character which if unpaid or unperformed could reasonably be expected to result in the imposition of a Lien against any of its Property. Each Loan Party shall, and shall cause each of its Subsidiaries to, promptly notify the Bank of: (a) the occurrence of any reportable event (as defined in ERISA) with respect to a Plan, (b) receipt of any notice from the PBGC of its intention to seek termination of any Plan or appointment of a trustee therefor, (c) its intention to terminate or withdraw from any Plan, and (d) the occurrence of any event with respect to any Plan which would result in the incurrence by any Loan Party or any Subsidiary of a Loan Party of any material liability, fine or penalty, or any material increase in the contingent liability of any Loan Party or any Subsidiary of a Loan Party with respect to any post-retirement Welfare Plan benefit.

Section 8.14. Compliance with Laws. (a) Each Loan Party shall, and shall cause each of its Subsidiaries to, comply in all material respects with the requirements of all federal, state, and local laws, rules, regulations, ordinances and orders applicable to or pertaining to its Property or business operations, where any such non-compliance, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect or result in a Lien upon any of its Property.

(b) Without limiting the agreements set forth in Section 8.14(a) above, each Loan Party shall, and shall cause each of its Subsidiaries to, at all times, do the following to the extent the failure to do so, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect: (i) comply in all material respects with, and maintain each of the Premises in compliance in all material respects with, all applicable Environmental Laws; (ii) require that each tenant and subtenant, if any, of any of the Premises or any part thereof comply in all material respects with all applicable Environmental Laws; (iii) obtain and maintain in full force and effect all material governmental approvals required by any applicable Environmental Law for operations at each of the Premises; (iv) cure any material violation by it or at any of the Premises of applicable Environmental Laws; (v) not allow the presence or operation at any of the Premises of any (1) landfill or dump or (2) hazardous waste management facility or solid waste disposal facility as defined pursuant to RCRA or any comparable state law; (vi) not manufacture, use, generate, transport, treat, store, release, dispose or handle any Hazardous Material at any of the Premises except in the ordinary course of its business and in *de minimis* amounts; (vii) within ten (10) Business Days notify the Bank in writing of and provide any reasonably requested documents upon learning of any of the following in connection with any Loan Party or any Subsidiary of a Loan Party or any of the Premises: (1) any material liability for response or corrective action, natural resource damage or other harm pursuant to CERCLA, RCRA or any comparable state law; (2) any material Environmental Claim; (3) any material violation of an Environmental Law or material Release, threatened Release or disposal of a Hazardous Material; (4) any restriction on the ownership, occupancy, use or transferability arising pursuant to any (x) Release, threatened Release or disposal of a Hazardous Material or (y) Environmental Law; or (5) any environmental, natural resource, health or safety condition, which could reasonably be expected to have a Material Adverse Effect; (viii) conduct at its expense any investigation, study, sampling, testing, abatement, cleanup, removal, remediation or other response action necessary to remove, remediate, clean up or abate any material Release, threatened Release or disposal of a Hazardous Material as required by any applicable Environmental Law, (ix) abide by and observe any restrictions on the use of the Premises imposed by any governmental authority as set forth in a deed or other instrument affecting any Loan Party's or any of its Subsidiary's interest therein; (x) promptly provide or otherwise make available to the Bank any reasonably requested environmental record concerning the Premises which any Loan Party or any Subsidiary of a Loan Party possesses or can reasonably obtain; and (xi) perform, satisfy, and implement any operation or maintenance actions required by any governmental authority or Environmental Law, or included in any no further action letter or covenant not to sue issued by any governmental authority under any Environmental Law.

Section 8.15. Compliance with OFAC Sanctions Programs. (a) Each Loan Party shall at all times comply with the requirements of all OFAC Sanctions Programs applicable to such Loan Party and shall cause each of its Subsidiaries to comply with the requirements of all OFAC Sanctions Programs applicable to such Subsidiary.

(b) Each Loan Party shall provide the Bank any information regarding the Loan Parties, their Affiliates, and their Subsidiaries necessary for the Bank to comply with all applicable OFAC Sanctions Programs; subject however, in the case of Affiliates, to such Loan Party's ability to provide information applicable to them.

(c) If any Loan Party obtains actual knowledge or receives any written notice that any Loan Party, any Affiliate or any Subsidiary of any Loan Party is named on the then current OFAC SDN List (such occurrence, an *"OFAC Event"*), such Loan Party shall promptly (i) give written notice to the Bank of such OFAC Event, and (ii) comply in all material respects with all applicable laws with respect to such OFAC Event (regardless of whether the party included on the OFAC SDN List is located within the jurisdiction of the United States of America), including the OFAC Sanctions Programs, and each Loan Party hereby authorizes and consents to the Bank taking any and all steps the Bank deems necessary, in their sole but reasonable discretion, to avoid violation of all applicable laws with respect to any such OFAC Event, including the requirements of the OFAC Sanctions Programs (including the freezing and/or blocking of assets and reporting such action to OFAC).

Section 8.16. Burdensome Contracts With Affiliates. No Loan Party shall, nor shall it permit any of its Subsidiaries to, enter into any contract, agreement or business arrangement with any of its Affiliates on terms and conditions which are less favorable to such Loan Party or such Subsidiary than would be usual and customary in similar contracts, agreements or business arrangements between Persons not affiliated with each other; *provided* that the foregoing restriction shall not apply to transactions between or among the Loan Parties.

Section 8.17. *No Changes in Fiscal Year.* The fiscal year of the Borrower and its Subsidiaries ends on December 31 of each year; and the Borrower shall not, nor shall it permit any Subsidiary to, change its fiscal year from its present basis.

Section 8.18. *Formation of Subsidiaries.* Promptly upon the formation or acquisition of any Subsidiary, the Loan Parties shall provide the Bank notice thereof (at which time Schedule 6.2 shall be deemed amended to include reference to such Subsidiary. The Loan Parties shall, and shall cause their Subsidiaries to, timely comply with the requirements of Sections 10 and 11 with respect to any Subsidiary that is required to become a Guarantor hereunder. Except for Foreign Subsidiaries existing on the Closing Date and identified on Schedule 6.2, no Loan Party, nor shall it permit any of its Subsidiaries to, form or acquire any Foreign Subsidiary.

Section 8.19. *Change in the Nature of Business.* No Loan Party shall, nor shall it permit any of its Subsidiaries to, engage in any business or activity if as a result the general nature of the business of such Loan Party or any of its Subsidiaries would be changed in any material respect from the general nature of the business engaged in by it as of the Closing Date.

Section 8.20. *Use of Proceeds*. The Borrower shall use the credit extended under this Agreement solely for the purposes set forth in, or otherwise permitted by, Section 6.4.

Section 8.21. *No Restrictions*. Except as provided herein and in the Canadian Credit Facilities, no Loan Party shall, nor shall it permit any of its Subsidiaries to, directly or indirectly create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Loan Party or any Subsidiary of a Loan Party to: (a) pay dividends or make any other distribution on any Subsidiary's capital stock or other equity interests owned by such Loan Party or any other Subsidiary, (b) pay any indebtedness owed to any Loan Party or any other Subsidiary, (c) make loans or advances to any Loan Party or any Subsidiary, (d) transfer any of its Property to any Loan Party or any other Subsidiary, or (e) guarantee the Secured Obligations and/or grant Liens on its assets to the Bank as required by the Loan Documents.

Section 8.22. *Subordinated Debt.* No Loan Party shall, nor shall it permit any of its Domestic Subsidiaries to, (a) amend or modify any of the terms or conditions relating to Subordinated Debt, (b) make any voluntary prepayment of Subordinated Debt or effect any voluntary redemption thereof, or (c) make any payment on account of Subordinated Debt which is prohibited under the terms of any instrument or agreement subordinating the same to the Obligations. Notwithstanding the foregoing, the Loan Parties may agree to a decrease in the interest rate applicable thereto or to a deferral of repayment of any of the principal of or interest on the Subordinated Debt beyond the current due dates therefor.

Section 8.23. *Financial Covenants.* (a) *Total Leverage Ratio*. As of the last day of each fiscal quarter of the Borrower ending during the relevant period set forth below, the Loan Parties and their Non-Canadian Subsidiaries shall not permit the Total Leverage Ratio to be greater than the corresponding ratio set forth opposite such period:

PERIOD(S) ENDING	TOTAL LEVERAGE RATIO SHALL NOT BE GREATER THAN:
Fiscal quarters ending on or about 6/30/13 – 12/31/13	5.25 to 1.0
Fiscal quarter ending on or about 3/31/14	5.00 to 1.0
Fiscal quarter ending on or about 6/30/14	4.50 to 1.0
Fiscal quarter ending on or about 9/30/14	4.00 to 1.0
Fiscal quarters ending on or about 12/31/14 and at all times thereafter	3.75 to 1.0

(b) *Funded Debt to Total Capitalization Ratio.* The Loan Parties and their Non-Canadian Subsidiaries shall at all times maintain a ratio of (a) Funded Debt to (b) Total Capitalization of not more than 0.50 to 1.0.

(c) *Fixed Charge Coverage Ratio*. As of the last day of each fiscal quarter of the Borrower ending during the relevant period set forth below, the Loan Parties and their Non-Canadian Subsidiaries shall maintain a Fixed Charge Coverage Ratio of not less than:

PERIOD(S) ENDING	RATIO SHALL NOT BE LESS THAN:
Fiscal quarters ending on or about 6/30/13 – 12/31/13	1.25 to 1.0
Fiscal quarters ending on or about 3/31/14 and at all times thereafter	1.35 to 1.0

(d) *Special Provision Regarding 6/30/13*. With respect to the calculation of each of the foregoing covenants in this Section 8.23 for the fiscal quarter ending June 30, 2013, the Borrower shall calculate such covenants as if the anticipated Permitted Acquisition (and any associated Indebtedness) had closed on June 30, 2013, so long as such Permitted Acquisition has closed at the time of delivery of the compliance certificate required for the June 30, 2013 fiscal quarter.

Section 8.24. Foreign Subsidiary Holding Companies. Notwithstanding anything contained in the Agreement to the contrary, the Foreign Subsidiary Holding Companies shall not engage in any business or other activity, own any material assets or property, incur any Indebtedness or material liabilities or grant Liens on any part of its Property, other than (i) ownership of the capital stock of a Foreign Subsidiary or another Foreign Subsidiary Holding Company, (ii) maintenance of its corporate existence, and (iii) activities relating to legal, Tax, and accounting matters with respect to any of the foregoing activities.

Section 8.25. *Post-Closing Covenant.* Within 30 days of the Closing Date, the Loan Parties agree to deliver Collateral Access Agreements to the extent required by the Security Agreement.

SECTION 9. EVENTS OF DEFAULT AND REMEDIES.

Section 9.1. *Events of Default.* Any one or more of the following shall constitute an *"Event of Default"* hereunder:

(a) default in the payment when due of all or any part of the principal of any Loan (whether at the stated maturity thereof or at any other time provided for in this Agreement) or of any Reimbursement Obligation, or default for a period of three (3) Business Days in the payment when due of any interest, fee or other Obligation payable hereunder or under any other Loan Document;

(b) default in the observance or performance of any covenant set forth in Sections 8.1, 8.5, 8.7, 8.8, 8.9, 8.10, 8.11, 8.12, 8.22 or 8.23 of this Agreement or of any provision in any Loan Document dealing with the use, disposition or remittance of the proceeds of Collateral or requiring the maintenance of insurance thereon; provided not more than twice per fiscal year the Borrower may remedy a default with respect to Section 8.5 within five (5) Business Days;

(c) default in the observance or performance of any other provision hereof or of any other Loan Document which is not remedied within ten (10) Business Days after written notice thereof is given to the Borrower by the Bank;

(d) any representation or warranty made in Section 6 hereof or any material representation or warranty made in any other Loan Document or in any certificate furnished to the Bank pursuant hereto or thereto or in connection with any transaction contemplated hereby or thereby shall have been incorrect in any material respect as of the date of the issuance or making or deemed making thereof;

(e) (i) any event occurs or condition exists (other than those described in subsections (a) through (d) above) which is specified as an event of default under any of the other Loan Documents, or (ii) any of the Loan Documents shall for any reason not be or shall cease to be in full force and effect or is declared to be null and void, or (iii) any of the Collateral Documents shall for any reason fail to create a valid and perfected first priority Lien in favor of the Bank in any Collateral purported to be covered thereby except as expressly permitted by the terms hereof, or (iv) any Loan Party takes any action for the purpose of terminating, repudiating or rescinding any Loan Document executed by it or any of its obligations thereunder, or (v) any Loan Party or any Domestic Subsidiary of a Loan Party makes any payment on account of any Subordinated Debt which is prohibited under the terms of any instrument subordinating such Subordinated Debt to any Secured Obligations, or any subordination provision in any document or instrument (including, without limitation, any intercreditor or subordination agreement) relating to any Subordinated Debt shall cease to be in full force and effect, or any Person (including the holder of any Subordinated Debt) shall contest in any manner the validity, binding nature or enforceability of any such provision;

(f) default shall occur under the Canadian Credit Facilities; or default shall occur under any Material Indebtedness issued, assumed or guaranteed by any Loan Party or any Subsidiary of a Loan Party, or under any indenture, agreement or other instrument under which the same may be issued, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such Material Indebtedness (whether or not such maturity is in fact accelerated), or any such Material Indebtedness shall not be paid when due (whether by demand, lapse of time, acceleration or otherwise);

(g) (i) any judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes, shall be entered or filed against any Loan Party or any Subsidiary of a Loan Party, or against any of their respective Property, in an aggregate amount for all such Persons in excess of $500,000 (except to the extent fully covered by insurance pursuant to which the insurer has accepted liability therefor in writing), and which remains undischarged, unvacated, unbonded or unstayed for a period of 30 days, or any action shall be legally taken by a judgment creditor to attach or levy upon any Property of any Loan Party or any Subsidiary of a Loan Party to enforce any such judgment, or (ii) any Loan Party or any Subsidiary of a Loan Party shall fail within thirty (30) days to discharge one or more non-monetary judgments or orders which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, which judgments or orders, in any such case, are not stayed on appeal or otherwise being appropriately contested in good faith by proper proceedings diligently pursued;

(h) any Loan Party or any Subsidiary of a Loan Party, or any member of its Controlled Group, shall fail to pay when due an amount or amounts aggregating for all such Persons in excess of $500,000 which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans having aggregate Unfunded Vested Liabilities in excess of $500,000 (collectively, a *"Material Plan"*) shall be filed under Title IV of ERISA by any Loan Party or any Subsidiary of a Loan Party, or any other member of its Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any Material Plan or a proceeding shall be instituted by a fiduciary of any Material Plan against any Loan Party or any Subsidiary of a Loan Party, or any member of its Controlled Group, to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within thirty (30) days thereafter; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated;

(i) any Change of Control shall occur;

(j) any Loan Party or any Subsidiary of a Loan Party shall (i) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) not pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property, (v) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate or similar action in furtherance of any matter described in parts (i) through (v) above, or (vii) fail to contest in good faith any appointment or proceeding described in Section 9.1(k); or

(k) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for any Loan Party or any Subsidiary of a Loan Party, or any substantial part of any of its Property, or a proceeding described in Section 9.1(j)(v) shall be instituted against any Loan Party or any Subsidiary of a Loan Party, and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 60 days; or

(l) the occurrence of any fact, event or circumstance, which, in the good faith determination of the Bank, would have a Material Adverse Effect.

Section 9.2. Non-Bankruptcy Defaults. When any Event of Default (other than those described in subsection (j) or (k) of Section 9.1 with respect to the Borrower) has occurred and is continuing, the Bank may, by written notice to the Borrower: (a) terminate the remaining Facilities and all other obligations of the Bank hereunder on the date stated in such notice (which may be the date thereof); (b) declare the principal of and the accrued interest on all outstanding Loans to be forthwith due and payable and thereupon all outstanding Loans, including both principal and interest thereon, shall be and become immediately due and payable together with all other amounts payable under the Loan Documents without further demand, presentment, protest or notice of any kind; and (c) demand that the Borrower immediately deliver to the Bank Cash Collateral in an amount equal to 105% of the aggregate amount of each Letter of Credit then outstanding, and the Borrower agrees to immediately make such payment and acknowledges and agrees that the Bank would not have an adequate remedy at law for failure by the Borrower to honor any such demand and that the Bank shall have the right to require the Borrower to specifically perform such undertaking whether or not any drawings or other demands for payment have been made under any Letter of Credit. In addition, the Bank may exercise all rights and remedies available to it under the Loan Documents or applicable law or equity when any such Event of Default has occurred and is continuing.

Section 9.3. *Bankruptcy Defaults*. When any Event of Default described in subsections (j) or (k) of Section 9.1 with respect to the Borrower has occurred and is continuing, then all outstanding Loans shall immediately become due and payable together with all other amounts payable under the Loan Documents without presentment, demand, protest or notice of any kind, the obligation of the Bank to extend further credit pursuant to any of the terms hereof shall immediately terminate and the Borrower shall immediately deliver to the Bank Cash Collateral in an amount equal to 105% of the aggregate amount of each Letter of Credit then outstanding, the Borrower acknowledging and agreeing that the Bank would not have an adequate remedy at law for failure by the Borrower to honor any such demand and that the Bank shall have the right to require the Borrower to specifically perform such undertaking whether or not any draws or other demands for payment have been made under any of the Letters of Credit. In addition, the Bank may exercise all rights and remedies available to it under the Loan Documents or applicable law or equity when any such Event of Default has occurred and is continuing.

Section 9.4. *Collateral for Undrawn Letters of Credit*. (a) If the prepayment of the amount available for drawing under any or all outstanding Letters of Credit is required under any of Sections 2.3(b), 2.8(b), 9.2 or 9.3 above, the Borrower shall forthwith pay the amount required to be so prepaid, to be held by the Bank as provided in subsection (b) below.

(b) All amounts prepaid pursuant to subsection (a) above shall be held by the Bank in one or more separate collateral accounts (each such account, and the credit balances, properties, and any investments from time to time held therein, and any substitutions for such account, any certificate of deposit or other instrument evidencing any of the foregoing and all proceeds of and earnings on any of the foregoing being collectively called the *"Collateral Account"*) as security for, and for application by the Bank (to the extent available) to, the reimbursement of any payment under any Letter of Credit then or thereafter made by the Bank, and to the payment of the unpaid balance of all other Secured Obligations. The Collateral Account shall be held in the name of and subject to the exclusive dominion and control of the Bank. If and when requested by the Borrower, the Bank shall invest funds held in the Collateral Account from time to time in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America with a remaining maturity of one year or less, *provided* that the Bank is irrevocably authorized to sell investments held in the Collateral Account when and as required to make payments out of the Collateral Account for application to amounts due and owing from the Borrower to the Bank. If the Borrower shall have made payment of all obligations referred to in subsection (a) above required under Section 2.8(b), at the request of the Borrower the Bank shall release to the Borrower amounts held in the Collateral Account so long as at the time of the release and after giving effect thereto no Default exists. After all Letters of Credit have expired or been cancelled and the expiration or termination of all Facilities, at the request of the Borrower, the Bank shall release any remaining amounts held in the Collateral Account following payment in full in cash of all Secured Obligations.

Section 9.5. *Post-Default Collections*. Anything contained herein or in the other Loan Documents to the contrary notwithstanding (including, without limitation, Section 2.8(b)), all payments and collections received in respect of the Obligations and all proceeds of the Collateral and payments made under or in respect of the Guaranty Agreements received, in each instance, by the Bank after acceleration or the final maturity of the Obligations or termination of the Facilities as a result of an Event of Default shall be remitted to the Bank and applied in the Bank's discretion.

SECTION 10. THE GUARANTEES.

Section 10.1. The Guarantees. To induce the Bank to provide the credits described herein and in consideration of benefits expected to accrue to the Borrower by reason of the Facilities and for other good and valuable consideration, receipt of which is hereby acknowledged, each Domestic Subsidiary party hereto (including any Domestic Subsidiary executing an Additional Guarantor Supplement in the form attached hereto as Exhibit F or such other form acceptable to the Bank) and the Borrower (as to the Secured Obligations of another Loan Party) hereby unconditionally and irrevocably guarantees jointly and severally to the Bank and its Affiliates, the due and punctual payment of all present and future Secured Obligations, including, but not limited to, the due and punctual payment of principal of and interest on the Loans, the Reimbursement Obligations, and the due and punctual payment of all other Obligations now or hereafter owed by the Borrower under the Loan Documents and the due and punctual payment of all Hedging Liability and Bank Product Obligations, in each case as and when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise, according to the terms hereof and thereof (including all interest, costs, fees, and charges after the entry of an order for relief against the Borrower or such other obligor in a case under the United States Bankruptcy Code or any similar proceeding, whether or not such interest, costs, fees and charges would be an allowed claim against the Borrower or any such obligor in any such proceeding); *provided, however,* that, with respect to any Guarantor, its Guarantee of Hedging Liability of any Loan Party shall exclude all Excluded Swap Obligations. In case of failure by the Borrower or other obligor punctually to pay any Secured Obligations guaranteed hereby, each Guarantor hereby unconditionally agrees to make such payment or to cause such payment to be made punctually as and when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise, and as if such payment were made by the Borrower or such obligor.

Section 10.2. Guarantee Unconditional. The obligations of each Guarantor under this Section 10 shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged, or otherwise affected by:

(a) any extension, renewal, settlement, compromise, waiver, or release in respect of any obligation of any Loan Party or other obligor or of any other guarantor under this Agreement or any other Loan Document or by operation of law or otherwise;

(b) any modification or amendment of or supplement to this Agreement or any other Loan Document or any agreement relating to Hedging Liability or Bank Product Obligations;

(c) any change in the corporate existence, structure, or ownership of, or any insolvency, bankruptcy, reorganization, or other similar proceeding affecting, any Loan Party or other obligor, any other guarantor, or any of their respective assets, or any resulting release or discharge of any obligation of any Loan Party or other obligor or of any other guarantor contained in any Loan Document;

(d) the existence of any claim, set-off, or other rights which any Loan Party or other obligor or any other guarantor may have at any time against the Bank or any other Person, whether or not arising in connection herewith;

(e) any failure to assert, or any assertion of, any claim or demand or any exercise of, or failure to exercise, any rights or remedies against any Loan Party or other obligor, any other guarantor, or any other Person or Property;

(f) any application of any sums by whomsoever paid or howsoever realized to any obligation of any Loan Party or other obligor, regardless of what obligations of any Loan Party or other obligor remain unpaid;

(g) any invalidity or unenforceability relating to or against any Loan Party or other obligor or any other guarantor for any reason of this Agreement or of any other Loan Document or any agreement relating to Hedging Liability or Bank Product Obligations or any provision of applicable law or regulation purporting to prohibit the payment by any Loan Party or other obligor or any other guarantor of the principal of or interest on any Loan or any Reimbursement Obligation or any other amount payable under the Loan Documents or any agreement relating to Hedging Liability or Bank Product Obligations; or

(h) any other act or omission to act or delay of any kind by the Bank or any other Person or any other circumstance whatsoever that might, but for the provisions of this subsection, constitute a legal or equitable discharge of the obligations of any Guarantor under this Section 10.

Section 10.3. Discharge Only upon Payment in Full; Reinstatement in Certain Circumstances. Each Guarantor's obligations under this Section 10 shall remain in full force and effect until the Facilities are terminated, all Letters of Credit have expired, and the principal of and interest on the Loans and all other amounts payable by the Borrower and the other Loan Parties under this Agreement and all other Loan Documents and, if then outstanding and unpaid, all Hedging Liability and Bank Product Obligations shall have been paid in full. If at any time any payment of the principal of or interest on any Loan or any Reimbursement Obligation or any other amount payable by any Loan Party or other obligor or any guarantor under the Loan Documents or any agreement relating to Hedging Liability or Bank Product Obligations is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy, or reorganization of such Loan Party or other obligor or of any guarantor, or otherwise, each Guarantor's obligations under this Section 10 with respect to such payment shall be reinstated at such time as though such payment had become due but had not been made at such time.

Section 10.4. Subrogation. Each Guarantor agrees it will not exercise any rights which it may acquire by way of subrogation by any payment made hereunder, or otherwise, until all the Secured Obligations shall have been paid in full subsequent to the termination of all the Facilities and expiration of all Letters of Credit. If any amount shall be paid to a Guarantor on account of such subrogation rights at any time prior to the later of (x) the payment in full of the Secured Obligations and all other amounts payable by the Loan Parties hereunder and the other Loan Documents and (y) the termination of the Facilities and expiration of all Letters of Credit, such amount shall be held in trust for the benefit of the Bank (and its Affiliates) and shall forthwith be paid to the Bank (and its Affiliates) or be credited and applied upon the Secured Obligations, whether matured or unmatured, in accordance with the terms of this Agreement.

Section 10.5. *Subordination*. Each Guarantor (each referred to herein as a *"Subordinated Creditor"*) hereby subordinates the payment of all indebtedness, obligations, and liabilities of the Borrower or other Loan Party owing to such Subordinated Creditor, whether now existing or hereafter arising, to the indefeasible payment in full in cash of all Secured Obligations. During the existence of any Event of Default, subject to Section 10.4, any such indebtedness, obligation, or liability of the Borrower or other Loan Party owing to such Subordinated Creditor shall be enforced and performance received by such Subordinated Creditor as trustee for the benefit of the holders of the Secured Obligations and the proceeds thereof shall be paid over to the Bank for application to the Secured Obligations (whether or not then due), but without reducing or affecting in any manner the liability of such Guarantor under this Section 10.

Section 10.6. *Waivers*. Each Guarantor irrevocably waives acceptance hereof, presentment, demand, protest, and any notice not provided for herein, as well as any requirement that at any time any action be taken by the Bank or any other Person against the Borrower or any other Loan Party or other obligor, another guarantor, or any other Person.

Section 10.7. *Limit on Recovery*. Notwithstanding any other provision hereof, the right of recovery against each Guarantor under this Section 10 shall not exceed $1.00 less than the lowest amount which would render such Guarantor's obligations under this Section 10 void or voidable under applicable law, including, without limitation, fraudulent conveyance law.

Section 10.8. *Stay of Acceleration*. If acceleration of the time for payment of any amount payable by the Borrower or other Loan Party or other obligor under this Agreement or any other Loan Document, or under any agreement relating to Hedging Liability or Bank Product Obligations, is stayed upon the insolvency, bankruptcy or reorganization of the Borrower or such other Loan Party or obligor, all such amounts otherwise subject to acceleration under the terms of this Agreement or the other Loan Documents, or under any agreement relating to Hedging Liability or Bank Product Obligations, shall nonetheless be payable by the Guarantors hereunder forthwith on demand by the Bank.

Section 10.9. *Benefit to Guarantors*. The Loan Parties are engaged in related businesses and integrated to such an extent that the financial strength and flexibility of the Borrower and the other Loan Parties has a direct impact on the success of each other Loan Party. Each Guarantor will derive substantial direct and indirect benefit from the extensions of credit hereunder, and each Guarantor acknowledges that this guarantee is necessary or convenient to the conduct, promotion and attainment of its business.

