

Alkermes plc.  
Form 10-K/A  
May 30, 2013

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-K/A

Amendment No. 1

(Mark One)

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

For the fiscal year ended March 31, 2013

OR

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

For the transition period from            to

Commission file number: 1-14131

## ALKERMES PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

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**Ireland**

(State or other jurisdiction of incorporation or organization)

**98-1007018**

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

**Connaught House**

**1 Burlington Road**

**Dublin 4, Ireland**

(Address of principal executive offices)

(Zip code)

**+353-1-772-8000**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Act:

**Ordinary shares, \$0.01 par value**

Title of each class

**NASDAQ Global Select Stock Market**

Name of each exchange on which registered

Securities registered pursuant to Section 12(b) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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(Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's ordinary shares held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) computed by reference to the price at which the ordinary shares was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was \$2,712,520,116.

As of May 08, 2013, 134,380,999 shares of ordinary shares were issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement for our Annual General Meeting of Shareholders for the fiscal year ended March 31, 2013 are incorporated by reference into Part III of this report.

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**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A (this Amendment) amends the Annual Report on Form 10-K of Alkermes plc (the Company, our or we) for the fiscal year ended March 31, 2013, originally filed with the Securities and Exchange Commission (the SEC) on May 23, 2013 (the Original Filing).

Except as described herein, no other changes have been made to the Original Filing and no attempt has been made in this Amendment to modify or update disclosures for events that occurred subsequent to the Original Filing. This Amendment should be read in conjunction with the Original Filing and with our other filings made with the SEC subsequent to the date of the Original Filing, and any amendments to those filings, including any Current Reports filed on Form 8-K subsequent to the date of the Original Filing, if any.

We are filing this Amendment to our Original Filing to add the following to the disclosure set forth in Item 9B to specify the geographic location of the Company's intangible assets and goodwill:

**Item 9B. Other Information**

At March 31, 2013, 2012 and 2011, the Company's long-term assets included intangible assets and goodwill of \$668.7 million, \$710.6 million and none, respectively. Of these amounts, \$665.1 million and \$706.9 million were located in Ireland at March 31, 2013 and 2012, respectively, and the remaining amounts were located in the United States.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALKERMES PLC

Dated: May 30, 2013

By: */s/ JAMES M. FRATES*  
James M. Frates  
*Senior Vice President and*  
*Chief Financial Officer*

**POWER OF ATTORNEY**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
* Richard F. Pops	Chairman and Chief Executive Officer (Principal Executive Officer)	May 30, 2013
<i>/s/ JAMES M. FRATES</i> James M. Frates	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	May 30, 2013
* David W. Anstice	Director	May 30, 2013
* Floyd E. Bloom	Director	May 30, 2013
* Robert A. Breyer	Director	May 30, 2013

Signature	Title	Date
* Wendy L. Dixon	Director	May 30, 2013
* Geraldine Henwood	Director	May 30, 2013
* Paul J. Mitchell	Director	May 30, 2013
* Mark B. Skaletsky	Director	May 30, 2013
* Nancy J. Wysenski	Director	May 30, 2013

\* By: /s/ JAMES M. FRATES  
James M. Frates

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Results of operations from acquired businesses are included from the date of acquisition forward. The fair value of assets and liabilities, inclusive of changes resulting from operating the businesses, are included in the first period ended after the date of each acquisition, and all periods thereafter. Acquisitions consist of the following: i) Adwest Technologies, Inc. (“Adwest”) in December 2012, ii) Aarding Thermal Acoustics B.V. (“Aarding”) in March 2013, iii) Met-Pro in August 2013, iv) HEE Environmental Engineering (“HEE”) in August 2014, v) SAT Technology, Inc. (“SAT”) in September 2014, vi) Emtrol LLC (“Emtrol”) in November 2014, vii) Jiangyin Zhongli Industrial Technology Co. Ltd. (“Zhongli”) in December 2014, and viii) PMFG in September 2015.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes included in Item 8 of this Annual Report on Form 10-K, which include additional information about our accounting policies, practices and the transactions underlying our financial results. The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts in our consolidated financial statements and the accompanying notes including various claims and contingencies related to lawsuits, taxes, environmental and other matters arising during the normal course of business. We apply our best judgment, our knowledge of existing facts and circumstances and actions that we may undertake in the future in determining the estimates that affect our consolidated financial statements. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effects cannot be determined with precision, actual results may differ from these estimates.

### Overview

#### Business Overview

We are a diversified global provider of leading engineered technologies to the environmental, energy, and fluid handling and filtration industrial segments, targeting specific niche-focused end markets through an attractive asset-light business model. We provide a wide spectrum of products and services including dampers & diverters, cyclonic technology, thermal oxidizers, separation and filtration systems, selective catalytic reduction ("SCR") and selective non-catalytic reduction ("SNCR") systems, scrubbers, dampers and silencers, exhaust systems, fluid handling equipment and plant engineered services and engineered design build fabrication. These products play a vital role in helping companies achieve exacting production standards, meeting increasing plant needs and stringent emissions control regulations around the globe. We believe that globally we serve the broadest range of markets and industries including power, municipalities, chemical, industrial manufacturing, mid-stream pipeline natural gas transmission, refining, petrochemical, metals, minerals & mining companies, as well as hospitals and universities. Therefore, our business is not concentrated in a single industry or customer.

#### Industry Trends and Corporate Strategy

We are a global corporation with worldwide operations. As a global business, our operations are affected by worldwide, regional and industry-specific economic factors, wherever we operate or do business. Our geographic and industry diversity, and the breadth of our product and services portfolios, have helped mitigate the impact of any one industry or the economy of any single country on our consolidated operating results.

We believe growth for our products and services is driven by the increasing demand for energy consumption and a shift towards cleaner sources such as natural gas, nuclear, and renewable sources. These trends should stimulate investment in new power generation facilities, pipeline expansion and related infrastructure, and in upgrades of existing facilities.

With a shift to cleaner, more environmentally responsible power generation, power providers and industrial power consumers are building new facilities that use cleaner fuels. In developed markets, natural gas is increasingly becoming one of the energy sources of choice. We supply product offerings throughout the entire natural gas infrastructure value chain and believe expansion will drive growth within our Energy segment for our pressure products and SCR systems for natural-gas-fired power plants. Increased global natural gas production as a percent of total energy consumption, miles of new pipeline being added globally, and an increase in liquification capacity all

stand to drive the need for our products.

We also believe there is a trend in both developed and emerging markets to control and reduce emissions of harsher fuel sources for which our Air Pollution Control equipment is required. In emerging markets including China, India, and South East Asia our business is positioned to benefit from tightening of air pollution standards. In developed markets, growth of industrialization will drive greater output of emissions requiring our equipment as well. In both markets, we expect capital expenditures for our equipment to increase and the need for our aftermarket services to grow as companies seek to meet new standards.

We continue to focus on increasing revenues and profitability globally while continuing to strengthen and expand our presence domestically. Our operating strategy has historically involved horizontally expanding our scope of technology, products, and services through selective acquisitions and the formation of new business units that are then vertically integrated into our growing group of turnkey system providers. Our continuing focus will be on global growth, market coverage, and expansion of our Asia operations. Operational excellence, margin expansion, after-market recurring revenue growth, and safety leadership are also critical to our growth strategy.



## Operations Overview

We operate under a “hub and spoke” business model in which executive management, finance, administrative and marketing staff serves as the hub while the sales channels serve as spokes. We use this model throughout our operations. This has provided us with certain efficiencies over a more decentralized model. The Company’s segment presidents manage our division managers who are responsible for successfully running their operations, that is, sales, gross margins, manufacturing, pricing, purchasing, safety, employee development and customer service excellence. The segment presidents work closely with our CEO on global growth strategies, operational excellence, and employee development. The headquarters (hub) focuses on enabling the core back-office key functions for scale and efficiency, that is, accounting, payroll, human resources/benefits, information technology, safety support, internal control over financial reporting, and administration. We have excellent organizational focus from headquarters throughout our divisional businesses with clarity and minimal duplicative work streams. We are structured for growth and will do future bolt-on acquisitions.

Our three reportable segments are: the Environmental segment, which produces various types of product recovery and air pollution control technologies, the Energy segment, which produces customized solutions for the power and petrochemical industry, and the Fluid Handling and Filtration segment, which produces high quality pump, filtration and fume exhaust solutions. It is through combining the efforts of some or all of these groups that we are able to offer complete turnkey systems to our customers and leverage operational efficiencies.

Our contracts are obtained either through competitive bidding or as a result of negotiations with our customers. Contract terms offered by us are generally dependent on the complexity and risk of the project as well as the resources that will be required to complete the project. Our focus is on increasing our operating margins as well as our gross margin percentage, which translates into higher net income.

Our cost of sales is principally driven by a number of factors, including material prices and labor cost and availability. Changes in these factors may have a material impact on our overall gross profit margins.

We break down costs of sales into five categories. They are:

• Subcontracts—Electrical work, concrete work and other subcontracts necessary to produce our products;

• Labor—Our direct labor both in the shop and in the field;

• Material—Raw material that we buy to build our products;

• Equipment—Fans, motors, control panels and other equipment necessary for turnkey systems; and

• Factory overhead—Costs of facilities and supervision wages necessary to produce our products.

In general, subcontracts provide us the most flexibility in margin followed by labor, material, and equipment. Across our various product lines, the relative relationships of these factors change and cause variations in gross margin percentage. Material costs have also increased faster than labor costs, which also reduces gross margin percentage.

Selling and administrative expense principally includes sales payroll and related fringes, advertising and marketing expenditures as well as all corporate and administrative functions and other costs that support our operations. The majority of these expenses are fixed. We expect to leverage our fixed operating structure as we continue to grow our revenue.

## Note Regarding Use of Non-GAAP Financial Measures

The Company’s consolidated financial statements are prepared in accordance with GAAP. These GAAP financial statements include certain charges the Company believes are not indicative of its ongoing operational performance.

As a result, the Company provides financial information in this MD&A that was not prepared in accordance with GAAP and should not be considered as an alternative to the information prepared in accordance with GAAP. The Company provides this supplemental non-GAAP financial information, which the Company's management utilizes to evaluate its ongoing financial performance, and which the Company believes provides greater transparency to investors as supplemental information to its GAAP results.

The Company has provided the non-GAAP financial measures of non-GAAP gross profit and non-GAAP gross profit margin, non-GAAP operating income, non-GAAP operating margin, and non-GAAP net income attributable to CECO Environmental Corp. as a result of items that the Company believes are not indicative of its ongoing operations. These include charges associated with the

Company's acquisition and integration of acquisitions and the items described below in "Consolidated Results." The Company believes that evaluation of its financial performance compared with prior and future periods can be enhanced by a presentation of results that exclude the impact of these items. As a result of the Company's completed acquisitions, the Company has incurred substantial charges associated with the acquisition and integration. While the Company cannot predict the exact timing or amounts of such charges, it does expect to treat these charges as special items in its future presentation of non-GAAP results. See Note 17 to the audited consolidated financial statements for further information.

## Results of Operations

### Consolidated Results

Our consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014 are as follows:

(\$ in millions)	Year ended		
	December 31,		
	2016	2015	2014
Net sales	\$417.0	\$367.4	\$263.2
Cost of goods sold	282.1	258.2	178.4
Gross profit	\$134.9	\$109.2	\$84.8
Percent of sales	32.4 %	29.7 %	32.2 %
Selling and administrative expenses	\$81.9	\$67.5	\$51.4
Percent of sales	19.6 %	18.4 %	19.5 %
Acquisition and integration expenses	\$0.5	\$7.9	\$1.3
Percent of sales	0.1 %	2.2 %	0.5 %
Amortization and earn-out expenses	\$20.2	\$25.6	\$10.1
Percent of sales	4.8 %	7.0 %	3.8 %
Intangible asset and goodwill impairment	\$57.9	\$3.3	\$—
Percent of sales	13.9 %	0.9 %	—
Legal reserves	\$—	\$—	\$0.3
Percent of sales	—	—	0.1 %
Operating (loss) income	\$(25.6)	\$4.9	\$21.7
Percent of sales	(6.1)%	1.3 %	8.2 %

To compare operating performance between the years ended December 31, 2016, 2015 and 2014, the Company has adjusted GAAP operating (loss) income and GAAP net (loss) income to exclude (1) acquisition and integration related expenses, including legal, accounting, and banking expenses, (2) amortization and contingent acquisition expenses, including amortization of acquisition-related intangibles, retention, severance, and earn-out expenses, (3) legal reserves, (4) inventory valuation and plant, property and equipment valuation adjustments related to the Met-Pro and PMFG acquisitions, (5) intangible asset and goodwill impairment, (6) foreign currency remeasurement with respect to intercompany loans, (7) write-off of deferred financing fees associated with debt extinguishment, (8) gains on life insurance settlements, and (9) with respect to net income, associated tax benefits of these charges. The Company has adjusted GAAP gross profit to exclude inventory valuation and plant, property and equipment valuation adjustments related to the Met-Pro and PMFG acquisitions. See "Note Regarding Use of Non-GAAP Financial Measures" above. The following tables present the reconciliation of GAAP gross profit and GAAP gross profit margin to non-GAAP gross profit and non-GAAP gross profit margin, GAAP operating (loss) income and GAAP operating margin to non-GAAP operating income and non-GAAP operating margin, and GAAP net (loss) income attributable to CECO

Environmental Corp. to non-GAAP net income attributable to CECO Environmental Corp.:

(dollars in millions)	Year Ended December 31,		
	2016	2015	2014
Gross profit as reported in accordance with GAAP	\$ 134.9	\$ 109.2	\$ 84.8
Gross profit margin in accordance with GAAP	32.4 %	29.7 %	32.2%
Inventory valuation adjustment	0.1	0.5	—
Plant, property and equipment valuation adjustment	0.6	0.6	0.6
Non-GAAP gross profit	\$ 135.6	\$ 110.3	\$ 85.4
Non-GAAP Gross profit margin	32.5 %	30.0 %	32.4%

28

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(dollars in millions)	Year Ended December		
	31, 2016	2015	2014
Operating (loss) income as reported in accordance with GAAP	\$(25.6)	\$4.9	\$21.7
Operating margin in accordance with GAAP	(6.1 )%	1.3 %	8.2 %
Inventory valuation adjustment	0.1	0.5	—
Plant, property and equipment valuation adjustment	0.6	0.6	0.6
Gain on insurance settlement	(1.0 )	—	—
Acquisition and integration expenses	0.5	7.9	1.3
Amortization and earn-out expenses	20.2	25.6	10.1
Intangible asset and goodwill impairment	57.9	3.3	—
Legal reserves	—	—	0.3
Non-GAAP operating income	\$52.7	\$42.8	\$34.0
Non-GAAP Operating margin	12.6 %	11.6 %	12.9 %

(dollars in millions)	Year Ended December		
	31, 2016	2015	2014
Net (loss) income attributable to CECO Environmental Corp. as reported in accordance with GAAP	\$(38.2)	\$(5.6 )	\$13.1
Inventory valuation adjustment	0.1	0.5	—
Plant, property and equipment valuation adjustment	0.6	0.6	0.6
Gain on insurance settlement	(1.0 )	—	—
Acquisition and integration expenses	0.5	7.9	1.3
Amortization and earn-out expenses	20.2	25.6	10.1
Intangible asset and goodwill impairment	57.9	3.3	—
Legal reserves	—	—	0.3
Deferred financing fee adjustment	—	0.3	—
Foreign currency remeasurement	0.8	2.5	2.9
Tax benefit of expenses	(7.4 )	(7.1 )	(3.7 )
Non-GAAP net income attributable to CECO Environmental Corp.	\$33.5	\$28.0	\$24.6
Non-GAAP Net income	8.0 %	7.6 %	9.3 %

#### Comparison of the years ended December 31, 2016 and 2015

Consolidated sales in 2016 were \$417.0 million compared with \$367.4 million in 2015, an increase of \$49.6 million. The increase in sales was due primarily to the acquisition of PMFG at the beginning of September 2015. This acquisition contributed an incremental \$60.9 million of sales in 2016. This increase is partially offset by a decreased volume of sales of the Company's air pollution control equipment.

Gross profit increased by \$25.7 million, or 23.5%, to \$134.9 million in 2016 compared with \$109.2 million in 2015. Gross profit as a percentage of sales was 32.4% in 2016 compared with 29.7% in 2015. The increase in gross profit on a dollar basis was the result of the aforementioned acquisition, which contributed an incremental \$25.0 million. On an as adjusted basis, non-GAAP gross profit was \$135.6 million or 32.5% as a percentage of sales for 2016, an increase of \$25.3 million on a dollar basis compared with non-GAAP gross profit of \$110.3 million or 30.0% as a percentage of sales in 2015. The higher gross profit margin in 2016 was primarily due to higher than average margins earned throughout the year by PMFG.

Selling and administrative expenses were \$81.9 million in 2016 compared with \$67.5 million in 2015. The increase in selling and administrative expenses is primarily attributable to incremental selling and administrative expenses from the PMFG acquisition. The increase is partially offset by the Company recording gains of \$1.6 million during 2016, which consisted of \$1.0 million related to a life insurance settlement and \$0.6 million related to a warranty settlement received from an external service provider of the Company. Selling and administrative expenses as a percentage of sales were 19.6% in 2016 compared with 18.4% in 2015.

Acquisition and integration expenses of \$0.5 million in 2016 and \$7.9 million in 2015 relate to acquisition activities, which include legal, accounting, and banking expenses. The decrease in acquisition and integration expenses was primarily due to costs incurred as a result of the PMFG acquisition, which occurred during 2015.

Amortization and earn-out expense was \$20.2 million in 2016 and \$25.6 million in 2015. The adjustment recorded to the fair value of the earn-out from the Zhongli acquisition was \$6.5 million and \$11.2 million in 2016 and 2015, respectively. The fair value adjustments to the earn-out were the result of Zhongli performing above initial acquisition date operational expectations. Fair value adjustments that resulted in income of \$1.3 million and \$1.0 million were recorded in 2016 related to the HEE and SAT earn-outs, respectively. The fair value of the adjustments to the earn-out were the result of HEE and SAT performing below initial acquisition date operational expectations. Payments of the Zhongli earn-out are based upon a multiple of specified financial results through December 31, 2017.

After conducting the annual impairment testing for goodwill and indefinite lived intangible assets, the Company recorded a total impairment charge of \$57.9 million. A charge of \$53.8 million was recorded to reduce the carrying value of the goodwill at three reporting units to their fair value. The first step of the impairment test indicated potential impairment for one of the reporting units due to lower operating performance as a result of increased competition caused by market and pricing pressures. This impairment was measured in the second step. The first step of the impairment test indicated potential impairment for the remaining two reporting units due to changes in sales forecasts for future years in the fourth quarter of fiscal 2016. These changes were influenced by weaker market conditions, partially due to depressed oil prices. This impairment was measured in the second step. An additional charge of \$4.2 million was recorded to reduce the carrying value of four tradenames to their fair value.

Operating (loss) income for 2016 was \$(25.6) million, a decrease of \$30.5 million from \$4.9 million in 2015. Operating income as a percentage of sales for 2016 was (6.1)% compared with 1.3% for 2015. The decrease in operating income was attributable to the aforementioned intangible asset and goodwill impairment, which was partially offset by increased gross profit and decreased acquisition and integration expenses. PMFG contributed an incremental \$10.0 million in operating profit in 2016. On an as adjusted basis, non-GAAP operating income was \$52.7 million for 2016, an increase of \$9.9 million from 2015. Non-GAAP operating income as a percentage of sales for 2016 was 12.6% compared with 11.6% for 2015, up slightly year over year. The increase in non-GAAP operating income was primarily due to higher gross margins, which were partially offset by increased selling and administrative expenses.

Other income / expense for 2016 was \$0.3 million of income compared with \$2.1 million of expense in 2015, and was comprised primarily of foreign currency transaction gains of \$0.8 million in 2016 and foreign currency transaction losses of \$1.7 million in 2015. The expense in 2015 is primarily attributable to a translation remeasurement on U.S. Dollar denominated intercompany debt at our subsidiary in the Netherlands.

Interest expense increased to \$7.7 million in 2016 from \$6.0 million in 2015, related to higher debt levels outstanding for a longer period of time in 2016 in connection with the PMFG acquisition.

Income tax expense was \$5.3 million and \$2.6 million in 2016 and 2015, respectively. The effective tax rate for 2016 was (16.0)% compared with (85.2)% in 2015. The effective tax rate was adversely impacted in 2016 by \$2.6 million of nondeductible earnout expenses and \$17.9 million of nondeductible intangible asset and goodwill impairment charges, which more than offset the benefits of \$1.7 million from foreign rate differences, \$0.6 million of the domestic production activities deduction, \$1.0 million related to United States and Foreign tax incentives and deferred tax asset movement, and \$0.6 million of changes in uncertain tax position reserves.

Comparison of the years ended December 31, 2015 and 2014

Consolidated sales in 2015 were \$367.4 million compared with \$263.2 million in 2014, an increase of \$104.2 million. The increase in sales was primarily due to the acquisitions of HEE in mid-August 2014, SAT at the end of September 2014, Emtrol at the beginning of November 2014, Zhongli at the end of December 2014, and PMFG at the beginning of September 2015. These acquisitions contributed an incremental \$103.0 million of sales in 2015.