Section 10.10. Keepwell. Each Qualified ECP Guarantor hereby jointly and severally absolutely, unconditionally and irrevocably undertakes to provide such funds or other support as may be needed from time to time by each other Loan Party to honor all of its obligations under this Guaranty in respect of Swap Obligations (provided, however, that each Qualified ECP Guarantor shall only be liable under this Section for the maximum amount of such liability that can be hereby incurred without rendering its obligations under this Section, or otherwise under this Guaranty, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer, and not for any greater amount). The obligations of each Qualified ECP Guarantor under this Section shall remain in full force and effect until discharged in accordance with Section 10.3. Each Qualified ECP Guarantor intends that this Section constitute, and this Section shall be deemed to constitute, a "keepwell, support, or other agreement" for the benefit of each other Loan Party for all purposes of Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

SECTION 11. COLLATERAL.

Section 11.1. Collateral. The Secured Obligations shall be secured by valid, perfected, and enforceable Liens on all right, title, and interest of each Loan Party in all of its real property, personal property, and fixtures, whether now owned or hereafter acquired or arising, and all proceeds thereof; *provided, however,* that: (i) the Collateral shall not include Excluded Property, (ii) until an Event of Default has occurred and is continuing and thereafter until otherwise required by the Bank, Liens on vehicles or other goods which are subject to a certificate of title law need not be perfected provided that the total value of such property at any one time not so perfected shall not exceed $100,000 in the aggregate, and (iii) the Collateral need not include (or be perfected if a Lien is granted) those assets of any Loan Party as to which the Bank in its sole discretion determines that the cost of obtaining a security interest in or perfection thereof are excessive in relation to the value of the security to be afforded thereby. Each Loan Party acknowledges and agrees that the Liens on the Collateral shall be granted to the Bank and shall be valid and perfected first priority Liens (to the extent perfection by filing, registration, recordation, possession or control is required herein or in any other Loan Document) subject to the proviso appearing at the end of the preceding sentence and to Liens permitted by Section 8.8, in each case pursuant to one or more Collateral Documents from such Persons, each in form and substance satisfactory to the Bank.

Section 11.2. Depository Banks. Within thirty (30) days of the Closing Date, each Loan Party shall maintain at the Bank (or one of its Affiliates) as its primary depository bank, including for its principal operating, administrative, cash management, lockbox arrangements, collection activity, and other deposit accounts for the conduct of its business. All deposit accounts shall be maintained with the Bank or such other bank(s) reasonably acceptable to the Bank subject to deposit account control agreements in favor of the Bank on terms reasonably satisfactory to the Bank (all such deposit accounts maintained with the Bank or with such other bank(s) subject to a deposit account control agreement being hereinafter collectively referred to as the *"Assigned Accounts"*). Each Loan Party shall make such arrangements as may be reasonably requested by the Bank to assure that all proceeds of the Collateral are deposited (in the same form as received) in one or more Assigned Accounts. Any proceeds of Collateral received by any Loan Party shall be promptly deposited into an Assigned Account and, until so deposited, shall held by it in trust for the Bank. Each Loan Party acknowledges and agrees that the Bank has (and is hereby granted to the extent it does not already have) a Lien on each Assigned Account and all funds contained therein to secure the Secured Obligations. The Bank agrees with the Loan Parties that if and so long as no Default has occurred or is continuing, amounts on deposit in the Assigned Accounts will (subject to the rules and regulations as from time to time in effect applicable to such demand deposit accounts) be made available to the relevant Loan Party for use in the conduct of its business. Upon the occurrence of a Default, the Bank may apply the funds on deposit in any and all such Assigned Accounts to the Secured Obligations (whether or not then due).

Section 11.3. *Liens on Real Property*. In the event that any Loan Party owns or hereafter acquires any real property (other than Excluded Property), such Loan Party shall execute and deliver to the Bank a mortgage or deed of trust acceptable in form and substance to the Bank for the purpose of granting to the Bank (or a security trustee therefor) a Lien on such real property to secure the Secured Obligations, shall pay all taxes, costs, and expenses incurred by the Bank in recording such mortgage or deed of trust, and shall supply to the Bank at the Borrower's cost and expense a survey, environmental report, hazard insurance policy, appraisal report, and a mortgagee's policy of title insurance from a title insurer acceptable to the Bank insuring the validity of such mortgage or deed of trust and its status as a first Lien (subject to Liens permitted by this Agreement) on the real property encumbered thereby and such other instrument, documents, certificates, and opinions reasonably required by the Bank in connection therewith.

Section 11.4. *Further Assurances*. Each Loan Party agrees that it shall, from time to time at the request of the Bank, execute and deliver such documents and do such acts and things as the Bank may reasonably request in order to provide for or perfect or protect such Liens on the Collateral. In the event any Loan Party forms or acquires any other Domestic Subsidiary after the date hereof, except as otherwise provided in the definition of Guarantor, the Loan Parties shall promptly upon such formation or acquisition cause such newly formed or acquired Domestic Subsidiary to execute a Guaranty Agreement and such Collateral Documents as the Bank may then require, and the Loan Parties shall also deliver to the Bank, or cause such Domestic Subsidiary to deliver to the Bank, at the Borrower's cost and expense, such other instruments, documents, certificates, and opinions reasonably required by the Bank in connection therewith.

SECTION 12. MISCELLANEOUS.

Section 12.1. *Notices*. (a) *Notices Generally.* Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile as follows:

(i) if to the Borrower or any other Loan Party, to it at 400 Kelby Street, 9th Floor, Fort Lee, NJ 07024, Attention of Andrew Minkow (Facsimile No. (212) 867-1325; Telephone No. (212) 588-1070; E-Mail: Andrew@pioneerpowersolutions.com), with a copy to Rick Werner, Haynes and Boone, LLP, 30 Rockefeller Plaza, 26th Floor, New York, NY 10112 (Facsimile No. (212) 884-8233; Telephone No. (212) 867-0700); and

(ii) if to the Bank, to Bank of Montreal at 234 Simcoe Street, 3rd Floor, Toronto, Ontario M5T 1T4, Attention of Maria Tan (Facsimile No. 416-598-6269 Telephone No. 416-498-6756), with respect to Borrowings; and at Director, Corporate Finance Division, 105 St-Jacques St, 3rd Floor, Montreal, Quebec H2Y 1L6 (Facsimile No. 514-877-7704; Telephone No. 514-877-6102) with respect to all other matters.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by facsimile shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications, to the extent provided in subsection (b) below, shall be effective as provided in said subsection (b).

(b) *Electronic Communications.* The Bank or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; *provided* that approval of such procedures may be limited to particular notices or communications. Unless the Bank otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient, at its e-mail address as described in the foregoing clause (i), of notification that such notice or communication is available and identifying the website address therefor; provided that, for both clauses (i) and (ii) above, if such notice, email or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient.

(c) *Change of Address, etc.* Any party hereto may change its address or facsimile number for notices and other communications hereunder by notice to the other parties hereto.

Section 12.2. Amendments, Etc. No amendment, modification, termination or waiver of any provision of this Agreement or of any other Loan Document, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Bank; *provided that* any amendment or modification to the terms of this Agreement or any Loan Document shall also be signed by the Loan Parties against whom such changes or modifications are to be enforced. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

Section 12.3. Costs and Expenses; Indemnification. (a) The Borrower agrees to pay on demand the costs and expenses of the Bank in connection with the negotiation, preparation, execution and delivery of this Agreement, the other Loan Documents and the other instruments and documents to be delivered hereunder or thereunder, and in connection with the recording or filing of any of the foregoing, and in connection with the transactions contemplated hereby or thereby, and in connection with any consents hereunder or waivers or amendments hereto or thereto, including the reasonable fees and expenses of counsel for the Bank with respect to all of the foregoing (whether or not the transactions contemplated hereby are consummated). The Borrower further agrees to pay to the Bank or any other holder of the Obligations all costs and expenses (including court costs and reasonable attorneys' fees), if any, incurred or paid by the Bank or any other holder of the Obligations in connection with any Default or in connection with the enforcement of this Agreement or any of the other Loan Documents or any other instrument or document delivered hereunder or thereunder (including, without limitation, all such costs and expenses incurred in connection with any proceeding under the United States Bankruptcy Code involving the Borrower or any guarantor). The Borrower further agrees to indemnify the Bank, and any security trustee, and their respective directors, officers and employees, against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor, whether or not the indemnified Person is a party thereto) which any of them may pay or incur arising out of or relating to any Loan Document or any of the transactions contemplated thereby or the direct or indirect application or proposed application of the proceeds of any extension of credit made available hereunder, other than those which arise from the fraud, gross negligence or willful misconduct of the party claiming indemnification. The Borrower, upon demand by the Bank at any time, shall reimburse the Bank for any legal or other expenses incurred in connection with investigating or defending against any of the foregoing except if the same is directly due to the gross negligence or willful misconduct of the party to be indemnified. The obligations of the Borrower under this Section shall survive the termination of this Agreement.

(b) The Borrower unconditionally agrees to forever indemnify, defend and hold harmless, and covenants not to sue for any claim for contribution against, the Bank for any damages, costs, loss or expense, including without limitation, response, remedial or removal costs, arising out of any of the following: (i) any presence, release, threatened release or disposal of any hazardous or toxic substance or petroleum by the Borrower or any Subsidiary or otherwise occurring on or with respect to their Property, (ii) the operation or violation of any environmental law, whether federal, state, or local, and any regulations promulgated thereunder, by the Borrower or any Subsidiary or otherwise occurring on or with respect to their Property, (iii) any claim for personal injury or property damage in connection with the Borrower or any Subsidiary or otherwise occurring on or with respect to their Property, and (iv) the inaccuracy or breach of any environmental representation, warranty or covenant by the Borrower or any Subsidiary made herein or in any mortgage, deed of trust, security agreement or any other instrument or document evidencing or securing any indebtedness, obligations, or liabilities of the Borrower or any Subsidiary owing to the Bank or setting forth terms and conditions applicable thereto or otherwise relating thereto, except for damages arising from the Bank's fraud, willful misconduct or gross negligence. This indemnification shall survive the payment and satisfaction of all Obligations owing to the Bank and the termination of this Agreement, and shall remain in force beyond the expiration of any applicable statute of limitations and payment or satisfaction in full of any single claim under this indemnification. This indemnification shall be binding upon the successors and assigns of the Borrower and shall inure to the benefit of Bank and its directors, officers, employees, agents, and collateral trustees, and their successors and assigns.

(c) All amounts due under this Section shall be payable 10 days after demand therefor.

(d) Each party's obligations under this Section shall survive the termination of the Loan Documents and payment of the obligations hereunder.

Section 12.4. *No Waiver, Cumulative Remedies.* No delay or failure on the part of the Bank or on the part of the holder or holders of any of the Obligations in the exercise of any power or right under any Loan Document shall operate as a waiver thereof or as an acquiescence in any default, nor shall any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right. The rights and remedies hereunder of the Bank and of the holder or holders of any of the Obligations are cumulative to, and not exclusive of, any rights or remedies which any of them would otherwise have.

Section 12.5. *Right of Setoff.* In addition to any rights now or hereafter granted under the Loan Documents or applicable law and not by way of limitation of any such rights, if an Event of Default shall have occurred and be continuing, the Bank and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held, and other obligations (in whatever currency) at any time owing, by the Bank or any such Affiliate, to or for the credit or the account of the Borrower or any other Loan Party against any and all of the obligations of the Borrower or such Loan Party now or hereafter existing under this Agreement or any other Loan Document to the Bank or its Affiliates, irrespective of whether or not the Bank or such Affiliate shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrower or such Loan Party may be contingent or unmatured or are owed to a branch, office or Affiliate of the Bank different from the branch, office or Affiliate holding such deposit or obligated on such indebtedness. The rights of the Bank and its Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that the Bank or its Affiliates may have. The Bank agrees to notify the Borrower promptly after any such setoff and application; *provided* that the failure to give such notice shall not affect the validity of such setoff and application.

Section 12.6. *Survival of Representations.* All representations and warranties made herein or in any other Loan Document or in certificates given pursuant hereto or thereto shall survive the execution and delivery of this Agreement and the other Loan Documents, and shall continue in full force and effect with respect to the date as of which they were made as long as any credit is in use or available hereunder.

Section 12.7. *Survival of Indemnities*. All indemnities and other provisions relative to reimbursement to the Bank of amounts sufficient to protect the yield of the Bank with respect to the Loans and Letters of Credit, including, but not limited to, Sections 4.1, 4.4, 4.5, and 12.3, shall survive the termination of this Agreement and the other Loan Documents and the payment of the Obligations.

Section 12.8. *Counterparts; Integration; Effectiveness.* This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents, and any separate letter agreements with respect to fees payable to the Bank, constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 7.2, this Agreement shall become effective when it shall have been executed by the Bank and when the Bank shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or in electronic (e.g., "pdf" or "tif") format shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 12.9. *Headings.* Section headings used in this Agreement are for reference only and shall not affect the construction of this Agreement.

Section 12.10. *Severability of Provisions.* Any provision of any Loan Document which is unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. All rights, remedies and powers provided in this Agreement and the other Loan Documents may be exercised only to the extent that the exercise thereof does not violate any applicable mandatory provisions of law, and all the provisions of this Agreement and other Loan Documents are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this Agreement or the other Loan Documents invalid or unenforceable.

Section 12.11. *Construction*. The parties acknowledge and agree that the Loan Documents shall not be construed more favorably in favor of any party hereto based upon which party drafted the same, it being acknowledged that all parties hereto contributed substantially to the negotiation of the Loan Documents. The provisions of this Agreement relating to Subsidiaries shall only apply during such times as the Borrower has one or more Subsidiaries. NOTHING CONTAINED HEREIN SHALL BE DEEMED OR CONSTRUED TO PERMIT ANY ACT OR OMISSION WHICH IS PROHIBITED BY THE TERMS OF ANY COLLATERAL DOCUMENT, THE COVENANTS AND AGREEMENTS CONTAINED HEREIN BEING IN ADDITION TO AND NOT IN SUBSTITUTION FOR THE COVENANTS AND AGREEMENTS CONTAINED IN THE COLLATERAL DOCUMENTS.

Section 12.12. *Excess Interest*. Notwithstanding any provision to the contrary contained herein or in any other Loan Document, no such provision shall require the payment or permit the collection of any amount of interest in excess of the maximum amount of interest permitted by applicable law to be charged for the use or detention, or the forbearance in the collection, of all or any portion of the Loans or other obligations outstanding under this Agreement or any other Loan Document (*"Excess Interest"*). If any Excess Interest is provided for, or is adjudicated to be provided for, herein or in any other Loan Document, then in such event (a) the provisions of this Section shall govern and control, (b) neither the Borrower nor any guarantor or endorser shall be obligated to pay any Excess Interest, (c) any Excess Interest that the Bank may have received hereunder shall, at the option of the Bank, be (i) applied as a credit against the then outstanding principal amount of Obligations hereunder and accrued and unpaid interest thereon (not to exceed the maximum amount permitted by applicable law), (ii) refunded to the Borrower, or (iii) any combination of the foregoing, (d) the interest rate payable hereunder or under any other Loan Document shall be automatically subject to reduction to the maximum lawful contract rate allowed under applicable usury laws (the *"Maximum Rate"*), and this Agreement and the other Loan Documents shall be deemed to have been, and shall be, reformed and modified to reflect such reduction in the relevant interest rate, and (e) neither the Borrower nor any guarantor or endorser shall have any action against the Bank for any damages whatsoever arising out of the payment or collection of any Excess Interest. Notwithstanding the foregoing, if for any period of time interest on any of Borrower's Obligations is calculated at the Maximum Rate rather than the applicable rate under this Agreement, and thereafter such applicable rate becomes less than the Maximum Rate, the rate of interest payable on the Borrower's Obligations shall remain at the Maximum Rate until the Bank has received the amount of interest which the Bank would have received during such period on the Borrower's Obligations had the rate of interest not been limited to the Maximum Rate during such period.

Section 12.13. No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), each Loan Party acknowledges and agrees, and acknowledges its Affiliates' understanding, that: (a) (i) no fiduciary, advisory or agency relationship between any Loan Party and its Subsidiaries and the Bank is intended to be or has been created in respect of the transactions contemplated hereby or by the other Loan Documents, irrespective of whether the Bank has advised or is advising any Loan Party or any of its Subsidiaries on other matters, (ii) the arranging and other services regarding this Agreement provided by the Bank are arm's-length commercial transactions between such Loan Parties and their Affiliates, on the one hand, and the Bank, on the other hand, (iii) each Loan Party has consulted its own legal, accounting, regulatory and tax advisors to the extent that it has deemed appropriate and (iv) each Loan Party is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; and (b) (i) the Bank is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for any Loan Party or any of its Affiliates, or any other Person; (ii) the Bank has no obligation to any Loan Party or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) the Bank and its respective Affiliates may be engaged, for their own accounts or the accounts of customers, in a broad range of transactions that involve interests that differ from those of any Loan Party and its Affiliates, and the Bank has no obligation to disclose any of such interests to any Loan Party or its Affiliates. To the fullest extent permitted by law, each Loan Party hereby waives and releases any claims that it may have against the Bank with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

Section 12.14. Binding Nature; Governing Law; Jurisdiction; Consent to Service of Process. (a) This Agreement shall be binding upon the Borrower and its successors and assigns, and shall inure to the benefit of the Bank and the benefit of its successors and assigns, including any subsequent holder of the Obligations. The Borrower may not assign its rights hereunder without the written consent of the Bank. This Agreement constitutes the entire understanding of the parties with respect to the subject matter hereof and any prior agreements, whether written or oral, with respect thereto are superseded hereby.

(b) THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS (EXCEPT AS OTHERWISE SPECIFIED THEREIN), AND THE RIGHTS AND DUTIES OF THE PARTIES HERETO, SHALL BE CONSTRUED AND DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES THAT WOULD REQUIRE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

(c) Each party hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the United States District Court for the Northern District of Illinois and of any Illinois State court sitting in the City of Chicago, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each party hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such Illinois State court or, to the extent permitted by applicable Legal Requirements, in such federal court. Each party hereto hereby agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by applicable Legal Requirements. Nothing in this Agreement or any other Loan Document or otherwise shall affect any right that the Bank may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Borrower or any Guarantor or its respective properties in the courts of any jurisdiction.

(d) Each Loan Party hereby irrevocably and unconditionally waives, to the fullest extent permitted by applicable Legal Requirements, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in Section 12.14(c). Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable Legal Requirements, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(e) Each party to this Agreement irrevocably consents to service of process in any action or proceeding arising out of or relating to any Loan Document, in the manner provided for notices (other than telecopy or e-mail) in Section 12.1. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by applicable Legal Requirements.

Section 12.15. Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LEGAL REQUIREMENTS, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 12.16. USA Patriot Act. The Bank hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the *"Act"*), it is required to obtain, verify, and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow the Bank to identify the Borrower in accordance with the Act.

[SIGNATURE PAGES TO FOLLOW]

This Credit Agreement is entered into between us for the uses and purposes hereinabove set forth as of the date first above written.

"BORROWER"

PIONEER POWER SOLUTIONS, INC.

By: /s/ Andrew Minkow
Name: Andrew Minkow
Title: Chief Financial Officer

"GUARANTORS"

JEFFERSON ELECTRIC, INC.

By: /s/ Andrew Minkow
Name: Andrew Minkow
Title: Chief Financial Officer

PIONEER CRITICAL POWER INC.

By: /s/ Andrew Minkow
Name: Andrew Minkow
Title: Chief Financial Officer

[Signature Page to Credit Agreement]

"BANK"

BANK OF MONTREAL, acting through its Chicago Branch

By: /s/ Larry Allan Swiniarski

Name: Larry Alan Swiniarski
Title: Director

[Signature Page to Credit Agreement]

EXHIBIT A

NOTICE OF BORROWING

Date: _____, ____

To: Bank of Montreal, as lender under the Credit Agreement dated as of June 28, 2013 (as extended, renewed, amended or restated from time to time, the *"Credit Agreement"*), among Pioneer Power Solutions, Inc., as Borrower, the Guarantors party thereto, and Bank of Montreal

Ladies and Gentlemen:

The undersigned, Pioneer Power Solutions, Inc. (the *"Borrower"*), refers to the Credit Agreement, the terms defined therein being used herein as therein defined, and hereby gives you notice irrevocably, pursuant to Section 2.6 of the Credit Agreement, of the Borrowing specified below:

1. The Business Day of the proposed Borrowing is _____, ____.

2. The aggregate amount of the proposed Borrowing is $_____.

3. The Borrowing is being advanced under the **[Revolving] [Term Loan]** Facility.

4. The Borrowing is to be comprised of $_____ of **[U.S. Prime Rate] [Eurodollar]** Loans.

[5. The duration of the Interest Period for the Eurodollar Loans included in the Borrowing shall be _____ months.]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the proposed Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom:

(a) the representations and warranties contained in Section 6 of the Credit Agreement are true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as though made on and as of such date (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as of such earlier date); and

(b) no Default has occurred and is continuing or would result from such proposed Borrowing.

PIONEER POWER SOLUTIONS, INC.

By _____
Name _____
Title _____

EXHIBIT B

NOTICE OF CONTINUATION/CONVERSION

Date: _____, ____

To: Bank of Montreal, as lender under the Credit Agreement dated as of June 28, 2013 (as extended, renewed, amended or restated from time to time, the *"Credit Agreement"*), among Pioneer Power Solutions, Inc., as Borrower, the Guarantors party thereto, and Bank of Montreal

Ladies and Gentlemen:

The undersigned, Pioneer Power Solutions, Inc. (the *"Borrower"*), refers to the Credit Agreement, the terms defined therein being used herein as therein defined, and hereby gives you notice irrevocably, pursuant to Section 2.6 of the Credit Agreement, of the **[conversion] [continuation]** of the Loans specified herein, that:

1. The conversion/continuation Date is _____, ____.

2. The aggregate amount of the **[Revolving] [Term]** Loans to be **[converted] [continued]** is $_____.

3. The Loans are to be [**converted into] [continued as] [Eurodollar] [U.S. Prime Rate]** Loans.

4. **[If applicable:]** The duration of the Interest Period for the **[Revolving] [Term]** Loans included in the **[conversion] [continuation]** shall be _____ months.

PIONEER POWER SOLUTIONS, INC.

By _____
Name _____
Title _____

EXHIBIT C-1

TERM NOTE

U.S. $6,000,000 June 28, 2013

FOR VALUE RECEIVED, the undersigned, PIONEER POWER SOLUTIONS, INC., a Delaware corporation (the *"Borrower"*), hereby promises to pay to Bank of Montreal (the *"Lender"*) or its registered assigns at the principal office of the Lender in Chicago, Illinois (or such other location as the Lender may designate to the Borrower), in immediately available funds, the principal sum of Six Million Dollars ($6,000,000) or, if less, the aggregate unpaid principal amount of the Term Loan made or maintained by the Lender to the Borrower pursuant to the Credit Agreement, in installments in the amounts called for by the Credit Agreement, together with interest on the principal amount of such Term Loan from time to time outstanding hereunder at the rates, and payable in the manner and on the dates, specified in the Credit Agreement.

This Note is the Term Note referred to in the Credit Agreement dated as of June 28, 2013, among the Borrower, the Guarantors party thereto, and the Lender (as extended, renewed, amended or restated from time to time, the *"Credit Agreement"*), and this Note and the holder hereof are entitled to all the benefits and security provided for thereby or referred to therein, to which Credit Agreement reference is hereby made for a statement thereof. All defined terms used in this Note, except terms otherwise defined herein, shall have the same meaning as in the Credit Agreement. This Note shall be governed by and construed in accordance with the internal laws of the State of Illinois.

Voluntary prepayments may be made hereon, certain prepayments are required to be made hereon, and this Note may be declared due prior to the expressed maturity hereof, all in the events, on the terms and in the manner as provided for in the Credit Agreement.

The Borrower hereby waives demand, presentment, protest or notice of any kind hereunder.

PIONEER POWER SOLUTIONS, INC.

By _____

Name _____

Title _____

EXHIBIT C-2

REVOLVING NOTE

U.S. $10,000,000 June 28, 2013

FOR VALUE RECEIVED, ON DEMAND, the undersigned, PIONEER POWER SOLUTIONS, INC., a Delaware corporation (the *"Borrower"*), hereby promises to pay to Bank of Montreal (the *"Lender"*) or its registered assigns at the principal office of the Lender in Chicago Illinois (or such other location as the Lender may designate to the Borrower), in immediately available funds, the principal sum of Ten Million Dollars ($10,000,000) or, if less, the aggregate unpaid principal amount of all Revolving Loans made by the Lender to the Borrower pursuant to the Credit Agreement, together with interest on the principal amount of each Revolving Loan from time to time outstanding hereunder at the rates, and payable in the manner and on the dates, specified in the Credit Agreement.

This Note is the Revolving Note referred to in the Credit Agreement dated as of June 28, 2013, among the Borrower, the Guarantors party thereto, and the Lender (as extended, renewed, amended or restated from time to time, the *"Credit Agreement"*), and this Note and the holder hereof are entitled to all the benefits and security provided for thereby or referred to therein, to which Credit Agreement reference is hereby made for a statement thereof. All defined terms used in this Note, except terms otherwise defined herein, shall have the same meaning as in the Credit Agreement. This Note shall be governed by and construed in accordance with the internal laws of the State of Illinois.

Voluntary prepayments may be made hereon, certain prepayments are required to be made hereon, and this Note may be declared due prior to the expressed maturity hereof, all in the events, on the terms and in the manner as provided for in the Credit Agreement.

The Borrower hereby waives demand, presentment, protest or notice of any kind hereunder.

PIONEER POWER SOLUTIONS, INC.

By _____
Name _____
Title _____

EXHIBIT D

PIONEER POWER SOLUTIONS, INC.

BORROWING BASE CERTIFICATE

To: Bank of Montreal, as lender under the Credit Agreement described below

Pursuant to the terms of the Credit Agreement dated as of June 28, 2013, among us (as extended, renewed, amended or restated from time to time, the *"Credit Agreement"*), we submit this Borrowing Base Certificate to you and certify that the information set forth below and on any attachments to this Certificate is true, correct and complete as of the date of this Certificate.

A. RECEIVABLES IN BORROWING BASE

1.	Gross Receivables		_____
	Less		
	(a) Ineligible sales	_____	
	(b) Owed by an account debtor who is an Affiliate	_____	
	(c) Owed by an account debtor who is in an insolvency or reorganization proceeding	_____	
	(d) Credits/allowances	_____	
	(e) Unpaid more than 90 days from invoice date	_____	
	(f) Otherwise ineligible	_____	
2.	Total Deductions (sum of lines A1a - A1f)		_____
3.	Eligible Receivables (line A1 minus line A2)		_____
4.	Eligible Receivables in Borrowing Base (line A3 x .80)		_____

B. INVENTORY IN BORROWING BASE

1.	Gross inventory of Finished Goods, Work-in-Process and Raw Materials	_____
2.	Less	

	(a) Finished Goods, Work-in-Process and Raw Materials not located at approved locations		
	(b) Obsolete, slow moving, or not merchantable		
	(c) Work-in-process in excess of $2,000,000		
	(d) Otherwise ineligible		
2.	Total Deductions (sum of lines B2a - B2d above)		
3.	Eligible Inventory (line B1 minus line B2)		
4.	Eligible Inventory in Borrowing Base determination (line B3 x .50)		

C. INVENTORY IN BORROWING BASE

1.	Inventory Cap	$5,000,000
2.	Eligible Inventory included in Borrowing Base determination (Line B4)	
3.	Eligible Inventory in Borrowing Base (Lesser of C1 and C2)	

D. EXCESS CANADIAN COLLATERAL

E. TOTAL BORROWING BASE

1.	Line A4		
2.	Line C3		
3.	Line D		
4.	Reserves established by the Bank		
5.	Sum of Lines E1, E2 and E3 less Line E4 (Borrowing Base)		

F. REVOLVING FACILITY ADVANCES

1.	Revolving Loans		
2.	Letters of Credit		
3.	Total Outstandings (Sum of lines F1 and F2)		

G. AVAILABLE BORROWING BASE COLLATERAL

(line E5 minus line F3) _____

Dated as of this _____ day of _____.

PIONEER POWER SOLUTIONS, INC.

By _____
Name _____
Title _____

EXHIBIT E

PIONEER POWER SOLUTIONS, INC.

COMPLIANCE CERTIFICATE

To: Bank of Montreal, as lender under the Credit Agreement described below

This Compliance Certificate is furnished to the Bank pursuant to that certain Credit Agreement dated as of June 28, 2013, among us (as extended, renewed, amended or restated from time to time, the *"Credit Agreement"*). Unless otherwise defined herein, the terms used in this Compliance Certificate have the meanings ascribed thereto in the Credit Agreement.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am the duly elected _____ of Pioneer Power Solutions, Inc.;

2. I have reviewed the terms of the Credit Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Borrower and its Subsidiaries during the accounting period covered by the attached financial statements;

3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or the occurrence of any event which constitutes a Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Compliance Certificate, except as set forth below;

4. The financial statements required by Section 8.5 of the Credit Agreement and being furnished to you concurrently with this Compliance Certificate are true, correct and complete as of the date and for the periods covered thereby; and

5. The Schedule I hereto sets forth financial data and computations evidencing the Borrower's compliance with certain covenants of the Credit Agreement, all of which data and computations are, to the best of my knowledge, true, complete and correct and have been made in accordance with the relevant Sections of the Credit Agreement.

Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking, or proposes to take with respect to each such condition or event:

The foregoing certifications, together with the computations set forth in Schedule I hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this _____ day of _____ 20___.

PIONEER POWER SOLUTIONS, INC.

By _____
Name _____
Title _____

SCHEDULE I
TO COMPLIANCE CERTIFICATE

PIONEER POWER SOLUTIONS, INC.

COMPLIANCE CALCULATIONS
FOR CREDIT AGREEMENT DATED AS OF JUNE 28, 2013

CALCULATIONS AS OF _____, _____

A.	Total Leverage Ratio (Section 8.23(a))			
	1.	Funded Debt (per definition)	$_____	
	2.	Net Income for past 4 quarters	$_____	
	3.	Interest Expense for past 4 quarters	$_____	
	4.	Federal, state and local income taxes for past 4 quarters	$_____	
	5.	Depreciation and amortization for past 4 quarters	$_____	
	6.	Extraordinary fees or expenses for past 4 quarters	$_____	
	7.	Sum of Lines A2-A6 (EBITDA)	$_____	
	8.	Adjustments per definition of Adjusted EBITDA	$_____	
	9.	Sum of Lines A7 and A8 (Adjusted EBITDA)	$_____	
	10.	Ratio of Line A1 to Line A9		____:1.0
	11.	Line A10 Ratio shall not exceed		____:1.0
	12.	The Borrower is in compliance? (circle yes or no)		yes/no
B.	Funded Debt to Capitalization Ratio (Section 8.23(b))			
	1.	Funded Debt	$_____	
	2.	Net Worth	$_____	
	3.	Sum of Lines B1 and B2 (Total Capitalization)	$_____	
	4.	Ratio of Line B1 to Line B3		____:1.0
	5.	Line B4 Ratio shall not exceed		0.50:1.0
	6.	The Borrower is in compliance? (circle yes or no)		yes/no

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C. Fixed Charge Coverage Ratio (Section 8.23(c))

1.	Adjusted EBITDA for past 4 quarters (Line A9)	$_____	
2.	Unfinanced Capital Expenditures for past 4 quarters	$_____	
3.	Cash taxes for past 4 quarters	$_____	
4.	Restricted Payments paid in cash for past 4 quarters	$_____	
5.	Line C1 minus the sum of Lines C2-C4	$_____	
6.	Scheduled principal payments for past 4 quarters	$_____	
7.	Interest Expense for past 4 quarters	$_____	
8.	Sum of Lines C6 and C7 (Fixed Charges)	$_____	
9.	Ratio of Line C5 to Line C8		____:1.0
10.	Line C9 Ratio shall not be less than		____:1.0
11.	The Borrower is in compliance? (circle yes or no)		yes/no

EXHIBIT F

ADDITIONAL GUARANTOR SUPPLEMENT

_____, ___

Bank of Montreal (the "*Bank*"), as lender under the Credit Agreement dated as of June 28, 2013, among Pioneer Power Solutions, Inc., as Borrower, the Guarantors referred to therein, and the Bank (as extended, renewed, amended or restated from time to time, the *"Credit Agreement"*)

Ladies and Gentlemen:

Reference is made to the Credit Agreement described above. Terms not defined herein which are defined in the Credit Agreement shall have for the purposes hereof the meaning provided therein. The undersigned, **[name of Subsidiary Guarantor]**, a **[jurisdiction of incorporation or organization]** hereby elects to be a *"Guarantor"* for all purposes of the Credit Agreement, effective from the date hereof. The undersigned confirms that the representations and warranties set forth in Section 6 of the Credit Agreement are true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as to the undersigned as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as of such earlier date) and the undersigned shall comply with each of the covenants set forth in Section 8 of the Credit Agreement applicable to it.

Without limiting the generality of the foregoing, the undersigned hereby agrees to perform all the obligations of a Guarantor under, and to be bound in all respects by the terms of, the Credit Agreement, including without limitation Section 10 thereof, to the same extent and with the same force and effect as if the undersigned were a signatory party thereto.

The undersigned acknowledges that this Agreement shall be effective upon its execution and delivery by the undersigned to the Bank, and it shall not be necessary for the Bank or any of its Affiliates entitled to the benefits hereof, to execute this Agreement or any other acceptance hereof. This Agreement shall be construed in accordance with and governed by the internal laws of the State of ILLINOIS.

Very truly yours,

[NAME OF SUBSIDIARY GUARANTOR]

By _____
Name _____
Title _____

SCHEDULE 6.2

SUBSIDIARIES

NAME	JURISDICTION OF ORGANIZATION	PERCENTAGE OWNERSHIP	OWNER
Pioneer Critical Power, Inc.	Delaware	100%	Borrower
Jefferson Electric, Inc.	Delaware	100%	Borrower
Nexus Custom Magnetics, LLC	Texas	100%	Jefferson Electric, Inc.
JE Mexican Holdings, Inc.	Delaware	100%	Borrower
Jefferson Electric Mexico Holdings, LLC	Wisconsin	100%	JE Mexican Holdings, Inc.
Nexus Magneticos de Mexico, S. de R.L. de C.V.	Mexico	100%	Nexus Custom Magnetics, LLC—99% Jefferson Electric Mexico Holdings, LLC—1%
Pioneer Electrogroup Canada, Inc.	Quebec	100%	Borrower
Pioneer Transformers Ltd.	Quebec	100%	Pioneer Electrogroup Canada, Inc.
Pioneer Wind Energy Systems, Inc.	Quebec	100%	Pioneer Electrogroup Canada, Inc.
Bemag Transformer Inc.	Quebec	100%	Pioneer Electrogroup Canada, Inc.

SCHEDULE 6.10

LITIGATION

Nexus Manufacturing LLC vs. Jefferson Electric, Inc., et al. United States District Court for the Southern District of Texas Case No. M-08-352. Case M-08-352 was stayed by the District Court. The former owners of Nexus Manufacturing LLC re-filed this claim in July 2012 and it was assigned Case No. M-12-232.

SCHEDULE 6.19

COLLECTIVE BARGAINING AGREEMENTS

Collective Bargaining Agreement, effective January 31, 2011, among Nexus Magneticos de Mexico S de R.L. de C.V. and Sindicato Industrial Autonomo De Operarios En General De Maquiladoras De Reynosa C.T.M. (Union of Independent Industrial Operators in Reynosa (Mexico) Maquiladoras, C.T.M.).

SECURITY AGREEMENT

This Security Agreement (the *"Agreement"*) is dated as of June 28, 2013, by and among Pioneer Power Solutions, Inc., a Delaware corporation (the *"Borrower"*), the other parties executing this Agreement under the heading *"Debtors"* (the Borrower and such other parties, along with any parties who execute and deliver to the Secured Party referred to herein an agreement attached hereto as Schedule H, being hereinafter referred to collectively as the *"Debtors"* and individually as a *"Debtor"*), each with its mailing address as set forth in Section 12(b) hereof, and Bank of Montreal, a Canadian chartered bank acting through its Chicago branch (the *"Secured Party"*), with its mailing address as set forth in Section 12(b) hereof. The term "Debtor" and "Debtors" as used herein shall mean and include the Debtors collectively and also each individually, with all grants, representations, warranties and covenants of and by the Debtors, or any of them, herein contained to constitute joint and several grants, representations, warranties and covenants of and by the Debtors; *provided, however,* that unless the context in which the same is used shall otherwise require, any grant, representation, warranty or covenant contained herein related to the Collateral shall be made by each Debtor only with respect to the Collateral owned by it or represented by such Debtor as owned by it.

PRELIMINARY STATEMENT

A. The Borrower, Jefferson Electric, Inc., Pioneer Critical Power Inc. and the Secured Party have entered into a Credit Agreement dated as of June 28, 2013 (the Credit Agreement, as the same may be amended or modified from time to time, including amendments and restatements thereof in its entirety, being referred to herein as the *"Credit Agreement"*) pursuant to which the Secured Party may from time to time extend credit or otherwise make financial accommodations available to or for the account of the Borrower.

B. The Debtors (other than the Borrower) are subsidiaries or affiliates of the Borrower.

C. Each Debtor provides each of the other Debtors with substantial financial, management, administrative, and technical support.

D. The interdependent nature of the businesses of the Debtors is such that the viability of each Debtor is dependent upon the continued success of the other Debtors and, upon the continuation of such Debtor's business relationships with the other Debtors, and the continuation thereof necessitates the Borrower's access to credit and other financial accommodations from the Secured Party.

E. As a condition to extending credit or otherwise making financial accommodations available to or for the account of the Borrower (whether under the Credit Agreement or otherwise), the Secured Party requires, among other things, that each Debtor grant the Secured Party a security interest in such Debtor's personal property described herein subject to the terms and conditions hereof.

NOW, THEREFORE, in consideration of the benefits accruing to the Debtors, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Grant of Security Interest. Each Debtor hereby grants to the Secured Party (for the benefit of itself and as representative for the benefit of its affiliates) a lien on and security interest in, and acknowledges and agrees that the Secured Party has and shall continue to have a continuing lien on and security interest in, all right, title, and interest of each Debtor, whether now owned or existing or hereafter created, acquired or arising, in and to all of the following:

(a) Accounts (including Healthcare Insurance Receivables, if any);

(b) Chattel Paper;

(c) Instruments (including Promissory Notes);

(d) Documents;

(e) General Intangibles (including Payment Intangibles and Software, patents, trademarks, tradestyles, copyrights, and all other intellectual property rights, including all applications, registration, and licenses therefor, and all goodwill of the business connected therewith or represented thereby);

(f) Letter-of-Credit Rights;

(g) Supporting Obligations;

(h) Deposit Accounts;

(i) Investment Property (including certificated and uncertificated Securities, Securities Accounts, Security Entitlements, Commodity Accounts, and Commodity Contracts);

(j) Inventory;

(k) Equipment (including all software, whether or not the same constitutes embedded software, used in the operation thereof);

(l) Fixtures;

(m) Commercial Tort Claims (as described on Schedule F hereto or on one or more supplements to this Agreement);

(n) Rights to merchandise and other Goods (including rights to returned or repossessed Goods and rights of stoppage in transit) which is represented by, arises from, or relates to any of the foregoing;

(o) Monies, personal property, and interests in personal property of such Debtor of any kind or description now held by the Secured Party or at any time hereafter transferred or delivered to, or coming into the possession, custody, or control of, the Secured Party, or any agent or affiliate of the Secured Party, whether expressly as collateral security or for any other purpose (whether for safekeeping, custody, collection or otherwise), and all dividends and distributions on or other rights in connection with any such property;

(p) Supporting evidence and documents relating to any of the above-described property, including, without limitation, computer programs, disks, tapes and related electronic data processing media, and all rights of such Debtor to retrieve the same from third parties, written applications, credit information, account cards, payment records, correspondence, delivery and installation certificates, invoice copies, delivery receipts, notes, and other evidences of indebtedness, insurance certificates and the like, together with all books of account, ledgers, and cabinets in which the same are reflected or maintained;

(q) Accessions and additions to, and substitutions and replacements of, any and all of the foregoing; and

(r) Proceeds and products of the foregoing, and all insurance of the foregoing and proceeds thereof;

all of the foregoing being herein sometimes referred to as the *"Collateral"*. All terms which are used in this Agreement which are defined in the Uniform Commercial Code of the State of Illinois as in effect from time to time (*"UCC"*) shall have the same meanings herein as such terms are defined in the UCC, unless this Agreement shall otherwise specifically provide. For purposes of this Agreement, the term *"Receivables"* means all rights to the payment of a monetary obligation, whether or not earned by performance, and whether evidenced by an Account, Chattel Paper, Instrument, General Intangible, or otherwise.

Section 2. Obligations Hereby Secured. The lien and security interest herein granted and provided for is made and given to secure, and shall secure, the payment and performance of (a) all Obligations, Hedging Liability and Bank Product Obligations (as such terms are defined in the Credit Agreement), and (b) any and all expenses and charges, legal or otherwise, suffered or incurred by the Secured Party or its affiliates in collecting or enforcing any of such Obligations, Hedging Liability and Bank Product Obligations or in realizing on or protecting or preserving any security therefor, including, without limitation, the lien and security interest granted hereby (all of the foregoing being hereinafter referred to as the *"Secured Obligations"*). Notwithstanding anything in this Agreement to the contrary, (a) the right of recovery against any Debtor (other than the Borrower to which this limitation shall not apply) under this Agreement shall not exceed $1.00 less than the lowest amount that would render such Debtor's obligations under this Agreement void or voidable under applicable law, including fraudulent conveyance law and (b) the Secured Obligations with respect to any Debtor shall not include any Excluded Swap Obligations (as such term is defined in the Credit Agreement).

Section 3. *Covenants, Agreements, Representations and Warranties*. The Debtors hereby covenant and agree with, and represents and warrants to, the Secured Party that:

(a) No Debtor shall change its jurisdiction of organization without the Secured Party's prior written consent. Each Debtor is the sole and lawful owner of its Collateral, and has full right, power, and authority to enter into this Agreement and to perform each and all of the matters and things herein provided for. Each Debtor's organizational registration number (if any) is set forth under its name under Column 1 on Schedule A.

(b) Each Debtor's chief executive office is at the location listed under Column 2 on Schedule A attached hereto opposite such Debtor's name; and such Debtor has no other executive offices or places of business other than those listed under Column 3 on *Schedule A* attached hereto opposite such Debtor's name. The tangible Collateral owned or leased by each Debtor is and shall remain in such Debtor's possession or control at the locations listed under Columns 2 and 3 on Schedule A attached hereto opposite such Debtor's name (collectively for each Debtor, as such locations may be amended or supplemented from time to time with written notice to the Secured Party as provided below, the *"Permitted Collateral Locations"*), except for (i) tangible Collateral which in the ordinary course of such Debtor's business is in transit (x) between Permitted Collateral Locations or (y) to a customer, and (ii) tangible Collateral aggregating less than $200,000 in fair market value outstanding at any one time. If for any reason any tangible Collateral is at any time kept or located at a location other than a Permitted Collateral Location, the Secured Party shall nevertheless have and retain a lien on and security interest therein. The Debtors own and shall at all times own all Permitted Collateral Locations, except to the extent otherwise disclosed under Columns 2 and 3 on Schedule A. No Debtor shall move its chief executive office or maintain a place of business at a location other than those specified under Columns 2 or 3 on Schedule A, in each case without first providing the Secured Party 30 days' prior written notice of such Debtor's intent to do so (at which time Schedule A will be deemed amended or supplemented with such additional or modified locations); *provided* that each Debtor shall at all times maintain its chief executive office and, unless otherwise specifically agreed to in writing by the Secured Party, Permitted Collateral Locations in the United States of America and, with respect to any new chief executive office or place of business or location of Collateral, such Debtor shall have taken all action reasonably requested by the Secured Party to maintain the lien and security interest of the Secured Party in the Collateral at all times fully perfected and in full force and effect.

(c) Each Debtor's legal name and jurisdiction of organization is correctly set forth under Column 1 on Schedule A of this Agreement. No Debtor has transacted business at any time during the immediately preceding five-year period, and does not currently transact business, under any other legal names or trade names other than the prior legal names and trade names (if any) set forth on Schedule B attached hereto. No Debtor shall change its legal name or transact business under any other trade name without first giving 30 days' prior written notice of its intent to do so to the Secured Party.

(d) The Collateral and every part thereof is and shall be free and clear of all security interests, liens (including, without limitation, mechanics', laborers' and statutory liens), attachments, levies, and encumbrances of every kind, nature and description, whether voluntary or involuntary, except for the lien and security interest of the Secured Party therein and as otherwise permitted by Section 8.8 of the Credit Agreement. Each Debtor shall warrant and defend the Collateral against any claims and demands of all persons at any time claiming the same or any interest in the Collateral adverse to the Secured Party.

(e) Reserved.

(f) No Debtor shall waste or destroy the Collateral or any part thereof or be negligent in the care or use of any Collateral. Each Debtor shall perform in all material respects its obligations under any contract or other agreement constituting part of the Collateral, it being understood and agreed that the Secured Party has no responsibility to perform such obligations.

(g) Reserved.

(h) In case of any material loss, damage to or destruction of the Collateral or any part thereof, the relevant Debtor shall promptly give written notice thereof to the Secured Party generally describing the nature and extent of such damage or destruction. In case of any loss, damage to or destruction of the Collateral or any part thereof, the relevant Debtor, whether or not the insurance proceeds, if any, received on account of such damage or destruction shall be sufficient for that purpose, at such Debtor's cost and expense, shall promptly repair or replace the Collateral so lost, damaged, or destroyed, except to the extent such Collateral, prior to its loss, damage, or destruction, had become uneconomical, obsolete, or worn out and is not necessary for or of importance to the proper conduct of such Debtor's business in the ordinary course. Each Debtor hereby authorizes the Secured Party, at the Secured Party's option, to adjust, compromise, and settle any losses under any insurance afforded at any time during the existence of any Event of Default, and each Debtor does hereby irrevocably constitute the Secured Party, and each of its nominees, officers, agents, attorneys, and any other person whom the Secured Party may designate, as such Debtor's attorneys-in-fact, with full power and authority to effect such adjustment, compromise, and/or settlement and to endorse any drafts drawn by an insurer of the Collateral or any part thereof and to do everything necessary to carry out such purposes and to receive and receipt for any unearned premiums due under policies of such insurance. Unless the Secured Party elects to adjust, compromise, or settle losses as aforesaid, any adjustment, compromise, and/or settlement of any losses under any insurance shall be made by the relevant Debtor subject to final approval of the Secured Party (regardless of whether or not an Event of Default shall have occurred and is continuing) in the case of losses exceeding $200,000. All insurance proceeds shall be subject to the lien and security interest of the Secured Party hereunder.

UNLESS THE DEBTORS PROVIDE THE SECURED PARTY WITH EVIDENCE OF THE INSURANCE COVERAGE REQUIRED BY THIS AGREEMENT, THE SECURED PARTY MAY PURCHASE INSURANCE AT THE DEBTORS' EXPENSE TO PROTECT THE SECURED PARTY'S INTERESTS IN THE COLLATERAL. THIS INSURANCE MAY, BUT NEED NOT, PROTECT THE DEBTORS' INTERESTS IN THE COLLATERAL. THE COVERAGE PURCHASED BY THE SECURED PARTY MAY NOT PAY ANY CLAIMS THAT ANY DEBTOR MAKES OR ANY CLAIM THAT IS MADE AGAINST ANY DEBTOR IN CONNECTION WITH THE COLLATERAL. THE RELEVANT DEBTOR MAY LATER CANCEL ANY SUCH INSURANCE PURCHASED BY THE SECURED PARTY, BUT ONLY AFTER PROVIDING THE SECURED PARTY WITH EVIDENCE THAT SUCH DEBTOR HAS OBTAINED INSURANCE AS REQUIRED BY THIS AGREEMENT. IF THE SECURED PARTY PURCHASES INSURANCE FOR THE COLLATERAL, THE DEBTORS WILL BE RESPONSIBLE FOR THE COSTS OF THAT INSURANCE, INCLUDING INTEREST AND ANY OTHER CHARGES THAT THE SECURED PARTY MAY IMPOSE IN CONNECTION WITH THE PLACEMENT OF THE INSURANCE, UNTIL THE EFFECTIVE DATE OF THE CANCELLATION OR EXPIRATION OF THE INSURANCE. THE COSTS OF THE INSURANCE MAY BE ADDED TO THE SECURED OBLIGATIONS SECURED HEREBY. THE COSTS OF THE INSURANCE MAY BE MORE THAN THE COST OF INSURANCE THE DEBTORS MAY BE ABLE TO OBTAIN ON ITS OWN.

(i) Reserved.

(j) If any Collateral is in the possession or control of any of any Debtor's agents or processors and the Secured Party so requests, such Debtor agrees to notify such agents or processors in writing of the Secured Party's security interest therein and instruct them to hold all such Collateral for the Secured Party's account and subject to the Secured Party's instructions. Each Debtor shall, upon the request of the Secured Party, authorize and instruct all bailees and other parties, if any, at any time processing, labeling, packaging, holding, storing, shipping, or transferring all or any part of the Collateral to permit the Secured Party and its representatives to examine and inspect any of the Collateral then in such party's possession and to verify from such party's own books and records any information concerning the Collateral or any part thereof which the Secured Party or its representatives may seek to verify. As to any premises not owned by a Debtor wherein any of the Collateral is located, the relevant Debtor shall, at the Secured Party's request, cause each party having any right, title or interest in, or lien on, any of such premises to enter into an agreement (any such agreement to contain a legal description of such premises) whereby such party disclaims any right, title and interest in, and lien on, the Collateral and allows the removal of such Collateral by the Secured Party and is otherwise in form and substance reasonably acceptable to the Secured Party; *provided, however,* that no such agreement need be obtained with respect to any one location wherein the value of the Collateral as to which such agreement has not been obtained aggregates less than $200,000 at any one time.

(k) Each Debtor agrees from time to time to deliver to the Secured Party such evidence of the existence, identity, and location of its Collateral and of its availability as collateral security pursuant hereto (including, without limitation, schedules describing all Receivables created or acquired by such Debtor, copies of customer invoices or the equivalent, and original shipping or delivery receipts for all merchandise and other goods sold or leased or services rendered, together with such Debtor's warranty of the genuineness thereof, and reports stating the book value of Inventory and Equipment by major category and location), in each case as the Secured Party may reasonably request. The Secured Party shall have the right to verify all or any part of the Collateral in any manner, and through any medium, which the Secured Party considers appropriate (including, without limitation, the verification of Collateral by use of a fictitious name), and each Debtor agrees to furnish all assistance and information, and perform any acts, which the Secured Party may reasonably require in connection therewith.

(l) Each Debtor shall comply in all material respects with the terms and conditions of all leases, easements, right-of-way agreements, and other similar agreements binding upon such Debtor or affecting the Collateral or any part thereof.

(m) Schedule C attached hereto contains a true, complete, and current listing of all patents, trademarks, tradestyles, copyrights, and other intellectual property rights (including all registrations and applications therefor) owned by the Debtors as of the date hereof that are registered with any governmental authority. The Debtors shall promptly notify the Secured Party in writing of any additional intellectual property rights acquired or arising after the date hereof, and shall submit to the Secured Party a supplement to Schedule C to reflect such additional rights (provided any Debtor's failure to do so shall not impair the Secured Party's security interest therein). Each Debtor owns or possesses rights to use all franchises, licenses, patents, trademarks, trade names, tradestyles, copyrights, and rights with respect to the foregoing which are required to conduct its business. No event has occurred which permits, or after notice or lapse of time or both would permit, the revocation or termination of any such rights, and the Debtors are not liable to any person for infringement under applicable law with respect to any such rights as a result of its business operations.

(n) Schedule F attached hereto contains a true, complete and current listing of all Commercial Tort Claims held by the Debtors as of the date hereof, each described by reference to the specific incident giving rise to the claim. Each Debtor agrees to execute and deliver to the Secured Party a supplement to this Agreement in the form attached hereto as Schedule G, or in such other form acceptable to the Secured Party, promptly upon becoming aware of any other Commercial Tort Claim held or maintained by such Debtor arising after the date hereof (provided such Debtor's failure to do so shall not impair the Secured Party's security interest therein).

(o) Each Debtor agrees to execute and deliver to the Secured Party such further agreements, assignments, instruments, and documents and to do all such other things as the Secured Party may reasonably deem necessary or appropriate to assure the Secured Party its lien and security interest hereunder, including, without limitation, (i) such financing statements, and amendments thereof or supplements thereto, and such other instruments and documents as the Secured Party may from time to time reasonably require in order to comply with the UCC and any other applicable law, (ii) such agreements with respect to patents, trademarks, copyrights, and similar intellectual property rights as the Secured Party may from time to time reasonably require to comply with the filing requirements of the United States Patent and Trademark Office and the United States Copyright Office, and (iii) such control agreements with respect to all Deposit Accounts, Investment Property, Letter-of-Credit Rights, and electronic Chattel Paper, and to cause the relevant depository institutions, financial intermediaries, and issuers to execute and deliver such control agreements, as the Secured Party may from time to time reasonably require. Each Debtor hereby agrees that a carbon, photographic, or other reproduction of this Agreement or any such financing statement is sufficient for filing as a financing statement by the Secured Party without notice thereof to such Debtor wherever the Secured Party in its sole discretion desires to file the same. Each Debtor hereby authorizes the Secured Party to file any and all financing statements covering the Collateral or any part thereof as the Secured Party may require, including financing statements describing the Collateral as "all assets" or "all personal property" or words of like meaning. The Secured Party may order lien searches from time to time against each Debtor and the Collateral, and the Debtor shall promptly reimburse the Secured Party for all reasonable costs and expenses incurred in connection with such lien searches. In the event for any reason the law of any jurisdiction other than Illinois becomes or is applicable to the Collateral or any part thereof, or to any of the Secured Obligations, each Debtor agrees to execute and deliver all such instruments and documents and to do all such other things as the Secured Party in its sole discretion deems necessary or appropriate to preserve, protect, and enforce the lien and security interest of the Secured Party under the law of such other jurisdiction. Each Debtor agrees to mark its books and records to reflect the lien and security interest of the Secured Party in the Collateral.