Gross profit increased by \$24.4 million, or 28.8%, to \$109.2 million in 2015 compared with \$84.8 million in 2014. Gross profit as a percentage of sales was 29.7% in 2015 compared with 32.2% in 2014. The increase in gross profit on a dollar basis was the result of the aforementioned acquisitions, which contributed \$27.1 million. This increase was partially offset by a decline in overall gross profit percentage due to product mix. On an as adjusted basis, non-GAAP gross profit was \$110.3 million or 30.0% as a percentage of sales for 2015, an increase of \$24.9 million on a dollar basis compared with non-GAAP gross margin of \$85.4 million or 32.4% as a percentage of sales in 2014.



Selling and administrative expenses were \$67.5 million in 2015 compared with \$51.4 million in 2014. The increase in selling and administrative expenses was the result of the aforementioned acquisitions. Selling and administrative expenses as a percentage of sales were 18.4% in 2015 compared with 19.5% in 2014.

Acquisition and integration expenses of \$7.9 million in 2015 and \$1.3 million in 2014 relate to acquisition activities, which include legal, accounting, and banking expenses.

Amortization and earn-out expense was \$25.6 million in 2015 and \$10.1 million in 2014. This increase was the result of the aforementioned acquisitions. Of the increase in 2015, \$11.2 million is an adjustment to the fair value of the earn-out from the Zhongli acquisition. The fair value adjustment to the earn-out was the result of Zhongli performing above initial acquisition date operational expectations.

Legal reserves of \$0.3 million in 2014 relate to the settlement of the Valero lawsuit. There were no such reserves in 2015. See Note 13 to our consolidated financial statements for more information.

Operating income for 2015 was \$4.9 million, a decrease of \$16.8 million from \$21.7 million in 2014. Operating income as a percentage of sales for 2015 was 1.3% compared with 8.2% for 2014. The decrease in operating income was attributable to the aforementioned acquisitions, and associated acquisition and integration expenses, as well as the amortization and earn-out expenses. On an as adjusted basis, non-GAAP operating income was \$42.8 million for 2015, an increase of \$8.8 million from 2014. Non-GAAP operating income as a percentage of sales for 2015 was 11.6% compared with 12.9% for 2014, down slightly year over year.

Other expense for 2015 was \$2.1 million compared with \$2.3 million in 2014, and was comprised primarily of foreign currency transaction losses in 2015 and 2014. The expense in 2015 and 2014 is primarily attributable to a translation remeasurement on U.S. Dollar denominated intercompany debt at our subsidiary in the Netherlands.

Interest expense increased to \$6.0 million in 2015 from \$3.1 million in 2014, due to higher debt levels in 2015, which debt was incurred in connection with the PMFG and Emtrol acquisitions.

Income tax expense was \$2.6 million and \$3.1 million in 2015 and 2014, respectively. The effective tax rate for 2015 was (85.2)% compared with 19.3% in 2014. The effective tax rate in 2015 was adversely impacted \$3.9 million by nondeductible earnout expenses, \$1.4 million by nondeductible deal costs related to the PMFG acquisition, as well as \$1.2 million of certain permanent differences, which more than offset the benefits of \$1.5 million from foreign rate differences and \$1.3 million of changes in uncertain tax position reserves.

## Business Segments

The Company's operations in 2016, 2015 and 2014 are organized and reviewed by management along its product lines or end market that the segment serves and are presented in three reportable segments. The results of the segments are reviewed through to the "Income from operations" line on the Consolidated Statements of Operations. The amounts presented in the Net Sales table below and in the following comments regarding our net sales at the reportable business segment level exclude both intra-segment and inter-segment net sales. The Income (loss) from Operations table and corresponding comments regarding operating income at the reportable segment level include both intra-segment and inter-segment operating income.

	2016	2015	2014
Net Sales (less intra-, inter-segment sales)			

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(Table only in thousands)

Energy Segment	\$203,376	\$142,150	\$70,285
Environmental Segment	153,344	158,371	127,707
Fluid Handling and Filtration Segment	61,783	67,610	65,638
Corporate and Other (1)	(1,492 )	(709 )	(413 )
Net sales	\$417,011	\$367,422	\$263,217

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31

(1) Includes adjustment for revenue on intercompany jobs.

	2016	2015	2014
(Loss) income from Operations (Table only in thousands)			
Energy Segment	\$23,575	\$3,488	\$7,799
Environmental Segment	15,652	17,021	16,803
Fluid Handling and Filtration Segment	(36,209)	11,741	13,188
Corporate and Other (2)	(26,981)	(26,592)	(14,297)
Eliminations	(1,599 )	(709 )	(1,830 )
(Loss) income from operations	\$(25,562)	\$4,949	\$21,663

(2) Includes corporate compensation, professional services, information technology, acquisition and integration expenses, and other general and administrative corporate expenses.

Comparison of the years ended December 31, 2016 and 2015

### Energy Segment

Our Energy segment net sales increased \$61.2 million to \$203.4 million in the year ended December 31, 2016 compared with \$142.2 million in the year ended December 31, 2015, an increase of 43.1%. The increase is primarily due to the PMFG acquisition, which contributed an incremental \$60.9 million in net sales, for the year ended December 31, 2016.

Operating income from the Energy segment increased \$20.1 million to \$23.6 million for the year ended December 31, 2016 compared with \$3.5 million in the year ended December 31, 2015, an increase of 575.9%. PMFG contributed an incremental \$10.0 million in operating profit in 2016. The increase is additionally attributable to a more favorable project mix in 2016 as well as a reduction of the adjustment recorded to the fair value of the earn-out from the Zhongli acquisition. The adjustment recorded was \$6.5 million of expense in 2016 compared with \$11.2 million of expense in 2015.

### Environmental Segment

Our Environmental segment net sales decreased \$5.0 million to \$153.3 million in the year ended December 31, 2016 compared with \$158.4 million in the year ended December 31, 2015, a decrease of 3.2%. The decrease is due primarily to a decreased volume of the Company's scrubbers and mist eliminators product lines.

Operating income from the Environmental segment decreased \$1.4 million to \$15.7 million for the year ended December 31, 2016 compared with \$17.0 million in the year ended December 31, 2015, a decrease of 8.0%. The decrease was due in part to a non-cash \$0.8 million intangible asset impairment charge recorded in 2016 related to two tradenames. An additional non-cash charge of \$6.8 million was recorded in 2016 to reduce the carrying value of the goodwill at two reporting units within the Environmental Segment to their fair value. These charges were partially offset by higher gross margins on decreased sales and a reduction in selling and administrative expenses attributable to a more favorable project mix. In addition, the decrease in operating income was partially offset by \$2.3 million of income as a result of an adjustment to the fair value of the earn-outs from two subsidiaries within the Environmental Segment.

### Fluid Handling and Filtration ("FHF") Segment

Our FHF segment net sales decreased \$5.8 million to \$61.8 million in the year ended December 31, 2016 compared with \$67.6 million in the year ended December 31, 2015, a decrease of 8.6%. The decrease is due to sales volume decline within the segment period over period related to pumps, which is primarily attributable to a temporary weakness in the North American industrial market.

Operating income (loss) from the FHF segment decreased \$48.0 million to a \$36.2 million operating loss for the year ended December 31, 2016 compared with \$11.7 million in operating income for the year ended December 31, 2015, a decrease of 208.4%. The decrease was due primarily to a non-cash charge of \$46.9 million, which was recorded to reduce the carrying value of the goodwill at a reporting unit within the Fluid Handling and Filtration Segment to its fair value. An additional non-cash intangible asset impairment charge of \$1.8 million in 2016 related to a tradename intangible asset within the segment.

Comparison of the years ended December 31, 2015 and 2014

#### Energy Segment

Our Energy segment net sales increased \$71.9 million to \$142.2 million in the year ended December 31, 2015 compared with \$70.3 million in the year ended December 31, 2014, an increase of 102.3%. The increase is primarily due to the PMFG and Zhongli acquisitions, which contributed an incremental \$40.8 million and \$28.1 million in net sales, respectively, for the year ended December 31, 2015.

Operating income from the Energy segment decreased \$4.3 million to \$3.5 million for the year ended December 31, 2015 compared with \$7.8 million in the year ended December 31, 2014, a decrease of 55.1%. The decrease was due primarily to earnout expense of \$11.2 million due to changes in the estimated fair value of the earn-out liability associated with the Zhongli acquisition (see Note 8 to the audited consolidated financial statements for further information). This decrease was partially offset by PMFG operating income of \$2.0 million, and Zhongli operating income (exclusive of the earnout expense discussed above) of \$5.2 million in 2015.

#### Environmental Segment

Our Environmental segment net sales increased \$30.7 million to \$158.4 million in the year ended December 31, 2015 compared with \$127.7 million in the year ended December 31, 2014, an increase of 24.0%. The increase is due to the HEE and Emtrol acquisitions, which contributed an incremental \$9.0 million and \$23.9 million in net sales, respectively, for the year ended December 31, 2015.

Operating income from the Environmental segment increased \$0.2 million to \$17.0 million for the year ended December 31, 2015 compared with \$16.8 million in the year ended December 31, 2014, an increase of 1.2%. The increase was due in part to the HEE and Emtrol acquisitions, which accounted for an incremental \$0.8 million and \$2.1 million, respectively, for the year ended December 31, 2015, which was partially offset by declines in operating income of legacy businesses.

#### Fluid Handling and Filtration Segment

Our FHF segment net sales increased \$2.0 million to \$67.6 million in the year ended December 31, 2015 compared with \$65.6 million in the year ended December 31, 2014, an increase of 3.0%. The increase in revenue from 2014 to 2015 is due to sales volume growth within the segment year over year.

Operating income from the FHF segment decreased \$1.5 million to \$11.7 million for the year ended December 31, 2015 compared with \$13.2 million in the year ended December 31, 2014. The decrease was due primarily to a non-cash intangible asset impairment charge of \$2.9 million related to two tradename intangible assets within the segment, partially offset by an increase due to gross margin improvements year over year.