(p) On failure of any Debtor to perform any of the material covenants and agreements herein contained, the Secured Party may, at its option, perform the same and in so doing may expend such sums as the Secured Party may reasonably deem advisable in the performance thereof, including, without limitation, the payment of any insurance premiums, the payment of any taxes, liens, and encumbrances, expenditures made in defending against any adverse claims, and all other expenditures which the Secured Party may be compelled to make by operation of law or which the Secured Party may make by agreement or otherwise for the protection of the security hereof. All such sums and amounts so expended shall be repayable by the relevant Debtor immediately without notice or demand, shall constitute additional Secured Obligations secured hereunder and shall bear interest from the date said amounts are expended at the rate per annum determined in accordance with Section 2.9(e) of the Credit Agreement (such rate per annum as so determined being hereinafter referred to as the *"Default Rate"*). No such performance of any covenant or agreement by the Secured Party on behalf of any Debtor, and no such advancement or expenditure therefor, shall relieve the Debtor of any default under the terms of this Agreement or in any way obligate the Secured Party to take any further or future action with respect thereto. The Secured Party, in making any payment hereby authorized, may do so according to any bill, statement, or estimate procured from the appropriate public office or holder of the claim to be discharged without inquiry into the accuracy of such bill, statement, or estimate or into the validity of any tax assessment, sale, forfeiture, tax lien, or title or claim. The Secured Party, in performing any act hereunder, shall be the sole judge of whether any Debtor is required to perform same under the terms of this Agreement. The Secured Party is hereby authorized to charge any account of the relevant Debtor maintained with the Secured Party for the amount of such sums and amounts so expended.

Section 4. Special Provisions Re: Receivables. (a) As of the time any Receivable owned by a Debtor becomes subject to the security interest provided for hereby, and at all times thereafter, such Debtor shall be deemed to have warranted as to each and all of such Receivables that all warranties of such Debtor set forth in this Agreement are true and correct with respect to each such Receivable; that each Receivable and all papers and documents relating thereto are genuine and in all respects what they purport to be; that no surety bond was required or given in connection with such Receivable or the contracts or purchase orders out of which the same arose; that the amount of the Receivable represented as owing is the correct amount actually and unconditionally owing, except for normal cash discounts on normal trade terms in the ordinary course of business; and that the amount of such Receivable represented as owing is not disputed and is not subject to any set-offs, credits, deductions, or countercharges other than those arising in the ordinary course of such Debtor's business which are disclosed to the Secured Party in writing promptly upon such Debtor becoming aware thereof. Without limiting the foregoing, if any Receivable arises out of a contract with the United States of America, or any state or political subdivision thereof, or any department, agency, or instrumentality of any of the foregoing, each Debtor agrees to notify the Secured Party and, at the Secured Party's request, execute whatever instruments and documents are required by the Secured Party in order that such Receivable shall be assigned to the Secured Party and that proper notice of such assignment shall be given under the federal Assignment of Claims Act (or any successor statute) or any similar state or local statute, as the case may be.

(b) Unless and until an Event of Default exists, any merchandise or other goods which are returned by a customer or account debtor or otherwise recovered may be resold by a Debtor in the ordinary course of its business as presently conducted in accordance with Section 6(b) hereof; and, during the existence of any Event of Default, such merchandise and other goods shall be set aside at the request of the Secured Party and held by the relevant Debtor as trustee for the Secured Party and shall remain part of the Secured Party's Collateral. Unless and until an Event of Default exists, the Debtors may settle and adjust disputes and claims with its customers and account debtors, handle returns and recoveries, and grant discounts, credits, and allowances in the ordinary course of its business as presently conducted for amounts and on terms which the relevant Debtor in good faith considers advisable; and, during the existence of any Event of Default, at the Secured Party's request, the Debtors shall notify the Secured Party promptly of all returns and recoveries and, on the Secured Party's request, deliver any such merchandise or other goods to the Secured Party. During the existence of any Event of Default, at the Secured Party's request, the Debtor shall also notify the Secured Party promptly of all disputes and claims and settle or adjust them at no expense to the Secured Party, but no discount, credit, or allowance other than on normal trade terms in the ordinary course of business as presently conducted shall be granted to any customer or account debtor and no returns of merchandise or other goods shall be accepted by any Debtor without the Secured Party's consent. The Secured Party may, at all times during the existence of any Event of Default, settle or adjust disputes and claims directly with customers or account debtors for amounts and upon terms which the Secured Party considers reasonably advisable.

(c) Reserved.

Section 5. Collection of Receivables. (a) Except as otherwise provided in this Agreement, the Debtors shall make collection of all Receivables and may use the same to carry on its business in accordance with sound business practice and otherwise subject to the terms hereof.

(b) Upon the occurrence and during the continuance of any Event of Default, whether or not the Secured Party has exercised any or all of its rights under other provisions of this Section 5, in the event the Secured Party requests any applicable Debtor to do so:

(i) all Instruments and Chattel Paper at any time constituting part of the Receivables or any other Collateral (including any postdated checks) shall, upon receipt by such Debtor, be immediately endorsed to and deposited with the Secured Party; and/or

(ii) such Debtor shall instruct all customers and account debtors to remit all payments in respect of Receivables or any other Collateral to a lockbox or lockboxes under the sole custody and control of the Secured Party and which are maintained at post office(s) in Chicago, Illinois selected by the Secured Party.

(c) Upon the occurrence and during the continuance of any Event of Default, whether or not the Secured Party has exercised any or all of its rights under other provisions of this Section 5, the Secured Party or its designee may notify the Debtors' customers and account debtors at any time that Receivables or any other Collateral have been assigned to the Secured Party or of the Secured Party's security interest therein, and either in its own name, or the relevant Debtor's name, or both, demand, collect (including, without limitation, through a lockbox analogous to that described in Section 5(b)(ii) hereof), receive, receipt for, sue for, compound, and give acquittance for any or all amounts due or to become due on Receivables or any other Collateral, and in the Secured Party's discretion file any claim or take any other action or proceeding which the Secured Party may deem reasonably necessary or appropriate to protect or realize upon the security interest of the Secured Party in the Receivables or any other Collateral.

(d) Any proceeds of Receivables or other Collateral transmitted to or otherwise received by the Secured Party pursuant to any of the provisions of Sections 5(b) or 5(c) hereof may be handled and administered by the Secured Party in and through a remittance account at the Secured Party, and the Debtors acknowledge that the maintenance of such remittance account by the Secured Party is solely for the Secured Party's convenience and that the Debtors do not have any right, title, or interest in such remittance account. The Secured Party may, after the occurrence and during the continuation of any Event of Default, apply all or any part of any proceeds of Receivables or other Collateral received by it from any source to the payment of the Secured Obligations (whether or not then due and payable), such applications to be made in such amounts, in such manner and order and at such intervals as the Secured Party may from time to time in its discretion determine, but not less often than once each week. The Secured Party need not apply or give credit for any item included in proceeds of Receivables or other Collateral until the Secured Party has received final payment therefor at its office in cash or final solvent credits current in Chicago, Illinois, acceptable to the Secured Party as such. However, if the Secured Party does give credit for any item prior to receiving final payment therefor and the Secured Party fails to receive such final payment or an item is charged back to the Secured Party for any reason, the Secured Party may at its election in either instance charge the amount of such item back against the remittance account or any account of the relevant Debtor maintained with the Secured Party, together with interest thereon at the Default Rate. Concurrently with each transmission of any proceeds of Receivables or other Collateral to the remittance account, each Debtor shall furnish the Secured Party with a report in such form as the Secured Party shall reasonably require identifying the particular Receivable or other Collateral from which the same arises or relates. Unless and until an Event of Default exists, the Secured Party will release proceeds of Collateral which the Secured Party has not applied to the Secured Obligations as provided above from the remittance account from time to time promptly after receipt thereof. The Secured Party shall have no liability or responsibility to any Debtor for accepting any check, draft or other order for payment of money bearing the legend "payment in full" or words of similar import or any other restrictive legend or endorsement whatsoever or be responsible for determining the correctness of any remittance.

Section 6. *Special Provisions Re: Inventory and Equipment.* (a) Reserved.

(b) Reserved.

(c) Reserved.

(d) Each Debtor warrants and agrees that no Inventory owned by it is or will be consigned to any other person without the Secured Party's prior written consent.

(e) Upon the Secured Party's request, each Debtor shall at its own cost and expense cause the lien of the Secured Party in and to any portion of the Collateral subject to a certificate of title law to be duly noted on such certificate of title or to be otherwise filed in such manner as is prescribed by law in order to perfect such lien and shall cause all such certificates of title and evidences of lien to be deposited with the Secured Party.

(f) Except for Equipment from time to time located on the real estate described on Schedule D attached hereto and as otherwise disclosed to the Secured Party in writing, none of the Equipment is or will be attached to real estate in such a manner that the same may become a fixture.

(g) If any of the Inventory is at any time evidenced by a document of title, such document shall be promptly delivered by the relevant Debtor to the Secured Party except to the extent the Secured Party specifically requests such Debtor not to do so with respect to any such document.

Section 7. Special Provisions Re: Investment Property and Deposits. (a) Unless and until an Event of Default has occurred and is continuing and thereafter until notified to the contrary by the Secured Party pursuant to Section 9(d) hereof:

(i) the Debtors shall be entitled to exercise all voting and/or consensual powers pertaining to the Investment Property or any part thereof, for all purposes not inconsistent with the terms of this Agreement or any other document evidencing or otherwise relating to any Secured Obligations; and

(ii) the Debtors shall be entitled to receive and retain all cash dividends paid upon or in respect of the Investment Property.

(b) All Investment Property (including all securities, certificated or uncertificated, securities accounts, and commodity accounts) of the Debtors on the date hereof is listed and identified on Schedule E attached hereto and made a part hereof. Each Debtor shall promptly notify the Secured Party of any other Investment Property acquired or maintained by such Debtor after the date hereof, and shall submit to the Secured Party a supplement to Schedule E to reflect such additional rights (provided such Debtor's failure to do so shall not impair the Secured Party's security interest therein). Certificates for all certificated securities now or at any time constituting Investment Property shall be promptly delivered by the Debtors to the Secured Party duly endorsed in blank for transfer or accompanied by an appropriate assignment or assignments or an appropriate undated stock power or powers, in every case sufficient to transfer title thereto, including, without limitation, all stock received in respect of a stock dividend or resulting from a split-up, revision, or reclassification of the Investment Property or any part thereof or received in addition to, in substitution of, or in exchange for the Investment Property or any part thereof as a result of a merger, consolidation, or otherwise. With respect to any uncertificated securities or any Investment Property held by a securities intermediary, commodity intermediary, or other financial intermediary of any kind, at the Secured Party's request, the Debtors shall execute and deliver, and shall cause any such issuer or intermediary to execute and deliver, an agreement among the relevant Debtor, the Secured Party, and such issuer or intermediary in form and substance reasonably satisfactory to the Secured Party which provides, among other things, for the intermediary's agreement that it shall comply with entitlement orders, and apply any value distributed on account of any such Investment Property, as directed by the Secured Party without further consent by any Debtor. The Secured Party may at any time, after the occurrence and during the continuance of an Event of Default, cause to be transferred into its name or the name of its nominee or nominees all or any part of the Investment Property hereunder.

(c) Reserved.

(d) The Debtors represent that on the date of this Agreement, none of the Investment Property consists of margin stock (as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System) except to the extent the Debtors have delivered to the Secured Party a duly executed and completed Form U-1 with respect to such stock. If at any time the Investment Property or any part thereof consists of margin stock, the Debtors shall promptly so notify the Secured Party and deliver to the Secured Party a duly executed and completed Form U-1 and such other instruments and documents reasonably requested by the Secured Party in form and substance reasonably satisfactory to the Secured Party.

(e) Notwithstanding anything to the contrary contained herein, in the event any Investment Property is subject to the terms of a separate security agreement in favor of the Secured Party, the terms of such separate security agreement shall govern and control unless otherwise agreed to in writing by the Secured Party.

(f) All Deposit Accounts of the Debtors on the date hereof are listed and identified (by account number and depository institution) on Schedule E attached hereto and made a part hereof. Each Debtor shall promptly notify the Secured Party of any other Deposit Account opened or maintained by such Debtor after the date hereof, and shall submit to the Secured Party a supplement to Schedule E to reflect such additional accounts (provided such Debtor's failure to do so shall not impair the Secured Party's security interest therein). With respect to any Deposit Account maintained by a depository institution other than the Secured Party, and as a condition to the establishment and maintenance of any such Deposit Account except as otherwise agreed to in writing by the Secured Party, such Debtor, the depository institution, and the Secured Party shall execute and deliver an account control agreement in form and substance reasonably satisfactory to the Secured Party which provides, among other things, for the depository institution's agreement that it will comply with instructions originated by the Secured Party directing the disposition of the funds in the Deposit Account without further consent by such Debtor.

Section 8. *Power of Attorney.* In addition to any other powers of attorney contained herein, each Debtor hereby appoints the Secured Party, its nominee, and any other person whom the Secured Party may designate, as such Debtor's attorney-in-fact, with full power and authority upon the occurrence and during the continuation of any Event of Default to sign such Debtor's name on verifications of Receivables and other Collateral; to send requests for verification of Collateral to such Debtor's customers, account debtors, and other obligors; to endorse such Debtor's name on any checks, notes, acceptances, money orders, drafts, and any other forms of payment or security that may come into the Secured Party's possession or on any assignments, stock powers, or other instruments of transfer relating to the Collateral or any part thereof; to sign such Debtor's name on any invoice or bill of lading relating to any Collateral, on claims to enforce collection of any Collateral, on notices to and drafts against customers and account debtors and other obligors, on schedules and assignments of Collateral, on notices of assignment and on public records; to notify the post office authorities to change the address for delivery of such Debtor's mail to an address designated by the Secured Party; to receive, open and dispose of all mail addressed to such Debtor; and to do all things necessary to carry out this Agreement. Each Debtor hereby ratifies and approves all acts of any such attorney and agrees that neither the Secured Party nor any such attorney will be liable for any acts or omissions or for any error of judgment or mistake of fact or law other than such person's gross negligence or willful misconduct. The Secured Party may file one or more financing statements disclosing its security interest in any or all of the Collateral without the relevant Debtor's signature appearing thereon. Each Debtor also hereby grants the Secured Party a power of attorney to execute any such financing statements, or amendments and supplements to financing statements, on behalf of such Debtor without notice thereof to such Debtor. The foregoing powers of attorney, being coupled with an interest, are irrevocable until the Secured Obligations have been fully paid and satisfied and all agreements of the Secured Party to extend credit to or for the account of the Borrower have expired or otherwise have been terminated.

Section 9. *Defaults and Remedies.* (a) The occurrence of any event or the existence of any condition specified as an "Event of Default" under the Credit Agreement shall constitute an *"Event of Default"* hereunder.

(b) Upon the occurrence and during the continuation of any Event of Default, the Secured Party shall have, in addition to all rights provided herein or by law, the rights and remedies of a secured party under the UCC (regardless of whether the UCC is the law of the jurisdiction where the rights or remedies are asserted and regardless of whether the UCC applies to the affected Collateral), and further the Secured Party may, without demand and without advertisement, notice, hearing, or process of law, all of which the Debtors hereby waive, at any time or times, sell and deliver all or any part of the Collateral (and any other property of the Debtors attached thereto or found therein) held by or for it at public or private sale, for cash, upon credit, or otherwise, at such prices and upon such terms as the Secured Party deems advisable, in its sole discretion. In addition to all other sums due the Secured Party hereunder, the Debtors shall pay the Secured Party all costs and expenses incurred by the Secured Party, including attorneys' fees and court costs, in obtaining, liquidating or enforcing payment of Collateral or the Secured Obligations or in the prosecution or defense of any action or proceeding by or against the Secured Party or any Debtor concerning any matter arising out of or connected with this Agreement or the Collateral or the Secured Obligations, including, without limitation, any of the foregoing arising in, arising under or related to a case under the United States Bankruptcy Code (or any successor statute). Any requirement of reasonable notice shall be met if such notice is personally served on or mailed, postage prepaid, to each Debtor in accordance with Section 12(b) hereof at least 10 days before the time of sale or other event giving rise to the requirement of such notice; *provided however,* no notification need be given to any Debtor if such Debtor has signed, after an Event of Default has occurred, a statement renouncing any right to notification of sale or other intended disposition. The Secured Party shall not be obligated to make any sale or other disposition of the Collateral regardless of notice having been given. The Secured Party may be the purchaser at any such sale. Each Debtor hereby waives all of its rights of redemption from any such sale. The Secured Party may postpone or cause the postponement of the sale of all or any portion of the Collateral by announcement at the time and place of such sale, and such sale may, without further notice, be made at the time and place to which the sale was postponed or the Secured Party may further postpone such sale by announcement made at such time and place. The Secured Party has no obligation to prepare the Collateral for sale. The Secured Party may sell or otherwise dispose of the Collateral without giving any warranties as to the Collateral or any part thereof, including disclaimers of any warranties of title or the like, and each Debtor acknowledges and agrees that the absence of such warranties shall not render the disposition commercially unreasonable.

(c) Without in any way limiting the foregoing, upon the occurrence and during the continuation of any Event of Default, the Secured Party shall have the right, in addition to all other rights provided herein or by law, to take physical possession of any and all of the Collateral and anything found therein, the right for that purpose to enter without legal process any premises where the Collateral may be found (provided such entry be done lawfully), and the right to maintain such possession on the relevant Debtor's premises (each Debtor hereby agreeing to lease such premises without cost or expense to the Secured Party or its designee if the Secured Party so requests) or to remove the Collateral or any part thereof to such other places as the Secured Party may desire. Upon the occurrence and during the continuation of any Event of Default, the Secured Party shall have the right to exercise any and all rights with respect to all Deposit Accounts of each Debtor including, without limitation, the right to direct the disposition of the funds in each Deposit Account and to collect, withdraw, and receive all amounts due or to become due or payable under each such Deposit Account. Upon the occurrence and during the continuation of any Event of Default, each Debtor shall, upon the Secured Party's demand, promptly assemble the Collateral and make it available to the Secured Party at a place designated by the Secured Party. If the Secured Party exercises its right to take possession of the Collateral, the relevant Debtor shall also at its expense perform any and all other steps requested by the Secured Party to preserve and protect the security interest hereby granted in the Collateral, such as placing and maintaining signs indicating the security interest of the Secured Party, appointing overseers for the Collateral, and maintaining Collateral records.

(d) Without in any way limiting the foregoing, upon the occurrence and during the continuation of any Event of Default, all rights of each Debtor to exercise the voting and/or consensual powers which it is entitled to exercise pursuant to Section 7(a)(i) hereof and/or to receive and retain the distributions which it is entitled to receive and retain pursuant to Section 7(a)(ii) hereof, shall, at the option of the Secured Party, cease and thereupon become vested in the Secured Party, which, in addition to all other rights provided herein or by law, shall then be entitled solely and exclusively to exercise all voting and other consensual powers pertaining to the Investment Property (including, without limitation, the right to deliver notice of control with respect to any Investment Property held in a securities account or commodity account and deliver all entitlement orders with respect thereto) and/or to receive and retain the distributions which any Debtor would otherwise have been authorized to retain pursuant to Section 7(a)(ii) hereof and shall then be entitled solely and exclusively to exercise any and all rights of conversion, exchange, or subscription or any other rights, privileges, or options pertaining to any Investment Property as if the Secured Party were the absolute owner thereof. Without limiting the foregoing, the Secured Party shall have the right to exchange, at its discretion, any and all of the Investment Property upon the merger, consolidation, reorganization, recapitalization, or other readjustment of the respective issuer thereof or upon the exercise by or on behalf of any such issuer or the Secured Party of any right, privilege, or option pertaining to any Investment Property and, in connection therewith, to deposit and deliver any and all of the Investment Property with any committee, depositary, transfer agent, registrar, or other designated agency upon such terms and conditions as the Secured Party may determine. In the event the Secured Party in good faith believes any of the Collateral constitutes restricted securities within the meaning of any applicable securities laws, any disposition thereof in compliance with such laws shall not render the disposition commercially unreasonable.

(e) Without in any way limiting the foregoing, each Debtor hereby grants to the Secured Party a royalty-free irrevocable license and right to use all of such Debtor's patents, patent applications, patent licenses, trademarks, trademark registrations, trademark licenses, trade names, trade styles, copyrights, copyright applications, copyright licenses, and similar intangibles in connection with any foreclosure or other realization by the Secured Party on all or any part of the Collateral upon the occurrence and during the continuance of an Event of Default. The license and right granted the Secured Party hereby shall be without any royalty or fee or charge whatsoever.

(f) The powers conferred upon the Secured Party hereunder are solely to protect its interest in the Collateral and shall not impose on it any duty to exercise such powers. The Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession or control if such Collateral is accorded treatment substantially equivalent to that which the Secured Party accords its own property, consisting of similar type assets, it being understood, however, that the Secured Party shall have no responsibility for ascertaining or taking any action with respect to calls, conversions, exchanges, maturities, tenders, or other matters relating to any such Collateral, whether or not the Secured Party has or is deemed to have knowledge of such matters. This Agreement constitutes an assignment of rights only and not an assignment of any duties or obligations of the Debtors, or any of them, in any way related to the Collateral, and the Secured Party shall have no duty or obligation to discharge any such duty or obligation. The Secured Party shall have no responsibility for taking any necessary steps to preserve rights against any parties with respect to any Collateral or initiating any action to protect the Collateral against the possibility of a decline in market value. Neither the Secured Party nor any party acting as attorney for the Secured Party shall be liable for any acts or omissions or for any error of judgment or mistake of fact or law other than their gross negligence or willful misconduct.

(g) Failure by the Secured Party to exercise any right, remedy, or option under this Agreement or any other agreement between the Debtors, or any of them, and the Secured Party or provided by law, or delay by the Secured Party in exercising the same, shall not operate as a waiver; and no waiver by the Secured Party shall be effective unless it is in writing and then only to the extent specifically stated. The rights and remedies of the Secured Party under this Agreement shall be cumulative and not exclusive of any other right or remedy which the Secured Party may have. For purposes of this Agreement, an Event of Default shall be construed as continuing after its occurrence until waived in writing by the Secured Party.

Section 10. Application of Proceeds. The proceeds and avails of the Collateral at any time received by the Secured Party after the occurrence and during the continuation of any Event of Default shall, when received by the Secured Party in cash or its equivalent, be applied by the Secured Party as follows:

(i) first, to the payment and satisfaction of all sums paid and costs and expenses incurred by the Secured Party hereunder or otherwise in connection herewith, including such monies paid or incurred in connection with protecting, preserving or realizing upon the Collateral or enforcing any of the terms hereof, including attorneys' fees and court costs, together with any interest thereon (but without preference or priority of principal over interest or of interest over principal), to the extent the Secured Party is not reimbursed therefor by the Debtors; and

(ii) second, to the payment and satisfaction of the remaining Secured Obligations, whether or not then due (in whatever order the Secured Party elects), both for interest and principal.

The Debtors shall remain liable to the Secured Party for any deficiency. Any surplus remaining after the full payment and satisfaction of the foregoing shall be returned to the Debtors or to whomsoever the Secured Party reasonably determines is lawfully entitled thereto.

Section 11. Continuing Agreement. This Agreement shall be a continuing agreement in every respect and shall remain in full force and effect until all of the Secured Obligations, both for principal and interest, have been fully paid and satisfied and all agreements of the Secured Party to extend credit to or for the account of the Borrower have expired or otherwise have been terminated. Upon such termination of this Agreement, the Secured Party shall, upon the request and at the expense of the Debtors, forthwith release its security interest hereunder.

Section 12. Miscellaneous. (a) This Agreement cannot be changed or terminated orally. All of the rights, privileges, remedies, and options given to the Secured Party hereunder shall inure to the benefit of its successors and assigns, and all the terms, conditions, covenants, agreements, representations, and warranties of and in this Agreement shall bind the Debtors and their legal representatives, successors and assigns, provided that no Debtor may assign its rights or delegate its duties hereunder without the Secured Party's prior written consent.

(b) All notices and other communications provided for herein shall be effectuated (a) in the case of notices to Secured Party, in the manner provided for in the Credit Agreement, and (b) in the case of notices to any Debtor, in the manner provided for in the Credit Agreement. Each Debtor appoints the Borrower such Debtor's agent, and the Borrower shall act as agent for each other Debtor, for receipt of notices and other communications pursuant to the Loan Documents.

(c) In the event and to the extent that any provision hereof shall be deemed to be invalid or unenforceable by reason of the operation of any law or by reason of the interpretation placed thereon by any court, this Agreement shall to such extent be construed as not containing such provision, but only as to such locations where such law or interpretation is operative, and the invalidity or unenforceability of such provision shall not affect the validity of any remaining provisions hereof, and any and all other provisions hereof which are otherwise lawful and valid shall remain in full force and effect. Without limiting the generality of the foregoing, in the event that this Agreement shall be deemed to be invalid or otherwise unenforceable with respect to any Debtor, such invalidity or unenforceability shall not affect the validity of this Agreement with respect to the other Debtors.

(d) The lien and security interest herein created and provided for stand as direct and primary security for the Secured Obligations. No application of any sums received by the Secured Party in respect of the Collateral or any disposition thereof to the reduction of the Secured Obligations or any part thereof shall in any manner entitle any Debtor to any right, title or interest in or to the Secured Obligations or any collateral or security therefor, whether by subrogation or otherwise, unless and until all Secured Obligations have been fully paid and satisfied and all agreements of the Secured Party to extend credit to or for the account of each Debtor have expired or otherwise have been terminated. Each Debtor acknowledges that the lien and security interest hereby created and provided are absolute and unconditional and shall not in any manner be affected or impaired by any acts of omissions whatsoever of the Secured Party or any other holder of any Secured Obligations, and without limiting the generality of the foregoing, the lien and security interest hereof shall not be impaired by any acceptance by the Secured Party or any other holder of any Secured Obligations of any other security for or guarantors upon any of the Secured Obligations or by any failure, neglect or omission on the part of the Secured Party or any other holder of any Secured Obligations to realize upon or protect any of the Secured Obligations or any collateral or security therefor. The lien and security interest hereof shall not in any manner be impaired or affected by (and the Secured Party, without notice to anyone, is hereby authorized to make from time to time) any sale, pledge, surrender, compromise, settlement, release, renewal, extension, indulgence, alteration, substitution, exchange, change in, modification or disposition of any of the Secured Obligations or of any collateral or security therefor, or of any guaranty thereof, or of any instrument or agreement setting forth the terms and conditions pertaining to any of the foregoing. The Secured Party may at its discretion at any time grant credit to any Debtor without notice to the other Debtors in such amounts and on such terms as the Secured Party may elect (all of such to constitute additional Secured Obligations hereby secured) without in any manner impairing the lien and security interest created and provided for herein. In order to realize hereon and to exercise the rights granted the Secured Party hereunder and under applicable law, there shall be no obligation on the part of the Secured Party or any other holder of any Secured Obligations at any time to first resort for payment to any one or more Debtors or to any guaranty of the Secured Obligations or any portion thereof or to resort to any other collateral, security, property, liens or any other rights or remedies whatsoever, and the Secured Party shall have the right to enforce this Agreement against any Debtor or any of its Collateral irrespective of whether or not other proceedings or steps seeking resort to or realization upon or from any of the foregoing are pending.

(e) In the event the Secured Party shall at any time in its discretion permit a substitution of Debtors hereunder or a party shall wish to become a Debtor hereunder, such substituted or additional Debtor shall, upon executing an agreement in the form attached hereto as Schedule H, become a party hereto and be bound by all the terms and conditions hereof to the same extent as though such Debtor had originally executed this Agreement and, in the case of a substitution, in lieu of the Debtor being replaced. Any such agreement shall contain information as to such Debtor necessary to update Schedule A, B, C, D, E, and F hereto with respect to it. No such substitution shall be effective absent the written consent of the Secured Party nor shall it in any manner affect the obligations of the other Debtors hereunder.