#### Non-GAAP Measures for the Three Months Ended December 31

The following tables present the reconciliation of GAAP gross profit and GAAP gross margin to non-GAAP gross profit and non-GAAP gross profit margin, GAAP operating (loss) income and GAAP operating margin to non-GAAP operating income and non-GAAP operating margin:

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(dollars in millions)	Three Months Ended		
	December 31,		
	2016	2015	2014
Net sales as reported in accordance with GAAP	\$100.0	\$101.2	\$76.1
Gross profit as reported in accordance with GAAP	\$35.7	\$30.8	\$22.6
Gross profit margin in accordance with GAAP	35.7 %	30.4 %	29.7%
Inventory valuation adjustment	—	0.5	—
Plant, property and equipment valuation adjustment	0.1	0.1	0.1
Non-GAAP gross profit	\$35.8	\$31.4	\$22.7
Non-GAAP gross profit margin	35.8 %	31.0 %	29.8%

33

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(dollars in millions)	Three Months		
	Ended December 31,		
	2016	2015	2014
Operating (loss) income as reported in accordance with GAAP	\$(50.4)	\$(0.3)	\$3.8
Operating margin in accordance with GAAP	(50.4)%	(0.3)%	5.0%
Inventory valuation adjustment	—	0.5	—
Plant, property and equipment valuation adjustment	0.1	0.1	0.1
Acquisition and integration expenses	—	0.9	0.9
Amortization and earn-out expenses	7.1	5.6	2.8
Intangible asset impairment	57.9	3.3	—
Legal reserves	—	—	—
Non-GAAP operating income	\$14.7	\$10.1	\$7.6
Non-GAAP operating margin	14.7%	10.0%	10.0%

Gross profit was \$35.7 million or 35.7% as a percentage of sales for the three months ended December 31, 2016, an increase of \$4.9 million compared to gross margin of \$30.8 million or 30.4% as a percentage of sales for the three months ended December 31, 2015. The higher gross profit margin and gross profit in 2016 was primarily due to higher than average margins earned throughout the quarter by PMFG and a more favorable project mix in 2016. Operating income was \$(50.4) million or (50.4%) as a percentage of sales for the three months ended December 31, 2016, a decrease of \$50.1 million compared with \$(0.3) million or (0.3%) as a percentage of sales for the three months ended December 31, 2015. The decrease in operating income was primarily due to an intangible asset and goodwill impairment charge of \$57.9 million recorded in the fourth quarter of 2016.

Gross profit was \$30.8 million or 30.4% as a percentage of sales for the three months ended December 31, 2015, an increase of \$8.2 million compared gross margin of \$22.6 million or 29.7% as a percentage of sales for the three months' ended December 31, 2014. The higher gross profit margin and gross profit in 2015 was primarily due to higher than average margins earned throughout the quarter by PMFG offset by a less favorable project mix during the quarter. Operating income was \$(0.3) million or (0.3%) as a percentage of sales for the three months ended December 31, 2015, a decrease of \$4.1 million compared with \$3.8 million or 5.0% as a percentage of sales for the three months ended December 31, 2014. The decrease in operating income was primarily due to an intangible asset impairment charge of \$3.3 million recorded during the fourth quarter of 2015.

On an as adjusted basis, non-GAAP gross profit was \$35.8 million or 35.8% as a percentage of sales for the three months ended December 31, 2016, an increase of \$4.4 million compared with non-GAAP gross margin of \$31.4 million or 31.0% as a percentage of sales for the three months ended December 31, 2015. On an as adjusted basis, non-GAAP operating income was \$14.7 million or 14.7% as a percentage of sales for the three months ended December 31, 2016, an increase of \$4.6 million compared with \$10.1 million or 10.0% as a percentage of sales for the three months ended December 31, 2015. The higher gross profit margin, gross profit and operating income in 2016 was primarily due to higher than average margins earned throughout the quarter by PMFG and a more favorable project mix in 2016.

On an as adjusted basis, non-GAAP gross profit was \$31.4 million or 31.0% as a percentage of sales for the three months ended December 31, 2015, an increase of \$8.7 million compared with non-GAAP gross margin of \$22.7 million or 29.8% as a percentage of sales for the three months ended December 31, 2014. On an as adjusted basis, non-GAAP operating income was \$10.1 million or 10.0% as a percentage of sales for the three months ended December 31, 2015, an increase of \$2.5 million compared with \$7.6 million or 10.0% as a percentage of sales for the three months ended December 31, 2014. The higher gross profit margin, gross profit and operating income in 2015 was primarily due to higher than average margins earned throughout the quarter by PMFG offset by a less favorable project mix during the quarter.

#### Backlog

Our backlog consists of the amount of revenue we expect from complete performance of uncompleted, signed, firm fixed-price contracts that have not been completed for products and services we expect to substantially deliver within the next 12 to 18 months. Our backlog as of December 31, 2016 was \$197.0 million compared with \$211.2 million as of December 31, 2015.

#### Liquidity and Capital Resources

Our principal sources of liquidity are cash flow from operations and available borrowings under our Credit Facility (defined below). Our principal uses of cash are operating costs, payment of principal and interest on our outstanding debt, dividends, working capital and other corporate requirements, including acquisitions.



When we undertake large jobs, our working capital objective is to make these projects self-funding. We work to achieve this by obtaining initial down payments, progress billing contracts, when possible, utilizing extended payment terms from material suppliers, and paying sub-contractors after payment from our customers, which is an industry practice. Our investment in net working capital is funded by cash flow from operations and by our revolving line of credit.

At December 31, 2016, the Company had working capital of \$66.6 million, compared with \$80.3 million at December 31, 2015. The ratio of current assets to current liabilities was 1.46 to 1 as compared with a ratio of 1.54 to 1 at December 31, 2015. The \$13.7 million decrease in working capital from December 31, 2015 to December 31, 2016 was primarily related to the decrease in accounts receivable (\$14.7 million), a decrease in inventory (\$11.0 million), an increase in a note payable (\$5.3 million) and an increase in billing in excess of costs and estimated earnings on uncompleted contracts (\$7.1 million), partially offset by an increase in cash and cash equivalents (\$11.6 million), an increase in assets held for sale (\$6.1 million), and a decrease in the current portion of debt (\$10.7 million). During the year ended December 31, 2016, the Company made prepayments of \$31.3 million on the outstanding balance of the term loan, of which \$22.7 million was applied to the long-term portion of the debt balance, which caused a reduction in working capital. As described in Note 17 to the Consolidated Financial Statements, the Company entered into a note payable agreement for \$5.3 million during the year ended December 31, 2016, which the Company believes will become due within a year. This note was exchanged for a noncontrolling interest of a subsidiary of the Company. The Company has a strategy of aggressively managing working capital, including a focus on reduction of the accounts receivable days sales outstanding (DSO), and a reduction of inventory levels, without reducing service to its customers.

At December 31, 2016 and 2015, cash and cash equivalents totaled \$45.8 million and \$34.2 million, respectively. As of December 31, 2016 and 2015, \$25.6 million and \$18.0 million, respectively, of our cash and cash equivalents were held by certain non-U.S. subsidiaries, as well as being denominated in foreign currencies.

Debt consisted of the following at December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
(Table only in thousands)		
Outstanding borrowings under Credit Facility.		
Term loan payable in quarterly principal installments of \$1.7 million through September 2017, \$2.3 million through September 2018, and \$2.9 million thereafter with balance due upon maturity in September 2020.		
– Term loan	\$ 125,072	\$ 166,813
– U.S. Dollar revolving loans	—	8,000
– Unamortized debt discount	(3,175 )	(4,229 )
<b>Total outstanding borrowings under Credit Facility</b>	<b>121,897</b>	<b>170,584</b>
Outstanding borrowings (U.S. dollar equivalent) under	1,296	1,391

China Facility		
Outstanding borrowings (U.S. dollar equivalent) under		
Aarding Facility	—	5,326
Outstanding borrowings (U.S. dollar equivalent) under		
Euro-denominated note payable to a bank, payable in		
quarterly installments of €25,000 plus interest, at a fixed rate of 3.82%,		
matured in January 2016. Collateralized by the Heerenveen,		
Netherlands building.	—	27
Total outstanding borrowings	\$ 123,193	\$ 177,328
Less: current portion	8,827	19,494
Total debt, less current portion	\$ 114,366	\$ 157,834

#### Credit Agreement

The Credit Agreement contains customary affirmative and negative covenants, including the requirement to maintain compliance with a consolidated leverage ratio of less than 3.75 and a consolidated fixed charge coverage ratio of more than 1.25. Per the Credit Agreement, the consolidated leverage ratio decreased to 3.50 on December 31, 2016, and then is set to decrease again to 3.00 by December 31, 2017. The consolidated leverage ratio will then remain at 3.00 until the end Credit Agreement term. The Credit Agreement also includes customary events of default and the occurrence of an event of default could result in an increased interest rate equal to 2.0% above the applicable interest rate for loans, the acceleration of the Company's obligations pursuant to the Credit

Agreement and an obligation of the subsidiary guarantors to repay the full amount of the Company's borrowings pursuant to the Credit Agreement.

As of December 31, 2016 and 2015, the Company was in compliance with all related financial and other restrictive covenants under the Credit Agreement.

See Note 9 to the audited consolidated financial statements for further information on the Company's debt facilities.

Total unused credit availability under our Credit Facility and other non-U.S. credit facilities and agreements, exclusive of any potential asset base limitations, is as follows:

	December 31,	
	2016	2015
(dollars in millions)		
Credit Facility, U.S. Dollar revolving loans	\$60.5	\$60.5
Draw down	—	(8.0 )
Letters of credit open	(18.0)	(15.4)
Credit Facility, Multi-currency revolving facilities	19.5	19.5
Netherlands facilities (€13.0 million at December 31, 2016		
and €14.0 million at December 31, 2015 in U.S. Dollar equivalent)	13.7	11.5
Draw down	—	(5.3 )
Letters of credit open	(5.3 )	(6.6 )
China Facility	4.3	4.5
Draw down	(1.3 )	(1.4 )
Total unused credit availability	\$73.4	\$59.3
Amount available based on borrowing limitations	\$71.1	\$11.9

#### Overview of Cash Flows and Liquidity

	For the year ended December		
	31,		
(dollars in thousands)	2016	2015	2014
Total operating cash flow provided by operating activities	\$69,599	\$12,637	\$17,665
Net cash used in investing activities	(419 )	(35,039)	(37,812)
Net cash (used in) provided by financing activities	(55,838)	38,920	16,348
Effect of exchange rate changes on cash and cash equivalents	(1,712 )	(486 )	—
Net increase (decrease) in cash and cash equivalents	\$11,630	\$16,032	\$(3,799 )

In 2016, \$69.6 million of cash was provided by operating activities as compared with \$12.6 million provided in 2015. The \$57.0 million increase in cash flow from operating activities was due primarily to the net loss in 2016 being attributable to non-cash charges of impairment of intangible assets and goodwill of \$57.9 million, depreciation and amortization of \$18.9 million, and fair value adjustments of earnout liabilities of \$4.2 million that was partially offset by a net loss of \$38.3 million. Cash provided by operating activities was positively impacted by favorable net working capital items in 2016 compared with 2015. The incremental cash provided was comprised of \$13.3 million in

accounts receivable, \$9.4 million in inventories, \$2.5 million in costs and estimated earnings in excess of billings on uncompleted contracts, and \$7.4 million in billings in excess of costs and estimated earnings on uncompleted contracts.