(f) This Agreement shall be deemed to have been made in the State of Illinois and shall be governed by, and construed in accordance with, the laws of the State of Illinois. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning of any provision hereof.

(g) This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterpart signature pages, each constituting an original, but all together one and the same instrument. Each Debtor acknowledges that this Agreement is and shall be effective upon its execution and delivery by such Debtor to the Secured Party, and it shall not be necessary for the Secured Party to execute this Agreement or any other acceptance hereof or otherwise to signify or express its acceptance hereof.

(h) Each Debtor hereby submits to the non-exclusive jurisdiction of the United States District Court for the Northern District of Illinois and of any Illinois state court sitting in the City of Chicago for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each Debtor irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient form. THE DEBTORS AND THE SECURED PARTY EACH HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Debtors have caused this Security Agreement to be duly executed and delivered as of the date and year first above written.

PIONEER POWER SOLUTIONS, INC.

By: /s/ Andrew Minkow
Name: Andrew Minkow
Title: Chief Financial Officer

JEFFERSON ELECTRIC, INC.

By: /s/ Andrew Minkow
Name: Andrew Minkow
Title: Chief Financial Officer

PIONEER CRITICAL POWER INC.

By: /s/ Andrew Minkow
Name: Andrew Minkow
Title: Chief Financial Officer

[Signature Page to Security Agreement]

Accepted and agreed to in Chicago, Illinois as of the date and year first above written.

BANK OF MONTREAL, acting through its Chicago Branch

By: /s/ Larry Allan Swiniarski
Name: Larry Alan Swiniarski
Title: Director

[Signature Page to Security Agreement]

SCHEDULE A

LOCATIONS

COLUMN 1 NAME OF DEBTOR (AND STATE OF ORGANIZATION AND ORGANIZATIONAL REGISTRATION NUMBER)	COLUMN 2 CHIEF EXECUTIVE OFFICE (AND NAME OF RECORD OWNER OF SUCH LOCATION)	COLUMN 3 ADDITIONAL PLACES OF BUSINESS AND COLLATERAL LOCATIONS (AND NAME OF RECORD OWNER OF SUCH LOCATIONS)
Pioneer Power Solutions, Inc. (Delaware; 4757949)	400 Kelby Street, 9th Floor Fort Lee, NJ 07024	400 Kelby Street, 9th Floor, Fort Lee, New Jersey 07024
Jefferson Electric, Inc. (Delaware; 4818480)	9650 S. Franklin Drive Franklin, WI 53132-8847	1011 West 46th Avenue, Denver, Colorado 80211
		3145 N.W. 38th Street, Miami, Florida 33142
		790-B Great Southwest Parkway, Atlanta, Georgia 30336
		159 Plantation Road, Harahan, Louisiana 70123
		7500 Intervale Avenue, Detroit, Michigan 48238
		63-15 Traffic Avenue, Ridgewood, New York 11385
		3501 Croton Avenue, Cleveland, Ohio 44115
		8180 Bourbon Street, Oklahoma City, Oklahoma 73128
		1231 Ford Road, Bensalem, Pennsylvania 19020
		4650 South Pinemont, Suite 125, Houston, Texas 77041
		10501 South Jackson Road, Suite Number 100, Pharr, Texas 78577
		7828 South 200th Street, Kent, Washington 98032
		9650 South Franklin Drive, Franklin, Wisconsin 53132-8847
		3601 Jurupa Street, Ontario, California 91761

2071 Ringwood Avenue, San Jose,
California 95131

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		351 West Touhy Avenue, Suite 190, Des Plaines, Illinois 60018
Pioneer Critical Power Inc. (Delaware; 4906256)	9210 Wyoming Avenue North Suite 250 Minneapolis, MN 55445	9210 Wyoming Avenue North, Suite 250, Minneapolis, Minnesota 55445

SCHEDULE B

OTHER NAMES

A. PRIOR LEGAL NAMES

Power Systems Solutions, Inc.

Pioneer Sales USA Inc.

Pioneer Wind Energy Services, Inc.

JEI Acquisition Corp.

Sierra Concepts, Inc.

B. TRADE NAMES

None.

SCHEDULE C

INTELLECTUAL PROPERTY RIGHTS

A. TRADEMARKS

DEBTOR	MARKS	REG. NO.	REG. DATE
Jefferson Electric, Inc.	Jefferson Electric	4124485	April 10, 2012
Jefferson Electric, Inc.	Jefferson	4124484	April 10, 2012
Jefferson Electric, Inc.	Solartran Tanning Bed Transformers	3095087	May 23, 2006
Jefferson Electric, Inc.	Jefferson Electric	2179377	August 4, 1998
Pioneer Power Solutions, Inc.	Pioneer	4076679	December 27, 2011
Pioneer Power Solutions, Inc.	P T	4022410	September 6, 2011
Pioneer Power Solutions, Inc.	P T Transformateurs LTEE Pioneer Transformers LTD	3988192	July 5, 2011

B. PATENTS

None.

C. COPYRIGHTS

None.

SCHEDULE D

REAL ESTATE LEGAL DESCRIPTIONS

None.

SCHEDULE E

INVESTMENT PROPERTY AND DEPOSITS

A. INVESTMENT PROPERTY

DEBTOR	NAME OF SUBSIDIARY ISSUER	TYPE OF ORGANIZATION (E.G., CORPORATION, PARTNERSHIP, LIMITED LIABILITY COMPANY)	JURISDICTION OF ORGANIZATION	NO. (AND TYPE) OF ISSUED SHARES/UNITS	CERTIFICATE NO. (IF ANY)	PERCENTAGE OF ISSUER'S EQUITY INTERESTS
Pioneer Power Solutions, Inc.	Jefferson Electric, Inc.	Corporation	Delaware	2,295 common shares	No. 2	100%
Pioneer Power Solutions, Inc.	Pioneer Critical Power Inc.	Corporation	Delaware	100 common shares	No. 002	100%
Pioneer Power Solutions, Inc.	JE Mexican Holdings, Inc.	Corporation	Delaware	1,000	No. 2	100%
Jefferson Electric, Inc.	Nexus Custom Magnetics, LLC	LLC	Texas	5,000 units	No. 3	100%
Pioneer Power Solutions, Inc.	Pioneer Electrogroup Canada Inc.	Corporation	Quebec, Canada	____	____	100%[1]

[1] Pioneer Power Solutions, Inc. pledges 65% of the Voting Stock (as defined in the Credit Agreement) of Pioneer Electrogroup Canada Inc. to the Secured Party.

B. DEPOSITS

DEBTOR	TYPE OF ACCOUNT AND ACCOUNT NUMBER (E.G., DEPOSIT ACCOUNT, SECURITIES ACCOUNT OR COMMODITY ACCOUNT)	ACCOUNT NUMBER	ACCOUNT TITLE	NAME AND ADDRESS OF INSTITUTION
Pioneer Power Solutions, Inc.	Checking		Pioneer Operating	Bank of America P.O. Box 25118 Tampa, FL 33622-5118
Pioneer Power Solutions, Inc.	Checking		Pioneer Payroll	Bank of America P.O. Box 25118 Tampa, FL 33622-5118
Pioneer Critical Power Inc.	Checking		PCPI Operating	Bank of America P.O. Box 25118 Tampa, FL 33622-5118
Pioneer Critical Power Inc.	Checking		PCPI Payroll	Bank of America P.O. Box 25118 Tampa, FL 33622-5118
Jefferson Electric, Inc.	Checking		Operating Account	Johnson Bank P.O. Box 547 Racine, WI 53401-0547
Jefferson Electric, Inc.	Checking		Incoming International Wire Account	Johnson Bank P.O. Box 547 Racine, WI 53401-0547

SCHEDULE F

COMMERCIAL TORT CLAIMS

None.

SCHEDULE G

SUPPLEMENT TO SECURITY AGREEMENT

THIS SUPPLEMENT TO SECURITY AGREEMENT (the *"Supplement"*) is dated as of this _____ day of _____, 20__, from _____, a(n) _____ **corporation/limited liability company/partnership** (the *"Debtor"*), to Bank of Montreal, a Canadian chartered bank acting through its Chicago branch (the *"Secured Party"*).

PRELIMINARY STATEMENTS

A. The Debtor and certain affiliates of the Debtor and the Secured Party are parties to that certain Security Agreement dated as of June 28, 2013 (such Security Agreement, as the same may from time to time be amended, modified or restated, being hereinafter referred to as the *"Security Agreement"*). All capitalized terms used herein without definition shall have the same meanings herein as such terms are defined in the Security Agreement.

B. Pursuant to the Security Agreement, the Debtor granted to the Secured Party, among other things, a continuing security interest in all Commercial Tort Claims.

C. The Debtor has acquired a Commercial Tort Claim, and executes and delivers this Supplement to confirm and assure the Secured Party's security interest therein.

NOW, THEREFORE, in consideration of the benefits accruing to the Debtor, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. In order to secure payment of the Secured Obligations, whether now existing or hereafter arising, the Debtor does hereby grant to the Secured Party a continuing lien on and security interest in the Commercial Tort Claim described below:

_____

_____

_____

2. Schedule F (Commercial Tort Claims) to the Security Agreement is hereby amended to include reference to the Commercial Tort Claim referred to in Section 1 above. The Commercial Tort Claim described herein is in addition to, and not in substitution or replacement for, the Commercial Tort Claims heretofore described in and subject to the Security Agreement, and nothing contained herein shall in any manner impair the priority of the liens and security interests heretofore granted by the Debtor in favor of the Secured Party under the Security Agreement.

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3. The Debtor agrees to execute and deliver such further instruments and documents and do such further acts and things as the Secured Party may deem necessary or proper to carry out more effectively the purposes of this Supplement.

4. No reference to this Supplement need be made in the Security Agreement or in any other document or instrument making reference to the Security Agreement, any reference to the Security Agreement in any of such items to be deemed a reference to the Security Agreement as supplemented hereby. The Debtor acknowledges that this Supplement shall be effective upon its execution and delivery by the Debtor to the Secured Party, and it shall not be necessary for the Secured Party to execute this Supplement or any other acceptance hereof or otherwise to signify or express its acceptance hereof.

5. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois (without regard to principles of conflicts of law).

[INSERT NAME OF DEBTOR]

By _____

Name _____

Title _____

SCHEDULE H

ASSUMPTION AND SUPPLEMENTAL SECURITY AGREEMENT

THIS AGREEMENT dated as of this _____ day of _____, 20___ from [**new debtor**], a _____ **corporation/ limited liability company/partnership** (the *"New Debtor"*), to Bank of Montreal, a Canadian chartered bank acting through its Chicago branch (the *"Secured Party"*).

WITNESSETH THAT:

WHEREAS, Pioneer Power Solutions, Inc. (the *"Borrower"*) and certain other parties have executed and delivered to the Secured Party that certain Security Agreement dated as of June 28, 2013 (such Security Agreement, as the same may from time to time be modified or amended, including supplements thereto which add additional parties as Debtors thereunder, being hereinafter referred to as the *"Security Agreement"*), pursuant to which such parties (the *"Existing Debtors"*) have granted to the Secured Party a lien on and security interest in each such Existing Debtor's Collateral (as such term is defined in the Security Agreement) to secure the Secured Obligations (as such term is defined in the Security Agreement); and

WHEREAS, the Borrower provides the New Debtor with substantial financial, managerial, administrative, technical and other support and the New Debtor will directly and substantially benefit from credit and other financial accommodations extended and to be extended by the Secured Party to the Borrower;

NOW, THEREFORE, FOR VALUE RECEIVED, and in consideration of advances made or to be made, or credit accommodations given or to be given, to the Borrower by the Secured Party from time to time, the New Debtor hereby agrees as follows:

1. The New Debtor acknowledges and agrees that it shall become a "Debtor" party to the Security Agreement effective upon the date the New Debtor's execution of this Agreement and the delivery of this Agreement to the Secured Party, and that upon such execution and delivery, all references in the Security Agreement to the terms "Debtor" or "Debtors" shall be deemed to include the New Debtor. Without limiting the generality of the foregoing, the New Debtor hereby repeats and reaffirms all grants (including the grant of a lien and security interest), covenants, agreements, representations and warranties contained in the Security Agreement as amended hereby, each and all of which are and shall remain applicable to the Collateral from time to time owned by the New Debtor or in which the New Debtor from time to time has any rights. Without limiting the foregoing, in order to secure payment of the Secured Obligations, whether now existing or hereafter arising, the New Debtor does hereby grant to the Secured Party, and hereby agrees that the Secured Party has and shall continue to have a continuing lien on and security interest in, among other things, all of the New Debtor's Collateral (as such term is defined in the Security Agreement), including, without limitation, all of the New Debtor's Accounts, Chattel Paper, Instruments, Documents, General Intangibles, Letter-of-Credit Rights, Supporting Obligations, Deposit Accounts, Investment Property, Inventory, Equipment, Fixtures, Commercial Tort Claims, and all Proceeds thereof and all of the other Collateral described in the granting clauses of the Security Agreement, each and all of such granting clauses being incorporated herein by reference with the same force and effect as if set forth in their entirety except that all references in such clauses to the Existing Debtors or any of them shall be deemed to include references to the New Debtor. Nothing contained herein shall in any manner impair the priority of the liens and security interests heretofore granted in favor of the Secured Party under the Security Agreement.

2. Schedules A (Locations), Schedule B (Other Names), Schedule C (Intellectual Property Rights), Schedule D (Real Estate), Schedule E (Investment Property and Deposits), and Schedule F (Commercial Tort Claims) to the Security Agreement shall be supplemented by the information stated below with respect to the New Debtor:

SUPPLEMENT TO SCHEDULE A

NAME OF DEBTOR (AND STATE OF ORGANIZATION AND ORGANIZATIONAL REGISTRATION NUMBER)	CHIEF EXECUTIVE OFFICE (AND NAME OF RECORD OWNER OF SUCH LOCATION)	ADDITIONAL PLACES OF BUSINESS AND COLLATERAL LOCATIONS (AND NAME OF RECORD OWNER OF SUCH LOCATIONS)

SUPPLEMENT TO SCHEDULE B

NAME OF DEBTOR	PRIOR LEGAL NAMES AND TRADE NAMES OF SUCH DEBTOR

SUPPLEMENT TO SCHEDULE C

INTELLECTUAL PROPERTY RIGHTS

SUPPLEMENT TO SCHEDULE D

REAL ESTATE LEGAL DESCRIPTIONS

SUPPLEMENT TO SCHEDULE E

INVESTMENT PROPERTY AND DEPOSITS

SUPPLEMENT TO SCHEDULE F

COMMERCIAL TORT CLAIMS

3. The New Debtor hereby acknowledges and agrees that the Secured Obligations are secured by all of the Collateral according to, and otherwise on and subject to, the terms and conditions of the Security Agreement to the same extent and with the same force and effect as if the New Debtor had originally been one of the Existing Debtors under the Security Agreement and had originally executed the same as such an Existing Debtor.

4. All capitalized terms used in this Agreement without definition shall have the same meaning herein as such terms have in the Security Agreement, except that any reference to the term "Debtor" or "Debtors" and any provision of the Security Agreement providing meaning to such term shall be deemed a reference to the Existing Debtors and the New Debtor. Except as specifically modified hereby, all of the terms and conditions of the Security Agreement shall stand and remain unchanged and in full force and effect.

5. The New Debtor agrees to execute and deliver such further instruments and documents and do such further acts and things as the Secured Party may reasonably deem necessary or proper to carry out more effectively the purposes of this Agreement.

6. No reference to this Agreement need be made in the Security Agreement or in any other document or instrument making reference to the Security Agreement, any reference to the Security Agreement in any of such to be deemed a reference to the Security Agreement as modified hereby.

7. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois (without regard to principles of conflicts of law).

[INSERT NAME OF NEW DEBTOR]

By _____
Name _____
Title _____

Accepted and agreed to as of the date first above written.

BANK OF MONTREAL, acting through its Chicago Branch

By _____
Name _____
Title _____

PIONEER ELECTROGROUP CANADA INC. AND AL.

AMENDED AND RESTATED LETTER LOAN AGREEMENT DATED JUNE 28, 2013

The terms and conditions herein contained are to be held confidential and may not be shared with third parties unless otherwise agreed to by the Bank in writing or as required by any governmental authority, including the Securities Exchange Commission. This Letter Loan Agreement amends and restates without novation the Letter Loan Agreement dated June 28, 2011, as amended by the First Amending Agreement dated December 7, 2012 and the Amending Agreement No. 2 dated February 11, 2013 (collectively, the "**Initial Letter Loan Agreement**")

DEFINED TERMS:	In this Letter Loan Agreement, certain terms used with the upper-case are defined in **Schedule I** hereto. Please refer to such **Schedule I** for the meaning of such terms. All amounts herein are in Canadian dollars unless expressly stated otherwise.	
BORROWERS:	Pioneer Electrogroup Canada Inc. ("**Electrogroup**") Pioneer Transformers Ltd. ("**Transformers**") Bemag Transformer Inc. ("**Bemag**"). (Electrogroup, Transformers and Bemag collectively, the "**Borrowers**")	
LENDER:	Bank of Montreal (the "**Bank**")	
GUARANTORS:	The Borrowers, Pioneer Power Solutions, Inc. ("**PPSI**") and any other present or future Canadian Subsidiaries of the Borrowers (collectively, the "**Guarantors**")	
CREDIT FACILITIES:	**Facility A:**	Revolving demand loan not exceeding CDN$10,000,000 or the Equivalent Amount in US$.
	Facility B:	5 year Term Loan up to the original amount of CDN$2,000,000 granted on or about June 28, 2011 and which has an outstanding balance of CDN$1,395,015 as of the date hereof.
	Facility C:	5 year Term Loan in the principal amount not exceeding CDN$10,000,000 granted on or about July 1st, 2011 and which has an outstanding balance of CDN$8,423,526 as of the date hereof, amortized as per the Maturity and Installments section.
	Facility D:	Corporate MasterCard credit facility with an aggregate credit limit of CDN$50,000 at any time or the Equivalent Amount in US$.

Facility E: Treasury Risk Management Line having an aggregate Risk Content not exceeding CDN$1,000,000.

(collectively, the "**Facilities**"; each a "**Facility**").

PURPOSE:

Facility A: To finance ongoing operating and working capital requirements.

Facility B: To refinance an existing term loan granted by the Bank to Transformers.

Facility C: To finance the acquisition, on or about July 1st, 2011, of all the issued and outstanding shares of Bemag (the "**Bemag Transaction**"), the acquisition, on or about July 1st, 2011, of certain assets of Vermont Transformers Inc. (the "**Vermont Transaction**"), the Bemag plant purchase and the Bemag plant expansion.

Facility D: To pay for and temporarily finance day-to-day business expenses.

Facility E: To assist the Borrowers in hedging their foreign exchange and interest rate exposure in the normal course of business. May not be used for speculation purposes.

The Borrowers shall use the proceeds of loans and other extensions of credit made available through the Facilities for legal and proper purposes as are consistent with all applicable laws and the terms of this Letter Loan Agreement, the whole to the extent permitted under or pursuant to this Letter Loan Agreement. The Facilities shall not be used for speculation or to finance hostile takeover bids.

AVAILABILITY:

FACILITY A: (subject to monthly Margin Requirement):
Available from time to time:

- In CDN$:
  - By way of direct advances on the basis of the Canadian Rate through notes and/or overdraft in the CDN$ account of the Borrowers set up for such purpose.
  - By way of acceptance of BAs denominated in CDN$:
    - minimum amount: CDN$500,000 and multiples of CDN$100,000 in excess thereof;
    - term: 30 to 90 days, subject to availability;

    All BAs are to be discounted by the Bank at the Discount Rate.

- In US$:
  - By way of direct advances on the basis of the US Base Rate through notes and/ or overdraft in the US$ account of the Borrowers set up for such purpose.
  - By way of direct advances at LIBOR:
    - minimum amount of US$500,000 and multiples of US$100,000 in excess thereof;
    - interest period: 1, 2 or 3 months, subject to availability.
    - Commercial Letters of Credit and Guarantees to a maximum of USD$1,000,000, available in all major currencies then offered by the Bank as the issuing bank, with maximum term of 12 months.

FACILITY B:

Available from time to time in:

- In CDN$:
  - By way of direct advances on the basis of the Canadian Rate through notes and/ or overdraft in the CDN$ account of the Borrowers set up for such purpose.
  - By way of acceptance of BAs denominated in CDN$:
    - minimum amount: CDN$500,000 and multiples of CDN$100,000 in excess thereof;
    - term: 30 to 90 days, subject to availability;

  All BAs are to be discounted by the Bank at the Discount Rate.

FACILITY C:

Available in one or more advances for a maximum period of 6 months starting as of the date of signature of this Letter Loan Agreement ("the **Availability Period**"). Following the expiry of such Availability Period, any amount then available under this Facility will be permanently cancelled.

Available from time to time:

- In CDN$:
  - By way of direct advances on the basis of the Canadian Rate through notes and/ or overdraft in the CDN$ account of the Borrowers set up for such purpose.
  - By way of acceptance of BAs denominated in CDN$:
    - minimum amount: CDN$500,000 and multiples of CDN$100,000 in excess thereof;
    - term: 30 to 90 days, subject to availability;

  All BAs are to be discounted by the Bank at the Discount Rate.

- In US$:
  - By way of direct advances on the basis of the US Base Rate through notes and/ or overdraft in the US$ account of the Borrowers set up for such purpose.
  - By way of direct advances at LIBOR:
    - minimum amount of US$500,000 and multiples of US$100,000 in excess thereof;
    - interest period: 1, 2 or 3 months, subject to availability.

FACILITY D:
Available through use of MasterCard cards issued from time to time by the Bank, at its discretion, in accordance with the terms and conditions of the MasterCard Card Agreement.

FACILITY E:
Available by way of FX Agreements and/or Interest Rate Agreements:

- maximum term of each FX Agreement: 364 days
- maximum term of each Interest Rate Agreement: 5 years.

The FX Agreements and Interest Rate Agreements outstanding from time to time are herein referred to collectively as the "**Derivative Agreements**".

MARGIN REQUIREMENT:

Notwithstanding any other provision of this Letter Loan Agreement, the aggregate amount of the amount at any time outstanding under the Facility A (including the aggregate undrawn amount of all outstanding Letters of Credit and Letters of Guarantee) and of all other obligations of the Borrowers in respect of any Letter of Credit and Letter of Guarantee shall not exceed the lesser of (A) CDN$10,000,000 or the Equivalent Amount in US$ and (B) the following Borrowing Base. For the purposes hereof, "**Borrowing Base**" shall mean the total of:

(A) 80% of the Bank's estimated worth of eligible accounts receivable (excluding Excluded Receivables) of the Obligors owing by debtors located in the United States of America and in Canada and in any other country as approved by the Bank in writing from time to time at its discretion; **plus**

(B) the lesser of (i) CDN$5,000,000 and (ii) 50% of the Bank's estimated worth of eligible inventory, (excluding Excluded Inventory) of the Obligors. Eligible inventory shall include work in progress supported by booked orders to a maximum of CDN$3,000,000; **less**

(C) the Prior Claims

For the purposes hereof, "**Excluded Receivables**" shall mean accounts receivable which the Bank does not, according to its usual practice, consider as an eligible receivable, including without limitation, accounts over which the Bank does not have a first ranking Lien, accounts receivable owing by debtors located outside of Canada and the United States of America and in any other country as approved by the Bank in writing from time to time at its discretion, accounts receivable subject to set-off or compensation, accounts receivable owing by an affiliate, a shareholder, a director, an officer or an employee of any Obligor, accounts receivable which the Bank in good faith determines to be not of good quality or collectible in the ordinary course of business, accounts receivable subject to undue credit risk, accounts in dispute and accounts receivable which remain unpaid for more than **90 days** from the date of invoice.

For the purposes hereof, "**Excluded Inventory**" shall mean inventory which the Bank, in accordance with its usual practice, does not consider as eligible inventory, including without limitation, (i) inventory over which the Bank does not have a first ranking Lien, (ii) 30-day goods, (iii) inventory located outside the premises of the Obligors (provided that the inventory located at leased premises, including the inventory located in the premises leased by Bemag in Minnesota from Pioneer Critical Power Inc., shall not be excluded once a satisfactory landlord waiver is obtained from the landlord), (iv) inventory located outside of Canada and the United States, in transit or otherwise not in possession of the Obligors, and (v) goods on consignment, spare parts and production supplies. Value of inventory shall be determined at the lesser of its cost and fair market value.

MATURITY AND INSTALLMENTS:

Facility A: Repayable on demand.

Facility B:

Maturity date: **July 31, 2016**. Repayable by way of 20 consecutive quarterly installments on account of the principal (which installments started 3 months after the initial advance made under this Facility (June 28, 2011)), until July 31, 2016 as per the following repayment schedule:

- year 1 quarterly percentage of 3.00% of the outstanding advances made under this Facility;
- year 2 quarterly percentage of 3.50% of the outstanding advances made under this Facility;
- year 3 quarterly percentage of 4.00% of the outstanding advances made under this Facility;
- year 4 quarterly percentage of 4.50% of the outstanding advances made under this Facility;
- year 5 quarterly percentage of 5.00% of the outstanding advances made under this Facility

Bullet payment due at the maturity date: $400,000

Facility C:

Maturity date: **July 31, 2016**. Repayable by way of 16 consecutive quarterly installments on account of the principal (which installments started 15 months after the initial advance under this Facility (June 28, 2011)), until July 31, 2016 as per the following repayment schedule:

- year 1 quarterly percentage of 3.00% of the outstanding advances made under this Facility;

- year 2 quarterly percentage of 3.50% of the outstanding advances made under this Facility;
- year 3 quarterly percentage of 4.00% of the outstanding advances made under this Facility;
- year 4 quarterly percentage of 4.50% of the outstanding advances made under this Facility;

Bullet payment due at the maturity date: $4,000,000 (assuming full drawdown on the Facility)

Facility D: Repayable on demand. Minimum monthly payment as set forth in any MasterCard Agreement.

Facility E: Each Derivative Agreement shall have a term not exceeding the applicable maximum term provided above under the heading "Availability". Each Derivative Agreement shall include the Bank's standard early termination events. Without limiting the generality of the foregoing, each Derivative Agreement documented under an ISDA Master Agreement shall also stipulate that the termination of Facility E shall be an Early Termination Event (as defined in the ISDA Master Agreement) and the Affected Party (as defined in the ISDA Master Agreement) shall be the counter-party to the Bank in such contract. The Bank shall have the right to choose the payment measure and the payment method (as such terms are understood in the ISDA Master Agreement) in respect of such Early Termination Event. If at any time the aggregate Risk Content of all outstanding Derivative Agreements exceeds the maximum Risk Content, the Borrowers shall forthwith either cancel one or more Derivative Agreements or make a rate adjustment payment under one or more Derivative Agreements to reduce the aggregate Risk Content of all outstanding Derivative Agreements to less than the Maximum Risk Content.

ADDITIONAL MANDATORY REPAYMENTS FOR FACILITIES B AND C:

In addition to the required repayments for Facilities B and C mentioned above, the Borrowers covenant and agree that they shall remit to the Bank, to be applied towards repayment of the Facility B or the Facility C, at the Bank's sole discretion, the following proceeds:

(i) 100% of the net proceeds of Asset Dispositions (other than sales of inventory in the ordinary course of business) to be paid within 2 Business Days of closing of disposition, subject to rights to replace Assets disposed.

(ii) 100% of the net cash proceeds from any debt issuance or equity issuance of the Borrowers to be paid within 2 Business Days of closing of such issuance;

(iii) 100% of the net cash proceeds from any insurance proceeds to be paid within 2 Business Days of receipt, unless such proceeds do not exceed CDN$250,000 per year and are reinvested by the Borrowers;

(iv) Any excess over the limit of the Facility B or Facility C outstanding under such Facility as a result of currency fluctuations.

PREPAYMENTS:

Facilities A and C:

- Direct advances (including any overdraft) in CDN$ and US$ interest based on CDN Prime Rate and the US Base Rate respectively may be prepaid at any time and from time to time without penalty, subject to any applicable prior notice periods set out below in the section entitled "Notice Provisions".
- No direct advance in US$ bearing interest at LIBOR may be repaid prior to the expiry of its current interest period unless the Bank agrees to such prepayment and the Borrowers pay, concurrently with such prepayment, any breakage costs, as determined by the Bank in its sole discretion.
- No BA may be prepaid prior to its maturity.
- Any outstanding Letter of Credit or Letter of Guarantee may be cancelled upon receipt by the Bank of the original thereof (and any amendment thereto) and evidence satisfactory to the Bank that the beneficiary thereunder has consented to such cancellation (for Facility A only).

Facility B:

- Direct advances (including any overdraft) in CDN$ may be prepaid at any time and from time to time without penalty, subject to any applicable prior notice periods set out below in the section entitled "Notice Provisions".
- No BA may be prepaid prior to its maturity.

Facility D: May be prepaid in whole or in part at any time and from time to time without prior notice or penalty.

Facility E: Not applicable.

NOTICE PROVISIONS:

Facility A:

- For direct advances: one (1) Business Day.
- For BA: two (2) Business Days.
- For LIBOR advances: three (3) Business Days.
- For Letter of Credit and Letter of Guarantee: two (2) Business Days.

Facility B:
- For direct advances: one (1) Business Day.
- For BA: two (2) Business Days.

Facility C:
- For direct advances: one (1) Business Day.
- For BA: two (2) Business Days.
- For LIBOR advances: three (3) Business Days.

Facility D: Not Applicable.

Facility E:
- For Derivative Agreements: two (2) Business Days.

Facility A interest rates and fees:

INTEREST RATES AND FEES:

Outstanding advances under Facility A (including LIBOR advances) shall bear interest at the annual nominal percentage rates set forth in the applicable chart below in respect of each type of advance payable monthly in arrears. Acceptance of BA and issuance of Letters of Credit and Letters of Guarantee shall be subject to the acceptance (or stamping fee) and issuance fees set forth in the applicable chart below in respect of each type of advance payable monthly in arrears.

Facility A Fees:

Type of Advance	Rate
CDN$ Direct Advances at Canadian Rate	Canadian Rate + 0.50% per annum
US$ Direct Advances at US Base Rate	US Base Rate + 0.50% per annum
US$ Direct Advances at LIBOR	LIBOR + 2.00% per annum.
Acceptance of CDN$ BA	Acceptance fee of 2.00% per annum
Performance Letters of Credit	1.00% per annum. Minimum CDN$500
Financial Letters of Credit	2.00% per annum. Minimum CDN$500
Documentary Letters of Credit	Fees determined in accordance with the Bank's fee schedule in effect from time to time

Facility B interest rate and fees:

Outstanding advances under Facility B shall bear interest at the Canadian Rate plus 1.00% per annum payable monthly in arrears. Acceptance of BA shall be subject to an acceptance fee of 2.25% per annum. A fixed rate option is available as per rates at loan drawdown or at reservation date.

Facility C interest rate and fees:

A) If the ratio of Funded Debt to EBITDA **is equal to or greater than 2.00:1.00:** outstanding advances under Facility C (including LIBOR advances) shall bear interest at the annual nominal percentage rates set forth in the applicable chart below in respect of each type of advance payable monthly in arrears. Acceptance of BAs shall be subject to the acceptance (or stamping fee) set forth in the applicable chart below in respect of each type of advance payable monthly in arrears.

Facility C Fees:

Type of Advance	Rate
CDN$ Direct Advances at Canadian Rate	Canadian Rate + 1.25% per annum
US$ Direct Advances at US Base Rate	US Base Rate + 1.25% per annum
US$ Direct Advances at LIBOR	LIBOR + 2.50% per annum.
Acceptance of CDN$ BA	Acceptance fee of 2.50% per annum

B) If the ratio of Funded Debt to EBITDA **is less than 2.00:1.00**: outstanding advances under Facility C (including LIBOR advances) shall bear interest at the annual nominal percentage rates set forth in the applicable chart below in respect of each type of advance payable monthly in arrears. Acceptance of BAs shall be subject to the acceptance (or stamping fee) set forth in the applicable chart below in respect of each type of advance payable monthly in arrears.

Facility C Fees:

Type of Advance	Rate
CDN$ Direct Advances at Canadian Rate	Canadian Rate + 1.00% per annum
US$ Direct Advances at US Base Rate	US Base Rate + 1.00% per annum
US$ Direct Advances at LIBOR	LIBOR + 2.25% per annum.
Acceptance of CDN$ BA	Acceptance fee of 2.25% per annum

C) In addition, the Borrowers shall pay to the Bank, on the last day of each month during the Availability Period, a Standby Fee calculated on a daily basis on the amount of the unused portion of the Facility C at the following rates: (i) if the ratio of Funded Debt to EBITDA is equal to or greater than 2.00:1.00 at the rate of 0.625% per annum and (ii) if the ratio of Funded Debt to EBITDA is less than 2:00:1:00, at the rate of 0.5625% per annum.

Such Standby Fee shall accrue from day to day and be calculated on the basis of a year of 365 (or in a leap year) days for the actual number of days elapsed. Under no circumstances shall any such Standby Fee be refundable, either in whole or in part, even if no advance is ever made under such Facility C.

Facility D interest rates and fees:
Facility D shall be subject to the interest rates and fees set from time to time in accordance with the relevant MasterCard Agreement and related agreements.

Facility E fees:
Facility E Derivative Agreements shall be subject to the fees determined from time to time by the Bank in respect of each Derivative Agreement.

Default Rate for all Facilities. Following the occurrence and continuance of an Event of Default, the Borrowers shall pay to the Bank on demand interest on such overdue principal, overdue interest and other overdue amount, from the date the amount is due until the date it is paid in full, at the Canadian Rate/US Base Rate increased by two percent (2%) per annum, compounded monthly.

FEES:

The Borrowers undertake to pay the following fees to the Bank:

- all fees relating to banking operations and treasury management services will be standard unless confirmed otherwise by the Bank from time to time;
- a yearly annual review fee of 10bps on the Facility A amount to be firstly paid upon signature of this Letter Loan Agreement.

INCREASED COSTS AND TAXES:

If due to any change in law, regulations, rules or orders that come into effect after the date of this Letter Loan Agreement or as a result of compliance with any guideline or requirement from any authority which is customary for the Bank to comply with, the Bank incur or will incur increased costs or a reduced return on capital in respect of any Facility, the Borrowers shall indemnify the Bank against such increased costs or reduced return. All payments in respect of any Facility shall be made free and clear of any present and future withholding or other taxes or other deductions.

DOCUMENTATION:

I. ALREADY OBTAINED

- ISDA Master Agreement and other documentation for Facility E;
- MasterCard Agreements with the Bank and other related agreements for Facility D;
- A copy of the Share Purchase Agreement related to the Bemag Transaction for Facility C;
- A copy of the Asset Purchase Agreement related to the Vermont Transaction for Facility C;
- Environmental evaluation by a firm satisfactory to the Bank confirming satisfactory status of any immovable property;

II. TO BE OBTAINED

- Certified copy of constating documents of each Obligor and PPSI including any certificate of amendment since the Initial Letter Loan Agreement;
- Resolution of the Board of Directors of each Obligor and PPSI;
- Any authorization required in connection with the transactions contemplated by this Letter Loan Agreement;
- If necessary the Bank' standard application and indemnity agreement for letters of credit, letters of guarantee or documentary letters credit for each Letter of Credit and Letter of Guarantee;
- All security described in this Letter Loan Agreement under the heading "Security";
- Landlord waiver for the premises leased by Bemag in the United States (see 1.15 of **Schedule IV**) (to be obtained within 30 days following the date of signature of this Letter Loan Agreement);
- Promissory notes of the Borrowers, as the Bank may request from time to time;
- Updated personal movable property search reports with regard to any movable property registry (or any equivalent register in other jurisdictions where any security, mortgage or debenture is registered) in respect of each Obligor who is granting a security in favour of the Bank in all relevant jurisdictions;
- Release and mainlevée or satisfactory priority agreements for all prior ranking Liens other than Permitted Encumbrances;
- Updated certificates of insurance for each Borrower naming the Bank as first loss payee;
- Opinion from legal counsel of the Obligors and PPSI pertaining to due authorization, execution, delivery and enforceability of the documents executed by such Obligors and PPSI pursuant to this Letter Loan Agreement or in respect of the Facilities; and
- Such other documents as the Bank may reasonably require.

SECURITY: All amounts owing from time to time under or pursuant to any of the Facilities shall be secured and shall continue to be secured at all times by the following Security Documents:

I. EXISTING SECURITY

- Deed of hypothec in the amount of $30,000,000 dated June 28, 2011 on the universality of all present and future immovable property and movable property of Electrogroup and Transformers but excluding the immovable property of Transformers located at 612 Bernard Road, Granby, Quebec (the "**Granby Property**") registered at the RPMRR under number 11-0483207-0001;
- Deed of hypothec in the amount of $30,000,000 dated July 5, 2011 on the universality of all present and future immovable property and movable property of Bemag including, without limitation, the immovable property of Bemag located at 33 Racine, Farnham, Quebec, registered at the RPMRR under number 11-0501603-0002 and at the Land Registry under number 19 235 094;
- Security under section 427 of the Bank Act by the Borrowers registered on June 27, 2011 for Electrogroup and Transformers and on July 7, 2011 for Bemag as follows:
  - Transformers: 01265388
  - Electrogroup: 01265390
  - Bemag: 01265759
- Movable hypothec and pledge by Electrogroup dated June 28, 2011 on all shares of Transformers and Bemag (following the amalgamation with 7834080 Canada Inc.) registered at the RPMRR under numbers 11-0483207-0002 and 11-0483207-0004;
- General Security Agreement by Transformers dated June 28, 2011 registered in the Province of Ontario under number 20110628105080283082;
- General Security Agreement by Bemag dated July 5, 2011 registered in the Province of British Columbia under number 232564G;

II. ADDITIONAL SECURITY TO BE OBTAINED

- Guaranty Agreement by PPSI;
- New cross corporate guarantee by each Borrower for the debts and obligations of the other Borrowers;
- Confirmation Agreement signed by each Borrower in relation to the existing security mentioned above.

Unless otherwise specifically indicated herein, all such security shall be first-ranking, subject only to Permitted Encumbrances.

REPRESENTATIONS & WARRANTIES:

Please see **Schedule IV**.

COVENANTS:

Without limiting the generality of the foregoing, the following covenants shall apply for as long as the Facilities or any amount thereunder remain outstanding:

Affirmative Covenants

Please see **Schedule V**.

Negative Covenants

Please see **Schedule VI**.

Financial Covenants

Electrogroup shall maintain at all times, on a consolidated basis, the following financial ratios to be calculated quarterly on the basis of the consolidated financial statements of Electrogroup:

(i) Funded Debt to EBITDA on a trailing 12 months basis no greater than 2.75:1 at all times;
(ii) Fixed Charge Coverage Ratio on a trailing twelve month basis equal to or greater than 1.25:1 at all times;
(iii) Funded Debt to Capitalization not to exceed 60% at all times.

REPORTING REQUIREMENTS:

The Borrowers shall provide or cause to be provided to the Bank:

a) no later than 20 days after the end of each month, an aged list of accounts receivable, accounts payable, Prior Claims and inventory of the Borrowers and such other information as the Bank may reasonably require for the purpose of establishing the Borrowing Base;
b) unaudited quarterly financial statements of US Entities and the Borrowers, on a non-consolidated basis, no later than 45 days after the end of the first, second and third fiscal quarters;
c) audited annual financial statements of Electrogroup on a consolidated and non-consolidated basis, no later than 120 days after the end of each fiscal year of Electrogroup, a copy of the non-consolidated balance sheet of the US Entities and the Borrowers as of the last day of the fiscal year then ended and the non-consolidated statements of income, retained earnings, and cash flows of the US Entities and the Borrowers for the fiscal year then ended;
d) no later than 45 days after the end of the first, second and third quarter, and 120 days after the fiscal year end, a certificate signed by the senior financial officer of Electrogroup together with detailed calculations of any financial ratios which the Borrowers are required to maintain under or pursuant to this Letter Loan Agreement and such other information as the Bank may reasonably require from time to time;
e) the annual business plan of Electrogroup (on a consolidated basis) including income statement, balance sheet and cash flow at least once a year at the time of the annual review; and
f) all other documents, reports and information as the Bank may require from time to time.

For the purposes hereof, "**US Entities**" shall mean collectively PPSI, Jefferson Electric, Inc., Pioneer Critical Power, Inc. and any other Subsidiaries of PPSI which are not organized under the laws of Canada or a province or territory thereof as may be acquired by PPSI from time to time.

CONDITIONS PRECEDENT TO THE COMING INTO FORCE OF THIS LETTER LOAN AGREEMENT:

The effectiveness of the terms and conditions set forth in this Letter Loan Agreement will be conditional upon such conditions precedent being met to the satisfaction of the Bank including, without limitation, the following:

- Satisfactory completion of a full due diligence review by the Bank covering, without limitation, the assets, the financial position, the corporate structure and organizational documents, material contracts, claims and lawsuits, environmental issues, and key management contracts of the Borrowers;
- Execution and delivery to the Bank, in form and substance satisfactory to the Bank, of all documents provided for or referred to in this Letter Loan Agreement including under the headings "Documentation" and "Security";
- Confirmation that all conditions precedent for the facilities granted by the Bank of Montreal Chicago Branch to PPSI under or pursuant to the Credit Agreement dated June 28, 2013 entered into between the Bank and PPSI (the "**US Credit Facilities**") have been met to the satisfaction of the Bank and its legal counsel;
- Receipt by the Bank of a Borrowing Base Certificate and a Compliance Certificate in form and substance satisfactory to the Bank;
- Receipt by the Bank of a certificate from an officer of the Borrowers confirming the representations and warranties made in this Letter Loan Agreement including that (i) no event has occurred which could reasonably be expected to have a Material Adverse Effect on the Borrowers and (ii) that there is no litigation, action or other legal proceeding pending or known to be threatened against the Borrowers which could reasonably be expected to have a Material Adverse Effect on the Borrowers;
- Payment of all fees, costs and expenses which are for the account of the Borrowers, including all reasonable fees of Bank's counsel;
- No Event of Default;
- Such other condition as the Bank may reasonably request.

EVENTS OF DEFAULT:

Without prejudice to the right of the Bank to demand payment, at any time, of amounts owing from time to time under any Facility which are stated to be payable on demand, the events described in Schedule VII shall constitute an Event of Default under this Letter Loan Agreement.

INDEMNIFICATION:

The Borrowers shall indemnify and hold the Bank harmless against any and all claims, damages, losses, liabilities and expenses incurred, suffered or sustained by the Bank by reason of or relating directly or indirectly to the Facilities save and except any such claim resulting from the intentional or gross fault of the Bank.

EXPENSES:

The Borrowers shall pay on demand to the Bank all legal and other direct out-of-pocket costs of the Bank, including without limitation, the cost of any appraisal, incurred from time to time with respect to its due diligence in connection with the Facilities and this Letter Loan Agreement, the preparation, negotiation, execution and, where applicable, registration of this Letter Loan Agreement and all other Loan Documents including the Security Documents, the interpretation and enforcement of said documentation, the whole whether or not any documentation is entered into or any advance is made to the Borrowers. All legal and other direct out-of-pocket expenses of the Bank in connection with any amendment or waiver related to the foregoing shall also be for the account of the Borrowers.

GOVERNING LAW:

The laws of the Province of Québec and the laws of Canada applicable therein shall apply subject to the right of the Bank to subject any security to the laws of the jurisdiction which the Bank deems most appropriate.

SUCCESSORS AND ASSIGNS:

This Letter Loan Agreement shall be binding upon and enure to the benefit of the parties and their respective successors and assigns. Notwithstanding the foregoing, no Borrower shall have the right to assign any of its rights or obligations hereunder without the prior written consent of the Bank.

The Bank may disclose to potential or active assignees confidential information regarding any Borrower (including such information provided by any Borrower to the Bank) and the Bank shall not be liable for any such disclosure.

NO NOVATION:

This Letter Loan Agreement amends and restates, without novation, the Initial Letter Loan Agreement. The Letter Loan Agreement also replaces, without novation, the term sheet dated May 22, 2013 entered into between the Bank and the Obligors signed on May 30, 2013.

ACCOUNTS KEPT BY THE BANK

The Bank shall keep in its books accounts with respect to the Facilities and other amounts payable by the Borrowers under this Agreement. The Bank shall keep appropriate registers showing the amount of the indebtedness of the Borrowers in respect of each Facility and showing each payment or repayment of principal and interest made in respect thereof. Such registers shall constitute (in the absence of manifest error) prima facie evidence of their content against the Borrowers, the other Obligors and PPSI; provided that the obligation of the Borrowers the other Obligors and PPSI to pay or repay any indebtedness and liability in accordance with the terms and conditions of this Letter Loan Agreement and the other Loan Documents shall not be affected by the failure of the Bank to keep such registers. The Bank shall supply the Borrowers and the other Obligors, on demand, with copies of such registers.

AMENDMENTS AND WAIVER:

No amendment or waiver of any provision of this Letter Loan Agreement will be effective unless it is in writing and signed by the Bank and the Borrowers, on its own behalf and on behalf of each other Obligor and PPSI. No failure or delay on the part of the Bank in exercising any right or power hereunder shall operate as a waiver thereof.

WHOLE AGREEMENT:	This Letter Loan Agreement and the other Loan Documents constitute the whole and entire agreement between the parties in respect of the Facilities. There are no verbal agreements, undertakings or representations in connection with the Facilities.
BANK'S COUNSEL:	Borden Ladner Gervais LLP
INCONSISTENCY:	In case of any inconsistency between the provisions of this Letter Loan Agreement and those of any Security Documents, the provisions of this Letter Loan Agreement shall prevail to the extent of such inconsistency except to the extent it relates to the creation and enforcement of the security provided for in such Security Documents.
EXCHANGE OF INFORMATION:	The Bank may share any information pertaining to the Borrowers and the other Obligors with any other members of the BMO Financial Group (which includes the Bank and their Subsidiaries and Affiliates).
EXECUTION IN COUNTERPARTS	This Letter Loan Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.
LANGUAGE CLAUSE:	The parties hereby confirm their express wish that this Letter Loan Agreement and all documents and agreements directly or indirectly related thereto, including notices, be drawn up in the English language. Notwithstanding such express wish, the parties agree that any of such documents, agreements and notices or any part thereof may be drawn up in the French language. *Les parties reconnaissent leur volonté expresse que la présente convention de prêt ainsi que tous les documents et conventions qui s'y rattachent directement ou indirectement, y compris les avis, soient rédigés en langue anglaise. Nonobstant telle volonté expresse, les parties conviennent que n'importe quel desdits documents, conventions et avis ou toute partie de ceux-ci puissent être rédigés en langue française.*

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.
SIGNATURE PAGES ARE THE FOLLOWING PAGE.

Yours truly,

BANK OF MONTREAL

By: /s/ Martin Bazinet
(duly authorized)
Name: Martin Bazinet
Title: Director, Corporate Finance Division

ACCEPTANCE

We hereby accept the foregoing terms and conditions.

Signed in Montreal, Quebec, this 28th day of June, 2013

BORROWERS

PIONEER ELECTROGROUP CANADA INC.,

By: /s/ James A. Wilkins
(duly authorized)
Name: James A. Wilkins
Title: Vice-President

PIONEER TRANSFORMERS LTD.

By: /s/ James A. Wilkins
(duly authorized)
Name: James A. Wilkins
Title: Vice-President

BEMAG TRANSFORMER INC.

By: /s/ James A. Wilkins
(duly authorized)
Name: James A. Wilkins
Title: Vice-President

The undersigned, acting as guarantor, hereby accepts the foregoing terms and conditions and agrees to be bound thereby.

Signed in New York, New York, this 28th day of June 2013

GUARANTOR

PIONEER POWER SOLUTIONS, INC.

By: /s/ Andrew Minkow
(duly authorized)
Name: Andrew Minkow
Title: Chief Financial Officer

SCHEDULE I

DEFINITIONS

"**Affiliate**" means, with respect to any Person, any other Person (i) directly or indirectly controlling, (including all directors, officers and partners of such Person), controlled by, or under direct or indirect common control with, such Person or (ii) that directly or indirectly owns more than 10 % of any class of the voting securities or 10% of the participating shares of such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such other Person, whether through the ownership of voting securities, by contract or otherwise.

"**Assets**" of a Person means all present and future, with respect property, rights and assets, real and personal, movable and immovable, tangible and intangible of such Person of wathever nature and wheresoever situated.

"**Asset Disposition**" means, with respect to any Person, any transaction in which such Person sells, conveys, transfers, leases (as lessor) or otherwise disposes of any of its real or immovable property, movable property, plant, equipment or shares or units in the capital of any of its Subsidiaries or any of its other Assets.

"**BA**" means a bill of exchange or a depository bill as defined in the Depository Bills and Notes Act (Canada) drawn by a Borrower and accepted by the Bank in respect of which such Borrower becomes obligated to pay the face amount thereof to the holder (which may be a third party or the Bank) upon maturity, and includes a Discount Note. BAs shall be issued only in Canadian Dollars.

"**Business Day**" means any day other than a Saturday or Sunday or such other day on which banks are authorized or required to close in Toronto, Ontario or Montreal, Quebec; provided that, in respect of LIBOR Loans, "Business Day" also means any day other than a Saturday or Sunday or such other day on which transactions cannot be carried out by and between banks in London, England or New York, New York.

"**Canadian Rate**" means, at any time, the higher of (i) the Prime Rate and (ii) the annual rate of interest established by the Bank as its discount rate in accordance with its normal practice as at or about 10:00 a.m., Montreal time on such day in respect to BAs outstanding for thirty days accepted by the Bank, plus one percent per annum.

"**Capitalization**" means at any time the sum of Funded Debt and Shareholders' Equity, calculated in accordance with GAAP.

"**Capital Lease Obligations**" means, as to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) immovable or real property or movable or personal property, which obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP and, for purposes of this Letter Loan Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"**CDN$**" means lawful money of Canada.

"**CDOR Rate**" means, on any day, the annual rate of interest which is the rate determined by the Bank as being the arithmetic average of the rates applicable to CDN$ BAs having identical issues and comparable maturity days as the BA for which such CDOR Rate is being determined, displayed and identified as such on the display referred to as the CDOR Page of Reuter Monitor Money Rate Services as at approximately 10:00 a.m. Toronto time on such day, the whole determined in accordance with the Bank's usual practice.

"**Contaminant**" means any pollutants, dangerous or hazardous substances, liquid or solid waste, industrial waste, hauled liquid waste, toxic substances, hazardous wastes or materials or contaminants as defined or dealt with in any Environmental Law.

"**Control**" (including any correlative term) means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person (whether through ownership of securities or partnership or trust interests, by contract or otherwise); without limiting the generality of the foregoing (i) a person is deemed to Control a corporation if such person (or such person and its Affiliates) holds outstanding shares of the corporation carrying votes in sufficient number to elect a majority of the board of directors of the corporation, (ii) a person is deemed to Control a partnership if such person (or such person and its Affiliates) holds more than 50% in value of the equity of the partnership, (iii) a person is deemed to Control a trust if such person (or such person and its Affiliates) holds more than 50% in value of the beneficial interests in the trust, and (iv) a person that controls another person is deemed to Control any person controlled by that other person.

"**Discount Rate**" means with respect to a BA, the annual rate of interest which is the CDOR Rate determined by the Bank as its CDOR Rate for Bankers' Acceptances outstanding for the period of such BAs on the date of issue of such BA.

"**Disposition**" means the sale, lease, conveyance or other disposition of Assets, other than (a) the sale or lease of inventory in the ordinary course of business, (b) the sale, transfer, lease or other disposition of Assets of an Obligor to another Obligor in the ordinary course of its business, and (c) the sale of obsolete or worn out equipment.

"**Distribution**" means the declaration or payment of any dividend on or in respect of any shares of any class of capital stock of the Borrowers; the purchase, redemption, defeasance, retirement or other acquisition of any shares of any class of capital stock of the Borrowers, directly or indirectly through a Subsidiary of the Obligors or otherwise (including the setting apart of assets for a sinking or other analogous fund to be used for such purpose); the return of capital by the Borrowers to its shareholders as such; or any other distribution on or in respect of any shares of any class of capital stock of the Borrowers; the payment or distribution of any corporate management fees or other similar payments or distributions to any Borrower or any other Affiliate of the Borrowers.

"EBITDA" means, with respect to Electrogroup, on a consolidated basis for any given period, the net earnings of Electrogroup for such period (a) increased by, to the extent deducted in computing such net earnings (without duplication) for such period, net total interest expense, income tax expense (including deferred taxes), and depreciation and amortization expense; and (b) decreased by, to the extent added in computing such net earnings for such period, extraordinary, unusual or non-recurring gains or losses; all in accordance with GAAP. In the case of any entity or assets acquired by Electrogroup (the "Acquired Business"), the EBITDA shall be adjusted for such period by taking the EBITDA for such period, plus (a) the earnings before interest, taxes, depreciation and amortization (including, but not limited to, the amortization of any employee stock option (or similar) compensation plan) of any Acquired Business acquired by Electrogroup during such period (calculated as if such acquisition and the assumption or incurrence of Indebtedness occurred on the first day of such period) calculated in a manner satisfactory to the Bank, minus (b) the positive EBITDA of any Persons or assets which are the subject of a Disposition consummated during such period as if such Disposition occurred on the first day of such period.

"**Environmental Activity**" means any activity, event or circumstances in respect of a Contaminant, including, without limitation, its storage, use, holding, collection, purchase, accumulation, assessment, generation, manufacture, construction, processing, treatment, stabilization, disposition, handling or transportation, or its release, escape, leaching, dispersal or migration into the natural environment, including the movement through or in the air, land surface or subsurface strata, surface water or groundwater.

"**Environmental Laws**" means any and all applicable laws, codes, standards, requirements, policies, guidelines, approvals, notices, permits or directives relating to pollution or protection of human health and safety or the environment or any Environmental Activity.

"**Equivalent Amount**" means, on any date, the amount in CDN$ or US$, as the case may be, which would be obtained on the conversion of an amount in US$ or any other currency to CDN$ or an amount in CDN$ or any other currency into US$, respectively, at the Bank of Canada noon spot rate for the purchase of US$ or such other currency with CDN$ or for the purchase of CDN$ or such other currency with US$, respectively, as quoted or published or otherwise made available by the Bank of Canada on such date.

"**Event of Default**" means any of the events of default described in Schedule VII hereunder.