In 2015, \$12.6 million of cash was provided by operating activities as compared with \$17.7 million provided in 2014. The \$5.1 million decrease in cash flow from operating activities was due primarily to a few unfavorable net working capital items in 2015 compared with 2014. The incremental cash used was comprised of \$15.6 million in accounts receivable, \$3.5 million in inventories, \$8.6 million in accounts payable and accrued expenses, \$1.7 million in other liabilities and \$0.2 million in deferred charges and other assets. The incremental cash provided was comprised of \$4.4 million in costs in excess of billings, \$4.3 million in billings in excess of costs, \$1.2 million in income taxes payable, and \$3.1 million in prepaid expenses and other current assets.

In 2016, \$0.4 million of cash was used in investing activities as compared with \$35.0 million in 2015. Investing activities in 2016 were comprised of \$1.1 million for capital expenditures for property and equipment and offset by \$0.7 million proceeds from sale of property and equipment, as compared with \$37.5 million cash paid for acquisitions and \$0.8 million for capital expenditures for property and equipment and offset by \$3.2 million proceeds from sale of property and equipment in 2015. In 2014, \$37.8 million of cash as used in investing activities comprised of \$44.4 million of cash paid for acquisitions and \$1.2 million for capital expenditures for property and equipment offset by \$7.7 million of proceeds from the sale of property and equipment.

Financing activities in 2016 used net cash of \$55.8 million, which consisted primarily of net repayments on debt instruments of \$55.2 million, earnout payments of \$9.3 million, and dividends paid to our shareholders of \$9.0 million, less cash received from sale-leaseback transactions of \$14.2 million and decreases in restricted cash of \$3.1 million.

Financing activities in 2015 provided net cash of \$38.9 million, which consisted primarily of net borrowings of \$57.6 million and proceeds from employee stock purchase plan and exercise of stock options of \$0.2 million, less dividends paid to our shareholders of \$8.0 million, cash used to pay deferred financing fees of \$2.9 million, and earnout payments of \$2.5 million.

Financing activities in 2014 provided net cash of \$16.3 million, which consisted primarily of net borrowings of \$23.2 million and proceeds from exercise of options of \$1.4 million, less dividends paid to our shareholders of \$5.9 million, earnout payments of \$1.4 million, and cash used to repurchase common stock of \$1.0 million.

Our dividend policy and the payment of cash dividends under that policy are subject to the Board of Directors' continuing determination that the dividend policy and the declaration of dividends are in the best interest of the Company's shareholders. Future dividends and the dividend policy may be changed or cancelled at the Company's discretion at any time. Payment of dividends is also subject to the continuing compliance with our financial covenants under our Credit Facility. During 2016 and 2015, our Board declared the following quarterly cash dividends on our common stock:

Dividend

Per Share	Record Date	Payment Date
\$0.066	December 16, 2016	December 30, 2016
\$0.066	September 16, 2016	September 30, 2016
\$0.066	June 18, 2016	June 30, 2016
\$0.066	March 18, 2016	March 31, 2016
\$0.066	December 16, 2015	December 30, 2015
\$0.066	September 18, 2015	September 30, 2015
\$0.066	June 12, 2015	June 26, 2015
\$0.066	March 19, 2015	March 31, 2015

On March 6, 2017, our Board of Directors declared a quarterly dividend of \$0.075 per share, which represents an increase from the dividend paid in the previous quarter. The dividend will be paid on March 31, 2017 to all shareholders of record at the close of business on March 17, 2017.

The Company implemented a Dividend Reinvestment Plan (the "Plan"), under which the Company may issue up to 750,000 shares of common stock. The Plan provides a way for interested shareholders to increase their holdings in our common stock. Participation in the Plan is strictly voluntary and is open only to existing shareholders. The Company may periodically issue new shares of common stock under the Plan.

In connection with the Emtrol and PMFG acquisitions, we took on significant additional debt to fund these transactions. See Note 9 to the consolidated financial statements for further information. We believe that cash flows from operating activities, together with our existing cash and borrowings available under our Credit Facility, will be sufficient for at least the next twelve months to fund our current anticipated uses of cash. After that, our ability to fund these expected uses of cash and to comply with the financial covenants under our debt agreements will depend on the results of future operations, performance and cash flow. Our ability to fund these expected uses from the results of future operations will be subject to prevailing economic conditions and to financial, business, regulatory, legislative and other factors, many of which are beyond our control.

#### Employee Benefit Obligations

Based on current assumptions, estimated contributions of \$2.0 million may be required in 2017 for the pension plan and \$25,000 for the retiree healthcare plan. The amount and timing of required contributions to the pension trust depends on future investment

performance of the pension funds and interest rate movements, among other things and, accordingly, we cannot reasonably estimate actual required payments. Currently, our pension plan is under-funded. As a result, absent major increases in long-term interest rates, above average returns on pension assets and/or changes in legislated funding requirements, we will be required to make contributions to our pension trust of varying amounts in the long-term.

#### Off Balance Sheet Arrangements

None.

#### Contractual Obligations

The following table summarizes the Company's contractual obligations as of December 31, 2016 (in thousands):

	Payments Due by Period				More than 5 years
	Total	Less than 1 year	1-3 years	3-5 years	
Long-term debt	\$126,368	\$ 8,827	\$21,435	\$96,106	\$ —
Note payable (1)	5,300	5,300	—	—	—
Interest expense (estimated)	12,948	3,976	6,993	1,979	—
Unconditional purchase obligations (2)	87,169	80,704	6,465	—	—
Pension and post retirement obligations (3)	5,981	2,007	1,832	2,142	—
Operating lease obligations	15,475	3,753	5,054	2,692	3,976
Capital lease & sale leaseback financing obligations	16,004	1,143	2,355	2,449	10,057
Contingent liabilities related to acquisitions	24,213	13,527	10,686	—	—
Totals	\$293,458	\$ 119,237	\$54,820	\$105,368	\$ 14,033

(1) The note above is payable at the earlier of July 11, 2019, or thirty days subsequent to the sale of the building and land that the Company owns in China. As the Company intends to sell the building and land within one year of December 31, 2016, this note payable is currently classified as a current liability in the Consolidated Balance Sheets as of December 31, 2016. The note payable was exchanged for a noncontrolling interest of a subsidiary in the current year and is further described in Note 17.

(2) Primarily consists of purchase obligations for various costs associated with uncompleted sales contracts.

(3) Future expected obligations under the Company's pension and post retirement plans are included in the contractual cash obligations table above, up to, but not more than five years. The Company's pension and post retirement plan policy allows it to fund an amount, which could be in excess of the pension and post retirement cost expensed, subject to the limitations imposed by current tax regulations. The Company projects that it will contribute \$2.0 million to its pension and post-retirement plans during the fiscal year ended December 31, 2017.

#### Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in conformity with GAAP. The preparation of these financial statements requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We believe that, of our significant accounting policies, the following accounting policies involve a higher degree of judgments, estimates, and complexity.

#### Use of Estimates

Preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses and related contingent liabilities. On an on-going basis, we evaluate our estimates, including those related to revenues, bad debts, share based compensation, income taxes, earnouts, goodwill and intangible asset valuation, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

#### Revenue Recognition

A substantial portion of our revenue is derived from contracts, which are primarily accounted for under the percentage of completion method of accounting. Percentage completion is measured by the percentage of contract costs incurred to date compared with estimated total contract costs to be the best available measure of progress on these contracts. Contract costs include direct material and labor costs related to contract performance. This method requires a higher degree of management judgment and use of



estimates than other revenue recognition methods. The judgments and estimates involved include management's ability to accurately estimate the contracts' percentage of completion and the reasonableness of the estimated costs to complete, among other factors, at each financial reporting period. In addition, certain contracts are highly dependent on the work of contractors and other subcontractors participating in a project, over which we have no or limited control, and their performance on such project could have an adverse effect on the profitability of our contracts. Delays resulting from these contractors and subcontractors, changes in the scope of the project, weather, and labor availability also can have an effect on a contract's profitability. Changes to job performance, job conditions, and estimated profitability may result in revisions to contract revenue and costs and are recognized in the period in which the revisions are made. For contracts where the duration is short, total contract revenue is insignificant, or reasonably dependable estimates cannot be made, revenues are recognized on a completed contract basis, when risk and title passes to the customer, which is generally upon shipment of product.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. No provision for estimated losses on uncompleted contracts was needed at December 31, 2016, 2015 and 2014.

#### Credit and Collections

The Company maintains allowances for doubtful accounts receivable for probable estimated losses resulting from either customer disputes or the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against income. The Company determines its allowance for doubtful accounts by considering all known collectability problems of customer' accounts and reviewing the aging of the outstanding receivables. The resulting allowance for doubtful accounts receivable is an estimate based upon the Company's knowledge of its business and customer base, and historical trends. The amount ultimately not collected may differ from the reserve established.

#### Inventories

The Company's inventories are primarily valued at the lower of cost or market using the first-in, first-out inventory costing method as well as the last-in, first-out method. As of December 31, 2016 and 2015, approximately 8% and 13%, respectively, of our inventory is valued on the last-in, first-out method. Inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on the Company's forecast of future demand and market conditions. Significant unanticipated changes to the Company's forecasts could require a change in the provision for excess or obsolete inventory.

#### Property, plant and equipment

Property, plant and equipment are carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Depreciation and amortization are provided using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives (buildings and improvements—generally five to 40 years; machinery and equipment—generally two to 15 years).

#### Intangible assets

Indefinite life intangible assets are comprised of tradenames, while finite life intangible assets are comprised of patents, employment agreements, technology, customer lists, noncompetition agreements, tradenames, and backlog. Finite life intangible assets are amortized on a straight line or accelerated basis over their estimated useful lives of 17 years for patents, three years for employment agreements, seven to 10 years for technology, five to 20 years for customer lists, five years for noncompetition agreements, 10 years for tradenames, and one year for backlog.

Long-lived assets

Property, plant and equipment and finite life intangible assets are reviewed whenever events or changes in circumstances occur that indicate possible impairment. If events or changes in circumstances occur that indicate possible impairment, our impairment review is based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of our assets and liabilities. This analysis requires management judgment with respect to changes in technology, the continued success of product lines, and future volume, revenue and expense growth rates. We conduct annual reviews for idle and underutilized equipment, and review business plans for possible impairment. Impairment occurs when the carrying value of the assets exceeds the future undiscounted cash flows expected to be earned by the use of the asset or asset group. When impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset or asset group and an impairment charge is recorded for the difference between the carrying value and the estimated fair value.

Additionally, we also evaluate the remaining useful life each reporting period to determine whether events and circumstances warrant a revision to the remaining period of depreciation or amortization. If the estimate of a long lived asset's remaining useful life is changed, the remaining carrying amount of the asset is amortized prospectively over that revised remaining useful life.