"**Fixed Charge Coverage Ratio**" means, at any time in respect of any period, the ratio of (a) EBITDA for such period less cash taxes, Distributions and unfinanced capital expenditures to (b) the aggregate of Electrogroup's consolidated payments of principal on long term debt made during such period, plus the total interest expense for such period.

"**Funded Debt**" means, at any time, with respect to Electrogroup, on a consolidated basis, without duplication, the sum of all Interest Bearing Debt (including corporate guarantees in respect of interest bearing debt of a third party). For the purposes set forth herein, "**Interest Bearing Debt**" of the Borrowers shall be: (i) obligations of Electrogroup for borrowed money in respect of which the principal bears interest; (ii) indemnity or reimbursement obligations to financial institutions who issued letters of credit or letters of guarantee on behalf of Electrogroup; (iii) obligations representing the deferred purchase price of property or services acquired by Electrogroup, other than trade accounts payable by the Borrowers arising in the ordinary course of business, (iv) obligations of Electrogroup under bankers' acceptances, depository bills or depository notes (as these latter two expressions are defined in the DBNA), (v) Capital Lease Obligations of Electrogroup; (vi) obligations of Electrogroup evidenced by bonds, debentures or promissory notes; (vii) Risk Content; and (viii) the maximum fixed redemption or repurchase price of redeemable units, stock or interests of Electrogroup which are redeemable at the option of the holder thereof, are redeemable at a fixed date or are redeemable during fixed intervals, in each case, prior to the maturity of the Facilities, in each case all as is required to be disclosed in the financial statements or notes thereto of Electrogroup, on a consolidated basis, in accordance with GAAP.

"**FX Agreement**" means any forward contract or similar agreement or arrangement designed to protect against or mitigate the effect of fluctuations in foreign exchange rates which the Bank may authorize the Borrowers to enter into from time to time.

"**GAAP**" means generally accepted accounting principles in Canada or the United States in effect from time to time, applied in a consistent manner from period to period.

"**Indebtedness**" means the indebtedness of any Obligor and includes, without duplication (in each case, whether such obligation is with full or limited recourse):

a) any obligation of such Obligor for borrowed money;

b) any obligation of such Obligor evidenced by a bond, debenture, note or other similar instrument;

c) any obligation of such Obligor to pay the deferred purchase price of property or services, except a trade account payable that arises in the ordinary course of business;

d) any obligation of such Obligor as lessee under any capital lease;

e) any obligation of such Obligor to reimburse any other person in respect of amounts drawn or drawable under any letter of credit or other guarantee or under any bankers' or trade acceptance issued or accepted by such other person, whether contingent or non-contingent;

f) all obligations of such Obligor to purchase, redeem, retire, decrease or otherwise make any payment in respect of any capital stock of or other ownership or profit interest in such Obligor or any other person, valued, in the case of redeemable preferred stock, at the greater of its voluntary liquidation preference plus accrued and unpaid dividends;

g) any obligation of such Obligor to purchase securities or other property that arises out of or in connection with the sale of the same or substantially similar securities or property;

h) any Indebtedness of others secured by a Lien on any asset of such Obligor;

i) any Indebtedness of others guaranteed by such Obligor; and

j) all obligations and liabilities of such Obligor in respect of "Specified Transactions" (as such term is defined in the 1992 Multicurrency – Cross Border Master Agreement published by the International Swaps and Derivatives Association, Inc.).

"**Interest Rate Agreement**" means any swap agreement, cap agreement, collar agreement or similar agreement or arrangement designed to protect against or mitigate the effect of fluctuations in interest rates which the Bank authorizes the Borrowers to enter into from time to time.

"**ISDA Master Agreement**" means the applicable standard Master Agreement of the International Swap Dealers Association Inc. in effect from time to time and includes all its schedules, credit support annexes and all confirmations documented pursuant thereto.

"**Letter Loan Agreement**" means the letter loan agreement executed by the Bank on June 28, 2011 and accepted by the obligors signatory thereto on June 28, 2011, as amended from time to time and as amended and restated by the Letter Loan Agreement dated June 28, 2013 together with all schedules hereof, as amended, replaced or otherwise modified from time to time.

"**LIBOR**" means, with respect to a libor loan during the relevant interest period for such libor loan, the rate per annum (expressed on the basis of a 360-day year) determined by the Bank as being the rate shown on Telerate page 3750 (as defined in the International Swaps and Derivatives Association, Inc. definitions, as modified and amended from time to time) as of 11:00 a.m. (London, England time), two business interest days prior to the first day of such interest period, for US$ deposits for a period comparable to such interest period, and if different rates are quoted for US$ deposits in varying amounts, in an amount which is closest to such libor loan. If Telerate rates are unavailable for any reason, the Bank may, in its discretion, use an alternate source to determine LIBOR.

"**Lien**" means a mortgage, hypothec, legal hypothec, prior claim, pledge, lien, charge or encumbrance, whether fixed or floating, in any property, whether immovable or real, movable or personal, or mixed, tangible or intangible or a pledge for hypothecation thereof or trust or presumed or deemed trust or any other mechanisms of right benefiting the holder thereof or any conditional sale agreement or other title retention agreement or equipment trust relating thereto or any lease relating to property which would be required to be accounted for as a capital lease on the balance sheet.

"**Loan Documents**" means, collectively, this Letter Loan Agreement, the Security Documents and all other documents, instruments and agreements executed and delivered by any Obligor and PPSI in connection directly or indirectly with this Letter Loan Agreement, the Facilities or otherwise referred to or contemplated under or by this Letter Loan Agreement or any such documents, instruments or agreements.

"**MasterCard Agreement**" means the MasterCard Agreement to be entered into between the Bank and the Borrowers together with all schedules hereof, as amended, replaced, restated, supplemented or otherwise modified from time to time.

"**Material Adverse Effect**" means a material adverse change in or effect on, either individually or in the aggregate, the business, assets, liabilities, financial positions or operating results of the Obligors taken as a whole or which adversely affects or could reasonably be expected to adversely affect the ability of any Obligor to perform any of its obligations under or pursuant to the Facilities and this Letter Loan Agreement or the other Loan Documents in accordance with their respective terms or the validity or enforceability of any of the Loan Documents.

"**Obligors**" means collectively the Borrowers and the Guarantors except for PPSI and "**Obligor**" means either one of them.

"**Permitted Encumbrances**" means, as at any time, any one or more of the following:

a) reservations in any original grants from the Crown of any land or interest therein, statutory exceptions to title and reservations of mineral rights (including coal, oil and natural gas) in any grants from the Crown or from any other predecessors in title;

b) servitudes or easements of rights of way for purposes of public utility, or for encroachments, rights of view or otherwise, including, without in any way limiting the generality of the foregoing, the sewers, drains, gas and water mains, steam transport, electric light and power or telephone and telegraph conduits, poles and cables, pipelines or zoning restrictions affecting the use of the immovable or real properties of an Obligor which will not materially or adversely impair the use for which any one of the immovable or real properties of such Obligor is intended nor substantially diminish any Liens thereon;

c) any Lien for taxes, assessments or other governmental charges or levies not yet due or, if due, the validity of which is being contested diligently and in good faith by or on behalf of an Obligor by proper legal proceedings, provided the action to enforce the same has not proceeded to final non-appealable judgment and adequate provision has been made for the payment thereof in accordance with GAAP and in a manner acceptable to the Bank;

d) any Lien of any judgment rendered or claim filed against an Obligor, which such Obligor or others on its behalf shall be contesting diligently and in good faith by proper legal proceedings, provided the action to enforce the same has not proceeded to final non-appealable judgment and adequate provision has been made for the payment thereof in accordance with GAAP and in a manner acceptable to the Bank;

e) any Lien of any craftsman, workman, builder, contractor, supplier of materials, architect, engineer or subcontractor or any other similar Lien related to the construction or the renovation of any property, provided that such Lien secures an obligation of an Obligor whose term has not expired or that such Obligor is not in default to perform same, or if its term has expired or such Obligor is in default to perform same, provided that such Obligor commences action within a delay of less than fifteen (15) days of its registration or publication to cause its cancellation or radiation unless the validity of such Lien is being contested diligently and in good faith by or on behalf of such Obligor by proper legal proceedings, provided the action to enforce the same has not proceeded to final non-appealable judgment and adequate provision has been made for the payment thereof in accordance with GAAP and in a manner acceptable to the Bank;

f) minor title defects;

g) the pledges or deposits of cash or securities made pursuant to applicable laws relating to workmen's compensation or similar applicable laws, or deposits of cash made in good faith in connection with offers, tenders, leases or contracts (excluding, however, the borrowing of money or the repayment of money borrowed) and deposits of cash or securities in order to secure appeal bonds or bonds required in respect of judicial proceedings;

h) undetermined or inchoate Liens, arising or potentially arising under statutory provisions which have not at the time been filed or registered in accordance with applicable law or of which written notice has not been duly given in accordance with applicable law or which, although filed or registered, relate to obligations not due or delinquent;

i) the rights reserved to or vested in governmental authorities by statutory provisions or by the terms of leases, licences, franchises, grants or permits, which affect any land, to terminate any such leases, licences, franchises, grants or permits or to require annual or other payments as a condition to the continuance thereof;

j) securities to public utilities or governmental authorities when required by the utility or governmental authority in connection with the supply of services or utilities to an Obligor in the operation of its business, and securities granted as part of any refundings or renewals thereof provided the security is restricted to the same collateral;

k) any Purchase Money Mortgage, and any Lien granted as part of any refunding or renewal of the outstanding amount secured by such a Purchase Money Mortgage provided such Lien is restricted to the same collateral and the obligations of any Obligor under such Purchase Money Mortgage are permitted under this Agreement;

l) any conditional sales agreement, reservation of ownership, right resulting from a lease, right of ownership of the lessor or other title retention agreement (including any capital lease) with respect to assets of an Obligor acquired after the date of this Agreement provided the obligations of any Obligor under such conditional sales agreement, reservation of ownership, right resulting from a lease, right of ownership of the lessor or other title retention agreement are permitted under this Agreement;

m) Liens for the benefit of the Bank; and

n) the Liens described in **Schedule III**, if any.

"**Person**" means any individual, corporation, company, partnership, association, trust or joint venture.

"**Prime Rate**" means the variable annual rate of interest established by the Bank from time to time as the reference rate of interest it will use at such time to determine interest rates for loans in CDN$ to its Canadian commercial borrowers in Canada and designated as its Prime Rate.

"Prior Claims" means any amount secured by a Lien ranking senior to the security for the benefit of the Bank with respect to accounts receivable and/or inventory of the Obligors, and all current and past due amounts owed to the various governments by the Obligors, including, without limitation, Federal and Provincial income taxes, deductions at source, G.S.T., P.S.T., Q.S.T. and any other amount to the extent that it is considered as prior claim or as a deemed trust or as a super priority in favour of the various governments or governmental authorities or the payment of which would rank prior to the payment of debts and liabilities of the Obligors under or pursuant to the Facilities or the Loan Documents;

"**Purchase Money Mortgage**" means:

a) any Lien created, issued or assumed after the date of this Letter Loan Agreement to secure Indebtedness not in excess of the value of the underlying property granted as security as a part of, or issued or incurred to provide funds to pay, the purchase price of any real or immovable property or personal or movable property, provided that such Lien is limited to the property so acquired and is created, issued or assumed substantially concurrently with the acquisition of such property; and

b) any renewal, refunding or extension of any such Lien securing Indebtedness in a principal amount not in excess of the unpaid principal amount of the Indebtedness secured thereby immediately prior to such renewal, refunding or extension.

"**Release**" means discharge, spray, inject, inoculate, abandon, deposit, spill, leak, seep, pour, emit, empty, throw, dump, place and exhaust, and when used as a noun has a similar meaning.

"**Risk Content**" means, in respect of any Derivative Agreement, the amount determined from time to time by the Bank in accordance with its usual practice as being the risk content of such Derivative Agreement.

"**Security Documents**" means the collective reference to all present and future documents, agreements and instruments pursuant to which an Obligor grants a Lien to or for the benefit of the Bank, alone or together with any other person or persons, in any of its assets securing all or part of the obligations of the Borrowers under or pursuant to the Facilities and this Letter Loan Agreement or any other Loan Documents.

"**Shareholders' Equity**" means, on any date, the sum of all issued and fully paid capital stock of Electrogroup, at par or stated value, paid-in capital, contributed surplus, retained earnings and unrealized foreign currency adjustment, all determined on a consolidated basis as of such date in accordance with GAAP.

"**Subsidiary**" or "**Subsidiaries**" means a Person that is under the control of another Person.

"**US Base Rate**" means the variable annual rate of interest established by the Bank from time to time as the reference rate of interest it will use at such time to determine interest rates for loans in US$ to its Canadian commercial borrowers in Canada and designated as its US Base Rate.

"**US$**" means lawful money for the time being of the United States of America in same day immediately available funds or, if such funds are not available, the form of money of the United States of America which is customarily used in the settlement of international banking transaction on that day.

SCHEDULE II

CERTIFICATE OF COMPLIANCE

Date: _____

To: BANK OF MONTREAL

Dear Sirs:

I, _____, the _____ of Pioneer Electrogroup Canada Inc., hereby certify, pursuant to the Letter Loan Agreement dated as of June 28, 2013 among Pioneer Electrogroup Canada Inc., Pioneer Transformers Ltd. and Bemag Transformer Inc., as Borrowers, and Bank of Montreal, as lender (as in effect on the date hereof, the "**Letter Loan Agreement**", terms defined therein that are not otherwise defined herein are used herein with the meanings therein ascribed to them), that:

1. I am familiar with and have examined the provisions of the Letter Loan Agreement and I have made all appropriate investigations of the records of Pioneer Electrogroup Canada Inc. and any Subsidiary of Pioneer Electrogroup Canada Inc. and I have asked all questions to the other executives and officers of each such party as I have deemed necessary or useful to allow me to give this certificate knowledgeably.

2. **[(a)]** the accompanying **[unaudited]** Consolidated financial statements of Pioneer Electrogroup Canada Inc. as at _____ and for the **[fiscal year] [quarterly accounting period]** ended _____, _____, are complete and correct and present fairly, in accordance with GAAP, the Consolidated financial position of Pioneer Electrogroup Canada Inc. and the Consolidated statements of income, retained earnings and cash flows for such **[fiscal year] [quarterly period, and for the elapsed portion of the fiscal year ended with the last day of such quarterly period],** in each case on the basis presented **[and subject only to normal year-end auditing adjustments]**.

(b) [Except as disclosed or reflected in such financial statements, as at _____,] neither Pioneer Electrogroup Canada Inc. nor any Subsidiary of Pioneer Electrogroup Canada Inc. had any liability, contingent or otherwise, or any unrealized or anticipated loss, that, singly or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect.

3. Attached hereto as Appendix A are the calculations required to establish whether or not Pioneer Electrogroup Canada Inc. was in compliance with the section "Financial Covenants" of the Letter Loan Agreement as at _____.

4. Based on an examination sufficient to enable me to make an informed statement, there exists no Event of Default, except the following:

[If none exist, insert "None"; if any do exist, specify the same by Section, give the date the same occurred, whether it is continuing, and the steps being taken, as applicable, with respect thereto.]

5. None of the Borrowers or any Subsidiary of the Borrowers has any outstanding Indebtedness other than Indebtedness owed to the Bank.

APPENDIX A
TO CERTIFICATE OF COMPLIANCE

[Insert detailed calculations of financial ratios]

SCHEDULE III

OTHER APPROVED LIENS

1. Movable Hypothec in the amount of $6,000,000 granted by Transformers in favour of Trisura Guarantee Insurance Company and registered at the Register of Personal and Movable Real Rights (the "**RPMRR**") under number 10-0874491-0001 provided that such hypothec be subject to a satisfactory priority agreement in favour of the Bank;

2. Rights under a lease between BNP Paribas (Canada), as lessor, and Les Transformateurs Pioneer Ltée, as lessee, registered at the RPMRR under number 10-0199170-0008;

3. Rights under a lease between Complexe de l'Auto Park Avenue Inc., as lessor, and Les Transformateurs Pioneers Ltee, as lessee, registered at the RPMRR under number 10-0396555-0019;

4. Rights under a lease between Praxair Canada Inc., as lessor, and Pioneer Transformers Ltd., as lessee, registered at the RPMRR under number 12-0849916-0009;

5. Rights under a lease between Complexe de l'Auto Park Avenue Inc., as lessor, and Les Transformateurs Pioneer Ltee, as lessee, registered at the RPMRR under number 13-0265687-0009;

6. Rights under a lease between Complexe de l'Auto Park Avenue Inc., as lessor, and Les Transformateurs Pioneer Ltee, as lessee, registered at the RPMRR under number 13-0466477-0025;

7. Rights under a lease between Xerox Canada Ltd., as lessor, and Pioneer Transformers Ltd., as lessee, registered at the RPMRR under number 13-0205287-0016;

8. Security interest on equipment registered at the Personal Property Security Act under registration numbers 20080723 1008 1462 8047 and 20110922 1702 1462 6020 in favour of Xerox Canada Ltd.

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SCHEDULE IV

REPRESENTATIONS AND WARRANTIES

The Borrowers represent and warrant to the Bank, acknowledging and confirming that the Bank is relying thereon in entering into this agreement and providing the Facilities hereunder, that:

1.1 each Obligor and PPSI is a corporation duly incorporated and organized and validly existing and in good standing (to the extent it is applicable) under the laws of its jurisdiction of incorporation; each Obligor and PPSI has the corporate power and authority and all governmental licences, permits, authorizations, consents, registrations and approvals required to enter into and perform its obligations hereunder and under all Loan Documents to which it is a party;

1.2 the execution, delivery and performance by each Obligor and PPSI of this Letter Loan Agreement and the Loan Documents to which it is a party (i) have been duly authorized by all necessary corporate action, (ii) do not contravene any provision of its articles of incorporation, its by-laws, any unanimous agreement of all its shareholders or any law or regulation, (iii) will not constitute, or result in a breach of, or a default under, or be in conflict with, any deed, indenture, mortgage, franchise, licence, judgment, agreement or instrument to which it is a party or by which it is bound, and (iv) will not result in any security interest, charge or other encumbrance on any of its property or assets in favour of any Person other than the Bank;

1.3 no authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by each Obligor and PPSI of this Letter Loan Agreement and the Loan Documents to which it is a party, except for such authorizations, approvals or other actions, notices or filings as have been validly obtained, given or filed or the failure to obtain could not reasonably be expected to have a Material Adverse Effect;

1.4 this Letter Loan Agreement is, and each of the Loan Documents to which each Obligor and PPSI is a party when executed will be, the legal, valid and binding obligation of such Obligor and PPSI, enforceable against such Obligor and PPSI in accordance with their respective terms, except to the extent such enforcement may be restricted by any applicable bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally and subject to the discretion of a court in regard to the remedy of specific performance or other discretionary or equitable remedies;

1.5 there is no litigation, action or other legal proceeding pending or known to be threatened against any Obligor and PPSI which could reasonably be expected to have a Material Adverse Effect on such Obligor and PPSI;

1.6 each Obligor and PPSI is not in default under this Letter Loan Agreement or any Loan Document to which it is a party nor has it done, or omitted to do, anything which, with the giving of notice or the passage of time, or both, would constitute an Event of Default which has not been waived or cured; no Obligor nor PPSI is in default under any other agreement to which such Obligor and PPSI is a party or by which it is bound which could reasonably be expected to have a Material Adverse Effect;

1.7 no Obligor maintains a bank account with any financial institution other than the Bank.

1.8 the financial year end of the Obligors is December 31.

1.9 there are no outstanding judgments, writs of execution or injunctions against each Obligor or any of its property or assets;

1.10 each Obligor is the owner of, and has good and marketable title to, all its assets and the same are free and clear of all Liens, except for Permitted Encumbrances;

1.11 a policy of insurance or policies of insurance in compliance with the requirements of Schedule V are in effect;

1.12 each Obligor is not in violation of any applicable laws, regulations, rules, orders and decrees, including Environmental Laws, which violation could reasonably be expected have a Material Adverse Effect on such Obligor ;

1.13 to the actual knowledge of the Borrowers, (a) the Assets of the Borrowers do not contain and have not previously contained any Contaminant in amounts or concentrations which currently constitute a violation of, or could give rise to liability under, Environmental Laws, (b) there is no contamination at or under any such Assets and no operations which have been or are being conducted in connection therewith in violation of Environmental Laws or which could interfere with the continued operation of such Assets or impair the fair market value thereof, (c) no Borrower has received any notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws, nor do the Borrowers have knowledge or reason to believe that any such notice will be received or is threatened, (d) no Contaminants have been generated, treated, stored or disposed of at, on or under any of such Assets in violation of, or in a manner which could give rise to a liability under, any Environmental Laws, and (e) there has been no Release of Contaminants at or from such Assets in violation of or in amounts or in a manner that could give rise to liability under Environmental Laws;

1.14 each Obligor has filed all tax returns which are required to be filed and has paid all its taxes, interest and penalties, if any, which have become due pursuant to such returns or pursuant to any assessment received by it without subrogation and adequate provision for payment has been made for such taxes not yet due, except any such payment which it is contesting in good faith by appropriate proceedings or where such filing or payment could not reasonably be expected to have a Material Adverse Effect;

1.15 the head office/domicile of each Obligor and PPSI is located at the following addresses:

- Pioneer Electrogroup Canada Inc.: 612 Bernard Road, Granby, QC, J2J 0H6
- Pioneer Transformers Ltd.: 612 Bernard Road, Granby, QC, J2J 0H6
- Bemag Transformer Inc.: 33 Racine Street, Farnham, QC, J2N 3A3
- Pioneer Power Solutions Inc.: 400 Kelby Street, 9th Floor, Fort Lee, NJ 07024

and each Obligor and PPSI have no offices, nor Assets located elsewhere, except for the following addresses:

- Pioneer Transformers Ltd.: 2600 Skymark Avenue, Building 5, #102, Mississauga, Ontario L4W 5E7

- Bemag Transformers Inc. : 114-3060 Norland Avenue, Burnaby, B.C., V5B 3A6
- Bemag Transformers Inc. : 9210 Wyoming Avenue North, Suite 250, Minneapolis, MN 55445

1.16 no event has occurred which could reasonably be expected to have a Material Adverse Effect, which has not been fully disclosed to the Bank; there is no fact known to each Obligor which could reasonably be expected to have a Material Adverse Effect which has not been fully disclosed to the Bank;

1.17 all Facilities will only be used by the Borrowers for their general corporate purposes only and as provided in the Letter Loan Agreement;

1.18 the corporate structure of the Borrowers is set forth in Schedule VIII.

1.19 each Obligor and PPSI are solvent, able to pay their debts as they become due, and have sufficient capital to carry on its business;

1.20 all information provided by the Borrowers to the Bank in respect of the Borrowers is true and accurate in all material respects and the said information contains no material misstatement of fact nor does it omit a material fact which is necessary to make such information not misleading.

Survival of Representations and Warranties

The representations and warranties herein set forth or contained in any certificates or documents delivered to the Bank pursuant hereto shall not be prejudiced by and shall survive any accommodation hereunder and shall continue in full force and effect until the full payment and performance of all obligations of the Borrowers hereunder or pursuant hereto. The representations and warranties in this Schedule shall be deemed to be made by the Borrowers on each date of an advance made under any Facility.

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SCHEDULE V

AFFIRMATIVE COVENANTS

Each Borrower shall:

1.1 duly and punctually pay all sums of money due and payable by it under or pursuant to this Letter Loan Agreement and any other Loan Documents at the times and places, in the currencies and in the manner specified therein and punctually perform and observe all other obligations on its part to be performed or observed hereunder or thereunder at the times and in the manner provided for herein or therein;

1.2 preserve and maintain its corporate existence and all of its franchises, licenses, rights, privileges, consents and approvals;

1.3 conduct its business in a proper and efficient manner in accordance with normal industry standards, keep proper books, records and accounts in accordance with GAAP, preserve, protect and obtain all intellectual property, preserve and maintain in good repair, working order and condition all other properties used or useful in the conduct of its business, and obtain and maintain all material licenses, permits and regulatory approvals required for the operation of its business;

1.4 comply in all material respects with all applicable laws including but not limited to all Environmental Laws;

1.5 promptly pay and discharge, when due, all its taxes, indebtedness and other liabilities including payment of any rents;

1.6 insure and keep insured its property, assets and business for its full insurable value and maintain business interruption and civil liability (including product and environmental liability) insurance for such coverages and amounts as are acceptable to the Bank;

1.7 give written notice to the Bank of any Event of Default, the commencement of any action, suit or proceeding involving any Borrower which would have a Material Adverse Effect on such Borrower, or the registration of any Lien whether or not such Lien is a Permitted Encumbrance, which is material or the occurrence of any event or circumstance which has or which is likely create an Event of Default;

1.8 permit representatives of the Bank, upon reasonable notice and during normal business hours, to examine, copy and make extracts from its books and records, to inspect any of its properties or assets including those subject to a Lien in favour of the Bank, and to discuss its business and affairs with its officers and auditors;

1.9 maintain all bank accounts of the Borrowers and each other Obligor at a branch of the Bank and deposit in such bank accounts all proceeds of all accounts receivable of the Obligors, the whole in consideration of the Bank authorizing the Borrowers and each other Obligor to collect for the time being their respective accounts receivable;

1.10 furnish to the Bank such information respecting its condition or operations, financial or otherwise, as the Bank or its legal counsel may from time to time reasonably request;

1.11 ensure at all times that the present and future obligation of the Borrowers are fully secured by valid and enforceable first ranking perfected and opposable Lien for the benefit of the Bank on all of its immovable and movable assets and do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered all such additional and future acts, deeds, instruments and assurances as are necessary to comply with this Letter Loan Agreement;

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SCHEDULE VI IS THE FOLLOWING PAGE.

SCHEDULE VI

NEGATIVE COVENANTS

The Borrowers shall not without the prior consent of the Bank:

1.1 directly or indirectly at any time assume, create, incur or suffer to exist any Lien, upon any of their property and assets, present and future (including its accounts receivables), other than Permitted Encumbrances;

1.2 sell any of their receivables;

1.3 cease their business and materially change the nature of their business;

1.4 create, incur, assume or suffer to exist any Indebtedness other than the Indebtedness in favour of the Bank or Indebtedness consisting of Permitted Encumbrances;

1.5 provide any financial assistance (by way of loan, guarantee or otherwise) to any of their shareholders, officers, employees, related companies, commercial entities or any other Person in excess of an aggregate amount of CDN$5,000,000;

1.6 enter into any merger or consolidation or amalgamation except between Obligors;

1.7 liquidate, wind up or dissolve itself;

1.8 make any significant change to their corporate structure set forth in Schedule VIII (including, without limitation, any change in its shareholders or structure of shares);

1.9 make any investments in or acquisitions of any majority portion of capital stock or securities of, or other ownership interests in, any Person or to acquire all or substantially all of an enterprise of a Person for an amount exceeding CDN$5,000,000 in the aggregate at any one time outstanding;

1.10 change their fiscal year;

1.11 make or pay any Distributions for an amount exceeding 50% of the Borrowers' net income for the prior fiscal year on a consolidated basis (non cumulative).