The Company completes an annual (or more often if circumstances require) impairment assessment of its indefinite life intangible assets. As a part of its annual assessment, typically, the Company first qualitatively assesses whether current events or changes in circumstances lead to a determination that it is more likely than not (defined as a likelihood of more than 50 percent) that the fair value of an asset is less than its carrying amount. If there is a qualitative determination that the fair value of a particular asset is more likely than not greater than its carrying value, we do not need to proceed to the traditional quantitative estimated fair value test for that asset. If this qualitative assessment indicates a more likely than not potential that the asset may be impaired, the estimated fair value is calculated by the relief from royalty method. If the estimated fair value of an asset is less than its carrying value, an impairment charge is recorded for the amount by which the carrying value of the asset exceeds its calculated implied fair value. For the 2016 annual assessment, given the lower than expected results for certain reporting units, we determined that a quantitative assessment of fair value for all indefinite life intangible assets using the relief from royalty method was appropriate.

During 2016 and 2015, our annual impairment test indicated that four and three, respectively, of our indefinite-lived tradenames were impaired. Accordingly, we recognized impairment charges in our financial results of \$4.2 million and \$3.3 million for the years ended December 31, 2016 and 2015, respectively. See Note 7 to the audited consolidated financial statements for further information regarding goodwill and intangible assets.

#### Goodwill

The Company completes an annual (or more often if circumstances require) impairment assessment of its goodwill on a reporting unit level, at or below the operating segment level. As a part of its annual assessment, the Company first qualitatively assesses whether current events or changes in circumstances lead to a determination that it is more likely than not (defined as a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If there is a qualitative determination that the fair value of a particular reporting unit is more likely than not greater than its carrying value, the Company does not need to proceed to the traditional quantitative two-step goodwill test for that reporting unit. If this qualitative assessment indicates a more likely than not potential that the asset may be impaired, the estimated fair value is calculated using a weighting of the income method and the market method. If the estimated fair value of a reporting unit is less than its carrying value, an impairment charge is recorded for the amount by which the carrying value of the goodwill exceeds its calculated implied fair value.

During 2015, management changed the annual impairment testing date from December 31 to October 1. For 2016, the first step of the two step goodwill impairment test as described in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350-20-35 was performed for all reporting units with goodwill.

Under the first step, the Company bases its measurement of the fair value of a reporting unit using a weighting of the income method and the market method on a 50/50 basis. The income method is based on a discounted future cash flow approach that uses the significant assumptions of projected revenue, projected operational profit, terminal growth rates, and the cost of capital. Projected revenue, projected operational profit and terminal growth rates were determined to be significant assumptions because they are three primary drivers of the projected cash flows in the discounted future cash flow approach. Cost of capital was also determined to be a significant assumption as it is the discount rate used to calculate the current fair value of those projected cash flows. The market method is based on financial multiples of comparable companies and applies a control premium. Significant estimates in the market approach include identifying similar companies with comparable business factors such as size, growth, profitability,

risk and return on investment and assessing comparable revenue and operating income multiples in estimating the fair value of a reporting unit. Based on the step 1 analysis, the resultant estimated fair value of all but three reporting units exceeded their carrying value as of December 31, 2016. For the three reporting units that failed step 1 of the analysis, goodwill impairment charges of \$53.8 million were recorded. For additional information on goodwill impairment testing results, see Note 7 to our consolidated financial statements.

#### Income Taxes

Income taxes are determined using the asset and liability method of accounting for income taxes in accordance with FASB ASC Topic 740, "Income Taxes". Under ASC Topic 740, tax expense includes U.S. and international income taxes plus the provision for U.S. taxes on undistributed earnings of international subsidiaries not deemed to be indefinitely reinvested. Tax credits and other incentives reduce tax expense in the year the credits are claimed.

Deferred income taxes are provided using the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and

their tax bases, and are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company has not recorded deferred income taxes on the undistributed earnings of its foreign subsidiaries because of management's intent to indefinitely reinvest such earnings. At December 31, 2016, the aggregate undistributed earnings of the foreign subsidiaries amounted to \$44.7 million. Upon distribution of these earnings in the form of dividends or otherwise, the Company will be subject to U.S. income taxes and foreign withholding taxes. The unrecognized deferred income tax liability on this temporary difference is estimated to be approximately \$7.1 million at December 31, 2016.

In addition, from time to time, management must assess the need to accrue or disclose uncertain tax positions for proposed potential adjustments from various federal, state and foreign tax authorities who regularly audit the Company in the normal course of business. In making these assessments, management must often analyze complex tax laws of multiple jurisdictions, including many foreign jurisdictions. The accounting guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company records the related interest expense and penalties, if any, as tax expense in the tax provision.

#### Pension and Postretirement Benefit Plan Assumptions

We sponsor a pension plan for certain employees. We also sponsor a postretirement healthcare benefit plan for certain office employees retiring before January 1, 1990. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to these plans. These factors include key assumptions, such as a discount rate and expected return on plan assets. In addition, our actuarial consultants use subjective factors such as withdrawal and mortality rates to estimate these liabilities. The actuarial assumptions we use may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension or postretirement healthcare benefit expenses we have recorded or may record in the future. An analysis for the expense associated with our pension plan is difficult due to the variety of assumptions utilized. For example, one of the significant assumptions used to determine projected benefit obligation is the discount rate. At December 31, 2016, a 25 basis point change in the discount rate would change the projected benefit obligation by approximately \$1.0 million and the annual pension expense by approximately \$6,000. Additionally, a 25 basis point change in the expected return on plan assets would change the pension expense by approximately \$60,000.

#### Share-Based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments and recognize this cost over the period during which an employee is required to provide the services, based on the fair value of the award at the date of the grant as determined by the Black-Scholes valuation method for stock options, or current publicly traded market price on the grant date for restricted stock units.

#### Other significant accounting policies

Other significant accounting policies, not involving the same level of uncertainties as those discussed above, are nevertheless important to an understanding of our financial statements. See Note 1 to the consolidated financial statements, Summary of Significant Accounting Policies, which discusses accounting policies that must be selected by us when there are acceptable alternatives.

New Accounting Pronouncements

New Financial Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates Step 2 of the current goodwill impairment test along with amending other parts of the goodwill impairment test. Under this ASU, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods therein with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company plans to early adopt this standard.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” The amendment seeks to clarify the definition of a business with the objective of adding guidance to assist entities with

evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The adoption of ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively on or after the effective dates. The Company is evaluating the effect of this standard on its consolidated financial statements.

In December 2016, the FASB issued ASU 2016-19, “Technical Corrections and Improvements.” The amendments cover a wide range of topics in the Accounting Standards Codification, guidance clarification, reference corrections, simplification, and minor improvements. The adoption of ASU 2016-19 is effective for annual periods, including interim periods, within those annual periods, beginning after December 15, 2016. The Company is evaluating the effect of this standard on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash.” The amendments in ASU 2016-18 will explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The Company is currently in the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 provides guidance on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. ASU 2016-15 will require adoption on a retrospective basis, unless it is impracticable to apply, in which case we would be required to apply the amendments prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. That is, off-balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an “APIC pool.” The ASU also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, ASU 2016-09 elevates the statutory tax withholding threshold to qualify for equity classification up to the maximum statutory tax rates in the applicable jurisdiction(s). The ASU also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. ASU 2016-09 provides an optional accounting policy election (with limited exceptions), to be applied on an entity-wide basis, to either estimate the number of awards that are expected to vest (consistent with existing U.S. GAAP) or account for forfeitures when they occur. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the potential impact of the adoption of this standard on the Company’s consolidated financial

statements.

In March 2016, the FASB issued ASU 2016-05, “Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.” ASU 2016-05 amends Topic 815 to clarify that novation of a derivative (replacing one of the parties to a derivative instrument with a new party) designated as the hedging instrument would not, in and of itself, be considered a termination of the derivative instrument or a change in critical terms requiring discontinuation of the designated hedging relationship. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the potential impact of the adoption of this standard on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases.” ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company believes that the new standard will have a material impact on its consolidated balance sheet due to the recognition of ROU assets and liabilities for The Company’s operating leases but it will not have a material impact on its liquidity. The Company is continuing to evaluate potential impacts to our financial statements.



In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." ASU 2015-11 requires inventory within the scope of the ASU (e.g., first-in, first-out ("FIFO") or average cost) to be measured using the lower of cost and net realizable value. Inventory excluded from the scope of the ASU (i.e., last-in, first-out ("LIFO") or the retail inventory method) will continue to be measured at the lower of cost or market. The ASU also amends some of the other guidance in Topic 330, "Inventory," to more clearly articulate the requirements for the measurement and disclosure of inventory. However, those amendments are not intended to result in any changes to current practice. ASU 2015-11 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue From Contracts With Customers." ASU 2014-09 supersedes nearly all existing revenue recognition principles under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration an entity expects to be entitled to for those goods or services using a defined five step process. More judgment and estimates may be required to achieve this principle than under existing GAAP. In 2016, the FASB issued accounting standards updates to address implementation issues and to clarify the guidance for identifying performance obligations, licenses and determining if a company is the principal or agent in a revenue arrangement. ASU 2014-09 and its clarifying amendments are effective for annual periods beginning after December 15, 2017, including interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption, which includes additional footnote disclosures. We currently expect to adopt ASU 2014-09 as of January 1, 2018, under the modified retrospective method where the cumulative effect is recognized at the date of initial application. Our evaluation of ASU 2014-09 is ongoing and not complete. The FASB has issued and may issue in the future, interpretative guidance, which may cause our evaluation to change. The Company will not be able to make a determination about the impact of the standard until the time of adoption based upon outstanding contracts at that time. However, the Company will continue to evaluate our business processes, systems and controls, and potential differences, if any, in the timing and method of revenue recognition.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks, primarily changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. For the Company, these exposures are primarily related to changes in interest rates. We do not currently hold any derivatives or other financial instruments purely for trading or speculative purposes. However, we do have an interest rate swap in place as of December 31, 2016 to hedge against a portion of our interest rate exposure related to debt indexed to LIBOR market rates. See Note 9 to the audited consolidated financial statements for further information on this interest rate swap.

The carrying value of the Company's total long-term debt and current maturities of long-term debt at December 31, 2016 was \$123.2 million. Market risk was estimated as the potential decrease (increase) in future earnings and cash flows resulting from a hypothetical 10% increase (decrease) in the Company's estimated weighted average borrowing rate at December 31, 2016. Most of the interest on the Company's debt is indexed to either the LIBOR or EURIBOR market rates. The estimated impact of a hypothetical 10% change in the estimated weighted average borrowing rate, excluding the portion of debt which has an interest rate fixed by the interest rate swap described above, at December 31, 2016 is \$0.3 million on an annual basis.