SCHEDULE VII

EVENTS OF DEFAULT

1. **Events of Default**

Each of the following events shall, without detracting from the Bank's right to demand payment of the Facilities stated to be payable on demand at any time, constitute an Event of Default under this Letter Loan Agreement:

1.1 the Borrowers default in the payment of any principal, interest, fees or other payment on the Facilities or in the payment of any amount owing under or pursuant to this Letter Loan Agreement or any of the Loan Documents when the same becomes due and payable, whether at maturity or by acceleration or otherwise; or

1.2 the breach or failure by the Borrowers to observe or perform any of their covenants under this Letter Loan Agreement (other than those referred to in paragraph 1.1) or under any other Loan Documents and such default remains unremedied for a period of five (5) Business Days after the Borrowers receive written notice of such default or failure from the Bank; or

1.3 any Borrower defaults in the payment of any other Indebtedness owed to the Bank for more than five (5) Business Days after the same becomes due and payable; or

1.4 any representation or warranty made in writing by the Borrowers in this Letter Loan Agreement, in the Loan Documents or in any other writing furnished in connection with the transaction contemplated herein proves to have been false or incorrect in any material respect on the date as of which it is made; or

1.5 any Borrower is in default (as principal or as guarantor or other surety) under any agreement providing for the borrowing of money or the lease of premises or under any capital lease, other than under this Letter Loan Agreement or the Loan Documents, beyond any period of grace; or

1.6 any Obligor (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing (vi) ceased its operations; or

1.7 a court or governmental authority of competent jurisdiction enters an order appointing, without consent by any Obligor, a custodian, receiver, trustee or other officer with similar powers with respect to such Obligor or with respect to any substantial part of the property of such Obligor, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of any Obligor, or any such petition shall be filed against such Obligor; or

1.8 a final judgment or judgments for the payment of money aggregating in excess of CDN$200,000 are rendered against any Obligor, and which judgments are not, within thirty (30) days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within thirty (30) days after the expiration of such stay; or

1.9 any creditor or other holder of any Lien on all or any part of the Assets of any Obligor other than the Bank, shall take any action or proceedings, or shall authorize or instruct any other person on its behalf to take any action or proceedings, to commence any enforcement or realisation under, or exercise or pursue any rights, recourses or remedies under, any agreement or other instrument creating a Lien on any of the Assets of any Obligor, unless in each case such action, proceedings, enforcement or exercise of rights, recourses and remedies is dismissed or withdrawn within thirty (30) days of its commencement or unless the validity thereof is being contested diligently and in good faith by or on behalf of such Obligor, the case may be, by proper legal proceedings, and provided any action has not proceeded to final non-appealable judgment and any other enforcement or exercise of rights or remedies has not proceeded to a stage where the Assets of such Obligor, may be sold or the rights of the Bank in such Assets impaired or reduced in value; or

1.10 the occurrence of any fact, event or circumstance, which, in the good faith determination of the Bank, would have a Material Adverse Effect on the Obligors; or

1.11 if any obligation or other provision in any Loan Document terminates or ceases to be a legally valid, binding and enforceable obligation of the Borrowers or if any Borrower (or any person on behalf of such Borrower) contests in any manner, the legality, validity, binding nature or enforceability of any of the Loan Documents; or

1.12 if there is any change in the Control of any Obligor; or

1.13 if there is a default under the US Credit Facilities as amended, replaced, restated, supplemented or otherwise modified from time to time.

2. **Effect of a Default**

Upon the occurrence and during the continuation of any Event of Default, the Bank may by notice to the Borrowers (i) declare the obligation of the Bank to make advances or provide further credit to the Borrowers hereunder to be terminated, whereupon the same shall forthwith terminate, and (ii) declare the Facilities and all other indebtedness and obligations of the Borrowers to the Bank, all interest accrued and unpaid thereon and all other amounts payable under or pursuant to this Letter Loan Agreement and the Loan Documents to be forthwith due and payable, whereupon the Facilities, such other indebtedness, all such accrued interest and all such other amounts shall become and be forthwith due and payable.

For greater certainty, the Borrowers will be considered to be in default of its obligations hereunder by the mere lapse of time provided herein for performing such obligations, without any requirement of further notice or other act of the Bank unless a notice is specifically required hereunder.

3. **Remedies Cumulative; No Waiver**

For greater certainty, it is expressly understood and agreed that the rights and remedies of the Bank under this Letter Loan Agreement and the Loan Documents are cumulative and are in addition to, and not in substitution for, any rights or remedies provided by law; no failure on the part of the Bank to exercise, and no delay in exercising, any right or remedy hereunder or thereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Bank of any right or remedy for a default or breach of any term, covenant, condition or agreement herein contained prejudice or preclude any other or further exercise thereof or the exercise of any other right or remedy for the same or any other default or breach and shall not waive, alter, affect or prejudice any other right or remedy.

4. **Set-Off**

In addition to, and not in limitation of, any rights now or hereafter granted under applicable law, the Bank is hereby expressly authorized (but not obliged), at any time or from time to time upon the occurrence and during the continuation of an Event of Default, to set off or compensate and to appropriate and to apply any and all deposits, general or special, matured or unmatured, and any other indebtedness at any time held by or owing by the Bank to, or for the credit of, or the account of, the Borrowers against and on account of the obligations and liabilities of the Borrowers due and payable to the Bank under this Letter Loan Agreement or the Loan Documents including, without limitation, all claims of any nature or description arising out of, or connected with, this Letter Loan Agreement and the Loan Documents irrespective of whether or not any demand therefor has been made and although such obligations and liabilities of, or claims against, the Borrowers, are contingent or unmatured. The Bank shall after any such set-off, compensation or appropriation give notice to the Borrowers.

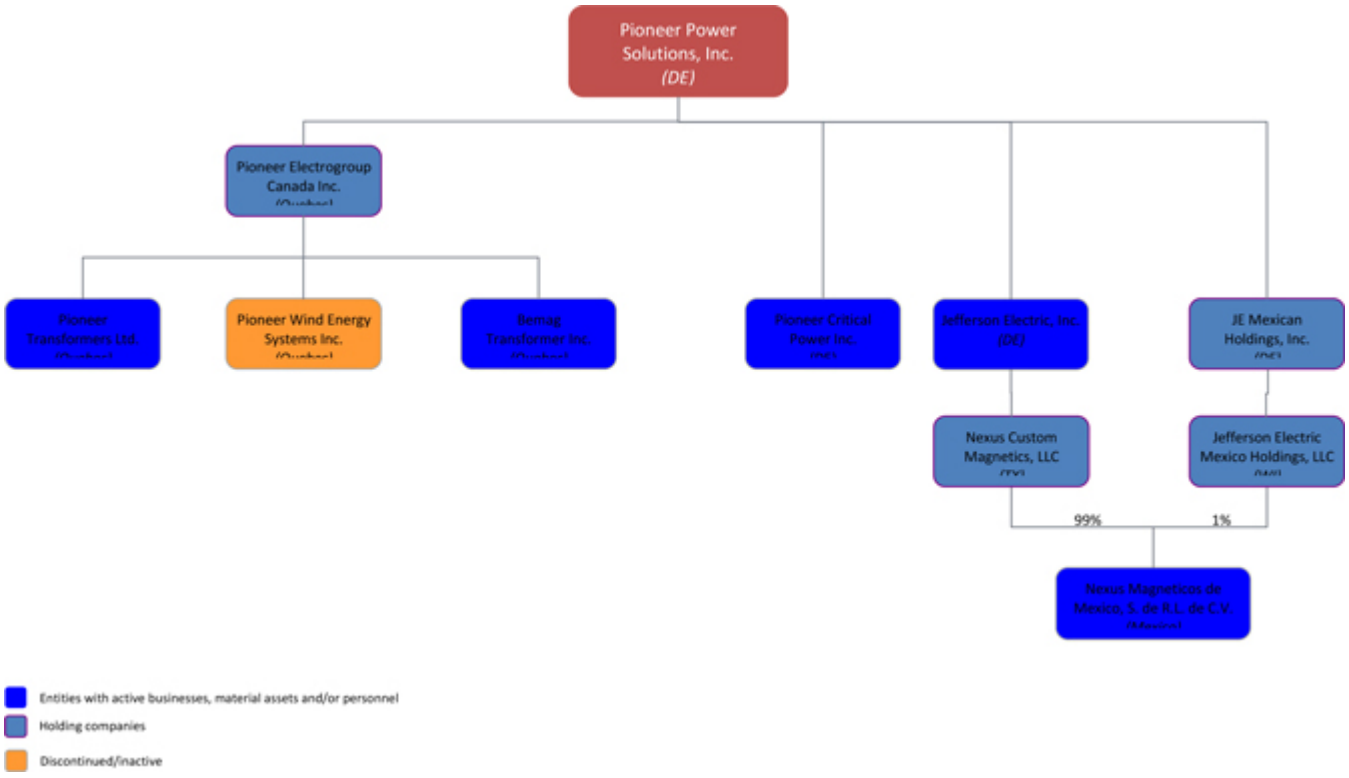
SCHEDULE VIII

CORPORATE STRUCTURE

See Attached

Corporate Legal Organization Chart

June 2013



GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (this "*Guaranty*") is made as of this 28th day of June, 2013, by Pioneer Power Solutions, Inc., a Delaware corporation (the *"Guarantor"*) in favor of Bank of Montreal (the *"Bank"*).

WITNESSETH:

WHEREAS, the Guarantor is an affiliate of Pioneer Electrogroup Canada Inc., a corporation organized under the laws of Canada, Pioneer Transformers Ltd., a corporation organized under the laws of Canada, and Bemag Transformer Inc. a corporation organized under the laws of Canada (each a *"Borrower"* and collectively the *"Borrowers"*); and

WHEREAS, the Borrowers have obtained and may from time to time hereafter obtain credit and other financial accommodations from the Bank and have incurred and may from time to time hereafter incur liabilities to the Bank; and

WHEREAS, the Borrowers provide the Guarantor with substantial financial, management, administrative, technical and design support; and

WHEREAS, the interdependent nature of the businesses of the Guarantor and the Borrowers is such that the viability of the Guarantor is dependent upon the continued success of the Borrowers and upon the continuation of the Borrowers' business relationships with the Guarantor, and the continuation thereof necessitates the Borrowers' access to credit and other financial accommodations from the Bank which the Bank will only make available on the condition, among others, that the Guarantor guarantees all indebtedness, obligations and liabilities of the Borrowers from time to time owing to the Bank; and

WHEREAS, the Guarantor will directly and substantially benefit from credit and other financial accommodations extended and to be extended by the Bank to the Borrowers.

NOW, THEREFORE, FOR VALUE RECEIVED, and in consideration of advances made or to be made, or credit accommodations given or to be given, to the Borrowers by the Bank from time to time, the Guarantor hereby agrees as follows:

1. The Guarantor hereby guarantees the full and prompt payment to the Bank at maturity and at all times thereafter of any and all indebtedness, obligations and liabilities of every kind and nature of the Borrowers or any of them to the Bank (including liabilities of partnerships created or arising while any Borrower may have been or may be a member thereof), however evidenced, whether now existing or hereafter created or arising, whether direct or indirect, absolute or contingent, or joint or several, and howsoever owned, held or acquired, whether through discount, overdraft, purchase, direct loan or as collateral, or otherwise under or pursuant to an Amended and Restated Letter Loan Agreement dated as of the date hereof entered into between the Bank, the Borrowers (as it may be further amended, supplemented, replaced, restated or otherwise modified from time to time, the *"Loan Agreement"*) and any other Loan Documents (as such term is defined in the Loan Agreement) (hereinafter all such indebtedness, obligations and liabilities being collectively referred to as the *"Indebtedness"*). Notwithstanding anything in this Guaranty to the contrary, the right of recovery against the Guarantor under this Guaranty shall not exceed $1.00 less than the lowest amount which would render the Guarantor's obligations under this Guaranty void or voidable under applicable law, including fraudulent conveyance law.

2. The Guarantor further agrees to pay all out-of-pocket costs and expenses, legal and/or otherwise (including court costs and reasonable attorneys' fees), suffered or incurred by the Bank in enforcing or endeavoring to enforce this Guaranty, in enforcing or endeavoring to collect the Indebtedness, or any part thereof, and in protecting, defending or enforcing this Guaranty in any litigation, bankruptcy or insolvency proceedings or otherwise.

3. Subject to the terms in this Guaranty, the Guarantor agrees that, upon demand, the Guarantor will then pay to the Bank the full amount of the Indebtedness.

4. The Guarantor agrees that the Guarantor will not exercise or enforce any right of exoneration, contribution, reimbursement, recourse or subrogation available to the Guarantor against any person liable for payment of the Indebtedness, or as to any security therefor, unless and until the full amount of the Indebtedness has been paid and all commitments, if any, of the Bank to extend credit to or for the account of the Borrowers which, when made, would constitute Indebtedness shall have terminated. The payment by the Guarantor of any amount or amounts to the Bank pursuant hereto shall not in any way entitle the Guarantor, either at law, in equity or otherwise, to any right, title or interest (whether by way of subrogation or otherwise) in and to the Indebtedness or any part thereof or any collateral security therefor or any other rights or remedies in any way relating thereto or in and to any amounts theretofore, then or thereafter paid or applicable to the payment thereof howsoever such payment may be made and from whatsoever source such payment may be derived unless and until all of the Indebtedness and all costs and expenses suffered or incurred by the Bank in enforcing this Guaranty have been paid in full and all commitments, if any, of the Bank to extend credit to or for the account of the Borrowers which, when made, would constitute Indebtedness shall have terminated and unless and until such payment in full and termination, any payments made by the Guarantor hereunder and any other payments from whatsoever source derived on account of or applicable to the Indebtedness or any part thereof shall be held and taken to be merely payments in gross to the Bank reducing pro tanto the Indebtedness.

5. The Bank may, without any notice whatsoever to any one, sell, assign, or transfer all of the Indebtedness, or any part thereof, or grant participations therein, and in that event each and every immediate and successive assignee, transferee, or holder of or participant in all or any part of the Indebtedness, shall have the right to enforce this Guaranty as to so much of the Indebtedness that has been sold, assigned or transferred to such successive assignee, transferee, holder or participant, by suit or otherwise, for the benefit of such assignee, transferee, holder or participant, as fully as if such assignee, transferee, holder or participant were herein by name specifically given such rights, powers and benefits; but the Bank shall have an unimpaired right to enforce this Guaranty for the benefit of the Bank or any such participant, as to so much of the Indebtedness that it has not sold, assigned or transferred.

6. This Guaranty is a continuing, absolute and unconditional Guaranty, and shall remain in full force and effect until written notice of its discontinuance executed by the Borrowers and the Guarantor shall be actually received by the Bank, and also until any and all of the Indebtedness created or existing before receipt of such notice shall be fully paid and all commitments, if any, of the Bank to extend credit to or for the account of the Borrowers which, when made, would constitute Indebtedness shall have terminated. This is a guaranty of payment and not of collection, and in case the Borrowers fail to pay any Indebtedness when due, the Guarantor agrees to make such payment or to cause such payment to be made punctually as and when the same shall become due and payable, whether at stated maturity, by acceleration or otherwise, and as if such payment were made by the Borrowers. The dissolution of the Guarantor shall not terminate this Guaranty until notice of such dissolution shall have been actually received by the Bank, nor until all of the Indebtedness, created or existing or committed to be extended in each case before receipt of such notice shall be fully paid. The Bank may at any time or from time to time release the Guarantor from its obligations hereunder or effect any compromise with the Guarantor.

7. In case of the dissolution, liquidation or insolvency (howsoever evidenced) of, or the institution of bankruptcy or receivership proceedings against any Borrower or the Guarantor, all of the Indebtedness which is then existing shall, at the option of the Bank, immediately become due or accrued and payable from the Guarantor. All dividends or other payments received by the Bank from the Borrowers or on account of the Indebtedness from whatsoever source, shall be taken and applied as payment in gross, and this Guaranty shall apply to and secure any ultimate balance that shall remain owing to the Bank.

8. The liability hereunder shall in no way be affected or impaired by (and the Bank is hereby expressly authorized to make from time to time, without notice to anyone), any sale, pledge, surrender, compromise, settlement, release, renewal, extension, indulgence, alteration, substitution, exchange, change in, modification or other disposition of any of the Indebtedness, either express or implied, or of any contract or contracts evidencing any thereof, or of any security or collateral therefor or any guaranty thereof. The liability hereunder shall in no way be affected or impaired by any acceptance by the Bank of any security for or other guarantors upon any of the Indebtedness, or by any failure, neglect or omission on the part of the Bank to realize upon or protect any of the Indebtedness, or any collateral or security therefor, or to exercise any lien upon or right of appropriation of any moneys, creditors or property of any Borrower possessed by the Bank toward the liquidation of the Indebtedness, or by any application of payments or credits thereon. The Bank shall have the exclusive right to determine in its commercially reasonable discretion how, when and what application of payments and credits, if any, shall be made on the Indebtedness, or any part of same. In order to hold the Guarantor liable hereunder, there shall be no obligation on the part of the Bank at any time to resort for payment to any Borrower or to the Guarantor, or to any other person or corporations, their properties or estate, or resort to any collateral, security, property, liens or other rights or remedies whatsoever, and the Bank shall have the right to enforce this Guaranty irrespective of whether or not other proceedings or steps are pending seeking resort to or realization upon or from any of the foregoing are pending.

9. In the event the Bank shall at any time in its discretion permit a substitution of the Guarantor hereunder or a party shall wish to become a Guarantor hereunder, such substituted or additional Guarantor shall, upon executing an agreement in the form attached hereto as *Exhibit A,* become a party hereto and be bound by all the terms and conditions hereof to the same extent as though such Guarantor had originally executed this Guaranty and, in the case of a substitution, in lieu of the Guarantor being replaced. No such substitution shall be effective absent the written consent of the Bank.

10. All diligence in collection or protection, and all presentment, demand, protest and/or notice, as to any and everyone, whether or not the Borrowers or the Guarantor or others, of dishonor and of default and of non-payment and of the creation and existence of any and all of the Indebtedness, and of any security and collateral therefor, and of the acceptance of this Guaranty, and of any and all extensions of credit and indulgence hereunder, are expressly waived.

11. No act of commission or omission of any kind, or at any time, upon the part of the Bank in respect to any matter whatsoever, shall in any way affect or impair this Guaranty.

12. The Guarantor waives any and all defenses, claims and discharges of the Borrowers, or any other obligor, pertaining to the Indebtedness, except the defense of discharge by payment in full. Without limiting the generality of the foregoing, the Guarantor will not assert, plead or enforce against the Bank any defense of waiver, release, discharge in bankruptcy, statute of limitations, res judicata, statute of frauds, antideficiency statute, fraud, incapacity, minority, usury, illegality or unenforceability which may be available to any Borrower or any other person liable in respect of any of the Indebtedness, or any set-off available against the Bank to any Borrower or any such other person, whether or not on account of a related transaction.

13. If any payment applied by the Bank to the Indebtedness is thereafter set aside, recovered, rescinded or required to be returned for any reason (including, without limitation, the bankruptcy, insolvency or reorganization of any Borrower or any other obligor), the Indebtedness to which such payment was applied shall for the purposes of this Guaranty be deemed to have continued in existence, notwithstanding such application, and this Guaranty shall be enforceable as to such of the Indebtedness as fully as if such application had never been made.

14. Reserved.

15. Any invalidity or unenforceability of any provision or application of this Guaranty shall not affect other lawful provisions and applications hereof, and to this end the provisions of this Guaranty are declared to be severable.

16. Any demand for payment on this Guaranty or any other notice required or desired to be given hereunder to the Guarantor shall be in writing (including, without limitation, notice by telecopy) and shall be given to the relevant party at its address or telecopier number set forth on the appropriate signature page hereof, or such other address or telecopier number as such party may hereafter specify by notice to the Bank given by certified or registered mail, by telecopy or by other telecommunication device capable of creating a written record of such notice and its receipt. Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopier number specified in this Section and a confirmation of such telecopy has been received by the sender, (ii) if given by mail, five (5) days after such communication is deposited in the mail, certified or registered with return receipt requested, addressed as aforesaid or (iii) if given by any other means, when delivered at the addresses specified in this Section.

17. All payments to be made by the Guarantor hereunder shall be made in the same currency and funds in which the underlying Indebtedness is payable at the principal Toronto office of the Bank at Bank of Montreal, Corporate Finance, 105 Saint-Jacques St. West, 3rd Floor, Montreal, Quebec H2Y 1L6 (or at such other place for the account of the Bank as it may from time to time specify to the Guarantor) in immediately available and freely transferable funds at the place of payment, all such payments to be paid without set-off, counterclaim or reduction and without deduction for, and free from, any and all present or future taxes, levies, imposts, duties, fees, charges, deductions, withholding or liabilities with respect thereto or any restrictions or conditions of any nature. If the Guarantor is required by law to make any deduction or withholding on account of any tax or other withholding or deduction from any sum payable by the Guarantor hereunder, the Guarantor shall pay any such tax or other withholding or deduction and shall pay such additional amount necessary to ensure that, after making any payment, deduction or withholding, the Bank shall receive and retain (free of any liability in respect of any payment, deduction or withholding) a net sum equal to what it would have received and so retained hereunder had no such deduction, withholding or payment been required to have been made.

18. The payment by the Guarantor of any amount or amounts due the Bank hereunder shall be made in the same currency (the *"relevant currency"*) and funds in which the underlying Indebtedness is payable. To the fullest extent permitted by law, the obligation of the Guarantor in respect of any amount due in the relevant currency under this Guaranty shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the relevant currency that the Bank may, in accordance with its normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the business day immediately following the day on which the Bank receives such payment. If the amount in the relevant currency that may be so purchased for any reason falls short of the amount originally due, the Guarantor shall pay such additional amounts, in the relevant currency, as may be necessary to compensate for the shortfall. Any obligations of the Guarantor not discharged by such payment shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect.

19. THIS GUARANTY SHALL BE GOVERNED BY AND CONSTRUED ACCORDING TO THE LAW OF THE STATE OF ILLINOIS (without regard to principles of conflicts of laws) in which state it shall be performed by the Guarantor and may not be waived, amended, released or otherwise changed except by a writing signed by the Bank; *provided that* any amendment or modification to the terms of this Guaranty shall also be signed by the Guarantor. This Guaranty and every part thereof shall be effective upon delivery to the Bank, without further act, condition or acceptance by the Bank, shall be binding upon the Guarantor and upon the heirs, legal representatives, successors and assigns of the Guarantor, and shall inure to the benefit of the Bank, its successors, legal representatives and assigns. The Guarantor waives notice of the Bank's acceptance hereof. This Guaranty may be executed in counterparts and by different parties hereto on separate counterpart signature pages, each of which shall be an original, but all together to be one and the same instrument.

20. The Guarantor hereby submits to the nonexclusive jurisdiction of the United States District Court for the Northern District of Illinois and of any Illinois State court sitting in the City of Chicago for purposes of all legal proceedings arising out of or relating to this Guaranty or the transactions contemplated hereby. The Guarantor irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such court has been brought in an inconvenient forum. THE GUARANTOR AND THE BANK HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY OR THE TRANSACTIONS CONTEMPLATED HEREBY.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be executed and delivered as of the date first above written.

PIONEER POWER SOLUTIONS, INC.

By: /s/ Andrew Minkow
Name: Andrew Minkow
Title: Chief Financial Officer

[Signature Page to Guaranty Agreement]

Accepted and agreed to as of the date first above written.

BANK OF MONTREAL

By: /s/ Martin Bazinet
Name: Martin Bazinet
Title: Director, Corporate Finance Division

Address:
105, Saint-Jacques St West, 3rd Floor
Montreal, Quebec, H2Y 1L6
Attention: Martin Bazinet
Telephone: (514) 877-6102
Telecopy: (514) 877-7704

[Signature Page to Guaranty Agreement]

EXHIBIT A
TO
GUARANTY AGREEMENT

ASSUMPTION AND SUPPLEMENT TO GUARANTY AGREEMENT

This Assumption and Supplement to Guaranty Agreement (the *"Agreement"*) is dated as of this _____ day of _____, 20__, made by [**new guarantor**], a(n) _____ **corporation/limited liability company/partnership** (the *"New Guarantor"*) in favor of Bank of Montreal (the "*Bank*");

WITNESSETH THAT:

WHEREAS, Pioneer Power Solutions, Inc. (the *"Existing Guarantor"*) has executed and delivered to the Bank that certain Guaranty Agreement dated as of June __, 2013 (such Guaranty Agreement, as the same may from time to time be modified or amended, including supplements thereto which add or substitute parties as Guarantors thereunder, being hereinafter referred to as the *"Guaranty"*) pursuant to which it guaranteed to the Bank the full and prompt payment of, among other things, any and all indebtedness, obligations and liabilities of Pioneer Electrogroup Canada Inc., a corporation organized under the laws of Quebec, Pioneer Transformers Ltd., a corporation organized under the laws of Quebec, and Bemag Transformer Inc. a corporation organized under the laws of Quebec (each a *"Borrower"* and collectively the *"Borrowers"*) from time to time owing to the Bank; and

WHEREAS, the Borrowers provide the New Guarantor with substantial financial, managerial, administrative, technical and design support and the New Guarantor will directly and substantially benefit from credit and other financial accommodations extended and to be extended by the Bank to the Borrowers;

NOW, THEREFORE, FOR VALUE RECEIVED, and in consideration of advances made or to be made, or credit accommodations given or to be given, to the Borrowers by the Bank from time to time, the New Guarantor hereby agrees as follows:

1. The New Guarantor acknowledges and agrees that it shall become a "Guarantor" party to the Guaranty effective upon the date the New Guarantor's execution of this Agreement and the delivery of this Agreement to the Bank, and that upon such execution and delivery, all references in the Guaranty to the term "Guarantor" shall be deemed to include the New Guarantor.

2. The New Guarantor hereby assumes and becomes liable (jointly and severally with all the other Guarantors) for the Indebtedness (as defined in the Guaranty) and agrees to pay and otherwise perform all of the obligations of a Guarantor under the Guaranty according to, and otherwise on and subject to, the terms and conditions of the Guaranty to the same extent and with the same force and effect as if the New Guarantor had originally been an Existing Guarantor under the Guaranty and had originally executed the same as such an Existing Guarantor.

3. All capitalized terms used in this Agreement without definition shall have the same meaning herein as such terms have in the Guaranty, except that any reference to the term "Guarantor" and any provision of the Guaranty providing meaning to such term shall be deemed a reference to the Existing Guarantor and the New Guarantor. Except as specifically modified hereby, all of the terms and conditions of the Guaranty shall stand and remain unchanged and in full force and effect.

4. The New Guarantor agrees to execute and deliver such further instruments and documents and do such further acts and things as the Bank may deem necessary or proper to carry out more effectively the purposes of this Agreement.

5. No reference to this Agreement need be made in the Guaranty or in any other document or instrument making reference to the Guaranty, any reference to the Guaranty in any of such to be deemed a reference to the Guaranty as modified hereby.

6. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois (without regard to principles of conflicts of law) in which state it shall be performed by the New Guarantor.

[**NEW GUARANTOR**]

By
Name _____
Title _____

Address:

_____

_____

Telephone: (___) _____
Facsimile: (___) _____

Acknowledged and agreed to in Chicago, Illinois, as of the date first above written.

BANK OF MONTREAL

By _____
Name _____
Title _____

Address:

105, Saint-Jacques St West, 3rd Floor
Montreal, Quebec, H2Y 1L6
Attention: _____
Telephone: (___) _____
Telecopy: (___) _____