The Company has wholly-owned subsidiaries located in the Netherlands, Canada, the People's Republic of China, Mexico, United Kingdom, Singapore, and Chile. In the past, we have not hedged our foreign currency exposure, and fluctuations in exchange rates have not materially affected our operating results. Future changes in exchange rates

may positively or negatively impact our revenues, operating expenses and earnings. Due to the fact that most of our foreign sales are denominated in the local currency, we do not anticipate that exposure to foreign currency rate fluctuations will be material in the year ending December 31, 2017.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of CECO Environmental Corp. and subsidiaries for the years ended December 31, 2016, 2015 and 2014 and other data are included in this report following the signature page of this report and incorporated into this Item 8 by reference:

<u>Cover Page</u>	F-1
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Operations</u>	F-4
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	F-5
<u>Consolidated Statements of Shareholders' Equity</u>	F-6 to F-7
<u>Consolidated Statements of Cash Flows</u>	F-8 to F-9
<u>Notes to Consolidated Financial Statements for the Years Ended December 31, 2016, 2015 and 2014</u>	F-10 to F-46

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure  
None.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) are controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and made known to our management, including our Interim Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the preparation of this Annual Report on Form 10-K, our management, with the participation of our Interim Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2016. Based on that evaluation, our management, including our Interim Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2016.

The management of the Company does not expect that its disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instance of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur due to simple errors or mistakes. The design of any system of controls is based in part upon certain assumptions regarding the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(b) Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for the preparation and accuracy of the financial statements and other information included in this report. Under the supervision and with the participation of management, including the Company's Interim Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting as of December 31, 2016, based on the criteria set forth in Internal Control – Integrated Framework (2013) (the "Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management concluded that, as of December 31, 2016, its internal control over financial reporting was effective based on the Framework.

There are inherent limitations on the effectiveness of any system of internal controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective internal controls and procedures can only provide reasonable assurance of achieving their control objectives.

Item 9A includes the audit report of BDO USA, LLP on the Company's internal control over financial reporting as of December 31, 2016.

(c) Remediation of Prior Material Weaknesses

In Item 9A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, management reported material weaknesses in its internal control over financial reporting. During fiscal year 2016, the Company successfully remediated all aspects of these material weaknesses.

We have implemented actions to improve our internal control over financial reporting and disclosure controls and procedures including hiring financial leadership and finance personnel with appropriate experience and certification. We have supplemented and enhanced resources and training for our organization. We also strengthened key accounting and IT policies.

With the oversight of the Company's Audit Committee, the Company undertook significant efforts to remediate its material weaknesses in internal control during fiscal year 2016. These improvements include designing additional controls with respect to revenue recognition and acquired businesses, establishing, defining, and clearly communicating roles and responsibilities while adding resources in financial account review oversight at the segment and corporate level, redesigning more robust and precise internal control framework and implementing new technology tools across our decentralized organization.

Management completed a financial close improvement project, redesigned revenue recognition controls, implemented more robust accounting policies, and introduced new management review controls. In particular, we paid close attention to the financial close process at our two most recent acquisitions, PMFG and Zhongli. As a result, we have improved the timeliness and the level of precision of our control activities.

We have implemented controls to prevent or detect material errors in the financial statements of acquired subsidiaries. These controls consist of a comprehensive merger and acquisition integration approach, timely assessment of the target's control environment, and a process to facilitate improvement in the subsidiary's control environment within the year of acquisition.

See "Item 9A. Controls and Procedures — Management's Report on Internal Control over Financial Reporting" and "Item 9A. Controls and Procedures — Management's Remediation Initiatives" contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and "Item 4. Controls and Procedures" contained in the Company's subsequent Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, June 30 and September 30, 2016, for disclosure of information about the material weakness that was reported as a result of the Company's annual assessment as of December 31, 2015.

(d) Changes in Internal Control Over Financial Reporting

Other than the remediation measures noted above, there were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

CECO Environmental Corp. and Subsidiaries

Cincinnati, Ohio

We have audited CECO Environmental Corp. and Subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CECO Environmental Corp. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, CECO Environmental Corp. and Subsidiaries' maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CECO Environmental Corp. and Subsidiaries as of December 31, 2016 and 2015, and related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 14, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Chicago, Illinois

March 14, 2017

Item 9B. Other Information

None.

46

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## PART III

## Item 10. Directors, Executive Officers and Corporate Governance

The information called for by this Item 10 of Part III of Form 10-K is incorporated by reference to the information set forth in our definitive proxy statement relating to our 2017 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act within 120 days from December 31, 2016 (the “Proxy Statement”). Reference is also made to the information appearing in Item 1 of Part I of this Annual Report on Form 10-K under the caption “Business— Executive Officers of the Registrant.”

## Item 11. Executive Compensation

The information called for by this Item 11 of Part III of Form 10-K is incorporated by reference to the Proxy Statement.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by this Item 12 of Part III of Form 10-K is incorporated by reference to the Proxy Statement.

## Securities Authorized for Issuance Under Equity Compensation Plans

## EQUITY COMPENSATION PLAN INFORMATION

December 31, 2016	(a)	(b)	(c)
			Number of securities
			remaining available for
	Number of securities	Weighted-average	future issuance under
	to be issued upon	exercise price of	equity compensation
	exercise of outstanding	outstanding options,	plans (excluding
	options, warrants and	warrants and rights,	securities reflected in
Plan Category	rights	compensation plans	column (a))
Equity compensation plans approved by security holders			
1997 Stock Option Plan <sup>1</sup>	15,000	\$ 15.82	—
2007 Equity Incentive Plan <sup>2</sup>	2,013,365	\$ 7.62	413,739
Employee Stock Purchase Plan <sup>3</sup>	11,527	\$ 7.47	1,389,716
Equity compensation plans not approved by security holders			
TOTAL	2,039,892	\$ 7.68	1,803,455

- 1 The 1997 Stock Option Plan (the “1997 Plan”) was replaced with the 2007 Equity Incentive Plan. The 1997 Plan remains in effect solely for the purpose of the continued administration of the options currently outstanding under the 1997 Plan.
- 2 The 2007 Equity Incentive Plan was approved by our shareholders on May 23, 2007. At special meetings of our shareholders held on September 2, 2015 and August 26, 2013, shareholders approved amendments to the 2007 Equity Incentive Plan to increase the number of shares of common stock available for issuance by 700,000 shares and 600,000 shares, respectively. In 2016, 105,000 options and 266,581 restricted stock units were awarded to plan participants under the 2007 Equity Incentive Plan.
- 3 The Employee Stock Purchase Plan was approved by our shareholders on May 21, 2009.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information called for by this Item 13 of Part III of Form 10-K is incorporated by reference to the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information called for by this Item 14 of Part III of Form 10-K is incorporated by reference to the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial statements are set forth in this report following the signature page of this report.
2. Financial statement schedules are omitted because they are not applicable or because the required information is shown in the financial statements or in the notes thereto.
3. Exhibit Index. The exhibits listed below, as part of Form 10-K, are numbered in conformity with the numbering used in Item 601 of Regulation S-K and relate to SEC File No. 0-07099, unless otherwise indicated.

Exhibit

Number

- ¥2.1 Stock Purchase Agreement, dated as of December 31, 2012, by and among the Company, CECO Group, Inc. and the sellers named therein. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on January 7, 2013)
- ¥2.2 Share Purchase Agreement, dated as of February 28, 2013, by and among the Company, CECO Environmental Netherlands B.V. and the sellers named therein. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on March 4, 2013)
- ¥2.3 Agreement and Plan of Merger, dated as of April 21, 2013, by and among the Company, Met-Pro Corporation, Mustang Acquisition Inc. and Mustang Acquisition II Inc. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on April 22, 2013)
- 2.4 Amendment No. 1 to Agreement and Plan of Merger, dated as of August 5, 2013, by and among the Company, Met-Pro Corporation, Mustang Acquisition Inc. and Mustang Acquisition II LLC (formerly known as Mustang Acquisition II Inc.) (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on August 8, 2013)
- ¥2.5 Membership Interest Purchase Agreement, dated as of November 3, 2014, by and among the Company and the sellers named therein. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on November 6, 2014)
- ¥2.6 Agreement and Plan of Merger, by and among PMFG, Inc. the Company, Top Gear Acquisition Inc. and Top Gear Acquisition II LLC, dated as of May 3, 2015 (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on May 4, 2015)
- 3(i) Certificate of Incorporation (Incorporated by reference to Exhibit 3(i) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001)
- 3(ii) Bylaws (Incorporated by reference to Exhibit 3(ii) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001)

\*\*10.1

CECO Filters, Inc. Savings and Retirement Plan (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1990)

- \*\*10.2 CECO Environmental Corp. 1997 Stock Option Plan and Amendment (Incorporated by reference to Exhibit 4 to the Company's Form S-8 filed with the SEC on March 24, 2000)
- \*\*10.3 Amended and Restated 2006 Executive Incentive Compensation Plan (Incorporated by reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006)
- \*\*10.4 Summary term sheet of arrangement governing consulting services provided by Icarus Investment Corp. (Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012)
- 10.5 Warrant Agreement, dated as of December 28, 2006, by and between the Company and Icarus Investment Corp. (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on December 28, 2006)
- 10.6 Amendment No. 1 to Warrant Agreement, dated as of December 7, 2016, by and between the Company and Icarus Investment Corp. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 9, 2016)

Exhibit

Number

- \*\*10.7 CECO Environmental Corp. 2007 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2014)
- \*\*10.8 Amendment to CECO Environmental Corp. 2007 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 20, 2015)
- \*\*10.9 Second Amended and Restated CECO Environmental Corp. 2007 Equity Incentive Plan (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on September 3, 2015)
- \*\*10.10 Form of Restricted Stock Award Agreement (Incorporated by reference to Exhibit 10.41 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008)
- \*\*10.11 Form of Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010)
- \*\*10.12 Form of Non-Statutory Stock Option Agreement (Incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010)
- \*\*10.13 CECO Environmental Corp. Employee Stock Purchase Plan (Incorporated by reference to Exhibit A to the Company's definitive proxy statement on Schedule 14A filed with the SEC on April 13, 2009)
- \*\*10.14 Executive Employment Agreement, effective as of February 15, 2010, by and between the Company and Jeffrey Lang. (Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 14, 2010)
- \*\*10.15 First Amendment to Executive Employment Agreement, effective as of September 4, 2013, by and between the Company and Jeffrey Lang (Incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 8, 2013)
- \*\*10.16 Summary term sheet of arrangement governing consulting services provided by JMP Fam Holdings Inc. to the Company (Incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011)
- 10.17 Amended and Restated Credit Agreement, dated as of September 3, 2015, among the Company and certain of its subsidiaries, the Lenders party thereto, and Bank of America, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 3, 2015)
- 10.18 Securities Pledge Agreement, dated August 27, 2013, by and among the Company, the Subsidiaries named therein and Bank of America, N.A., as Administrative Agent (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on September 3, 2015)
- 10.19 Director and Officer Indemnification Agreement, dated as of May 12, 2016, by and between the Company and the Directors and Officers of the Company (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2016)

- \*21 Subsidiaries of the Company
- \*23.1 Consent of BDO USA, LLP
- \*31.1 Rule 13(a)/15d-14(a) Certification by Chief Executive Officer
- \*31.2 Rule 13(a)/15d-14(a) Certification by Chief Financial Officer
- \*32.1 Certification of Chief Executive Officer (18 U.S. Section 1350)
- \*32.2 Certification of Chief Financial Officer (18 U.S. Section 1350)
- \*101.INS XBRL Instance Document
- \*101.SCH XBRL Taxonomy Extension Schema Document
- \*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- \*101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- \*101.LAB XBRL Taxonomy Extension Label Linkbase Document

Exhibit

Number

\*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

‡ Schedules, exhibits and similar attachments to the agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish supplementally a copy of any omitted schedule, exhibit or similar attachment to the SEC upon request.

\* Filed or furnished herewith

\*\* Management contracts or compensation plans or arrangement

Item 16. Form 10-K Summary

Not applicable.





/S/ CLAUDIO A. MANNARINO  
Claudio A. Mannarino

March 14, 2017

Director

/S/ JONATHAN POLLACK  
Jonathan Pollack

March 14, 2017

Director

/S/ SETH RUDIN  
Seth Rudin

March 14, 2017

Director

/S/ DONALD A. WRIGHT  
Donald A. Wright

March 14, 2017

Director

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

F-1

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

CECO Environmental Corp. and Subsidiaries

Cincinnati, Ohio

We have audited the accompanying consolidated balance sheets of CECO Environmental Corp. and Subsidiaries as of December 31, 2016 and 2015 and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CECO Environmental Corp. and Subsidiaries at December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CECO Environmental Corp. and Subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Chicago, Illinois

March 14, 2017

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(\$ in thousands, except per share data)	December 31,	
	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$45,824	\$34,194
Restricted cash	1,498	5,319
Accounts receivable, net	83,062	97,778
Costs and estimated earnings in excess of billings on uncompleted contracts	38,123	43,175
Inventories, net	21,487	32,509
Prepaid expenses and other current assets	13,560	9,058
Prepaid income taxes	1,590	4,724
Assets held for sale	7,834	1,699
<b>Total current assets</b>	<b>212,978</b>	<b>228,456</b>
Property, plant and equipment, net	27,270	44,981
Goodwill	170,153	220,163
Intangible assets – finite life, net	60,728	74,957
Intangible assets – indefinite life	22,042	26,337
Deferred charges and other assets	5,463	3,925
	<b>\$498,634</b>	<b>\$598,819</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of debt	\$8,827	\$19,494
Accounts payable and accrued expenses	95,610	99,097
Billings in excess of costs and estimated earnings on uncompleted contracts	35,085	28,000
Note payable	5,300	—
Income taxes payable	1,536	1,582
<b>Total current liabilities</b>	<b>146,358</b>	<b>148,173</b>
Other liabilities	34,864	30,072
Debt, less current portion	114,366	157,834
Deferred income tax liability, net	12,964	17,719
<b>Total liabilities</b>	<b>308,552</b>	<b>353,798</b>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value; 10,000 shares authorized, none issued	—	—
Common stock, \$.01 par value; 100,000,000 shares authorized, 34,300,209 and 34,055,749 shares issued and outstanding at December 31, 2016 and 2015, respectively	343	340
Capital in excess of par value	244,878	243,274
Accumulated earnings (loss)	(41,741 )	5,472
Accumulated other comprehensive loss	(13,042 )	(9,577 )
	<b>190,438</b>	<b>239,509</b>

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Less treasury stock, at cost, 137,920 shares at December 31, 2016 and 2015	(356 )	(356 )
Total CECO shareholders' equity	190,082	239,153
Noncontrolling interest	—	5,868
Total shareholders' equity	190,082	245,021
	\$498,634	\$598,819

The notes to consolidated financial statements are an integral part of the above statements.

F-3

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## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in thousands, except per share data)	Year Ended December 31,		
	2016	2015	2014
Net sales	\$417,011	\$367,422	\$263,217
Cost of sales	282,152	258,251	178,394
Gross profit	134,859	109,171	84,823
Selling and administrative expenses	81,743	67,329	51,440
Acquisition and integration expenses	524	7,940	1,269
Amortization and earn out expenses	20,231	25,613	10,151
Intangible asset and goodwill impairment	57,923	3,340	—
Legal reserves	—	—	300
(Loss) income from operations	(25,562 )	4,949	21,663
Other income (expense), net	310	(2,081 )	(2,311 )
Interest expense	(7,712 )	(5,964 )	(3,138 )
(Loss) income before income taxes	(32,964 )	(3,096 )	16,214
Income tax expense	5,290	2,638	3,137
Net (loss) income	\$(38,254 )	\$(5,734 )	\$13,077
Less net loss attributable to noncontrolling interest	\$(36 )	\$(132 )	\$—
Net (loss) income attributable to CECO Environmental Corp.	\$(38,218 )	\$(5,602 )	\$13,077
(Loss) earnings per share:			
Basic	\$(1.12 )	\$(0.19 )	\$0.51
Diluted	\$(1.12 )	\$(0.19 )	\$0.50
Weighted average number of common shares outstanding:			
Basic	33,979,549	28,791,662	25,750,972
Diluted	33,979,549	28,791,662	26,196,901

The notes to consolidated financial statements are an integral part of the above statements.

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(\$ in thousands)	Year Ended December 31,		
	2016	2015	2014
Net (loss) income	\$(38,254)	\$(5,734)	\$13,077
Other comprehensive (loss) income, net of tax:			
Translation loss	(3,864 )	(2,664 )	(1,597 )
Interest rate swap	312	—	—
Minimum pension/postretirement liability adjustment	87	(292 )	(4,052 )
Comprehensive (loss) income	(41,719)	(8,690)	7,428
Net loss attributable to noncontrolling interest	(36 )	(132 )	—
Comprehensive (loss) income attributable to CECO Environmental Corp.	\$(41,683)	\$(8,558)	\$7,428

The notes to consolidated financial statements are an integral part of the above statements.

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)

	Common Stock Shares	Capital in excess of par value Amount	Accum. Earnings (Loss) par value	Accum. Other Comp. Loss	Treasury Stock Shares	Total CECO Shareholders' Equity	Noncontrol- ling Interest	Total Shareholders' Equity	
Balance January 1, 2014	25,725	\$257	\$159,566	\$11,911	\$(972 ) (138)	\$(356)	\$170,406	\$—	\$170,406
Net income for the year ended									
December 31, 2014				13,077			13,077		13,077
Common stock dividends				(5,937 )			(5,937 )		(5,937 )
Exercise of stock options and dividend reinvestment issuances	247	3	1,380				1,383		1,383
Excess tax benefit from stock options exercised		—	923				923		923
Share based compensation earned	7	—	1,659				1,659		1,659
Stock repurchase and retirement	(62 )	(1 )	(972 )				(973 )		(973 )
Stock issued for acquisitions	488	5	6,330				6,335		6,335
Adjustment for minimum pension/post retirement liability, net of tax of \$(2,483)							(4,052 )		(4,052 )
Translation loss							(1,597 )		(1,597 )
Balance December 31, 2014	26,405	\$264	\$168,886	\$19,051	\$(6,621 ) (138)	\$(356)	\$181,224	\$—	\$181,224
Net loss for the year ended									
December 31, 2015				(5,602 )			(5,602 )	(132 )	(5,734 )
Common stock dividends				(7,977 )			(7,977 )		(7,977 )
Exercise of stock options and dividend reinvestment issuances	36	—	205				205		205
Excess tax benefit from stock options exercised		—	44				44		44



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Share based compensation earned	13	—	2,070					2,070		2,070
Stock issued for acquisition	7,602	76	72,069					72,145		72,145
Fair value of noncontrolling interest acquired								—	6,000	6,000
Adjustment for minimum pension/post retirement liability, net of tax of \$(178)					(292 )			(292 )		(292 )
Translation loss					(2,664 )			(2,664 )		(2,664 )
Balance December 31, 2015	34,056	\$340	\$243,274	\$5,472	\$(9,577 )	(138)	\$(356)	\$239,153	\$5,868	\$245,021
Net loss for the year ended										
December 31, 2016					(38,218)			(38,218 )	(36 )	(38,254 )
Common stock dividends					(8,995 )			(8,995 )		(8,995 )
Exercise of stock options and dividend reinvestment issuances	215	2	1,513					1,515		1,515
Excess tax benefit from stock options exercised		—	137					137		137
Restricted stock units issued	17	—	(9 )					(9 )		(9 )
Share based compensation earned	27	1	2,457					2,458		2,458
Issuance of shares for cashless warrant exercise (See Note 10)	90	1	(1 )					—		—
Stock repurchase and retirement	(105 )	(1 )	(1,237 )					(1,238 )		(1,238 )
Noncontrolling interest acquisitions (See Note 17)			(1,256 )					(1,256 )	(5,832)	(7,088 )
Adjustment for minimum pension/post retirement liability, net of tax of \$53					87			87		87
Adjustment for interest rate swap liability, net of tax of \$181					312			312		312
Translation loss					(3,864 )			(3,864 )		(3,864 )
Balance December 31, 2016	34,300	\$343	\$244,878	\$(41,741)	\$(13,042)	(138)	\$(356)	\$190,082	\$—	\$190,082

The notes to consolidated financial statements are an integral part of the above statements.

F-6

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## Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss in shareholders' equity:

	Translation	Interest	Minimum pension/ post retirement	Accumulated other
(\$ in thousands)	loss	rate swap liability adjustment	liability adjustment	comprehensive loss
January 1, 2014	\$ (146 )	—	\$ (826 )	\$ (972 )
2014 activity	(1,597 )	—	(4,052 )	(5,649 )
Balance December 31, 2014	\$ (1,743 )	—	\$ (4,878 )	\$ (6,621 )
2015 activity	(2,664 )	—	(292 )	(2,956 )
Balance December 31, 2015	\$ (4,407 )	—	\$ (5,170 )	\$ (9,577 )
2016 activity	(3,864 )	312	87	(3,465 )
Balance December 31, 2016	\$ (8,271 )	\$ 312	\$ (5,083 )	\$ (13,042 )

The notes to consolidated financial statements are an integral part of the above statements.

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in thousands)	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net (loss) income	\$(38,254)	\$(5,734)	\$13,077
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	18,903	16,520	11,268
Unrealized foreign currency loss	777	2,364	2,883
Net loss on interest rate swaps	95	—	—
Impairment of intangible assets and goodwill	57,923	3,340	—
Fair value adjustments to earnout liabilities	4,218	11,222	—
Non-cash interest expense	1,054	1,062	561
Loss (gain) on sale of property and equipment	217	397	(62)
Share based compensation expense	2,280	2,070	1,659
Bad debt expense	848	702	299
Inventory reserve expense	1,167	680	566
Excess tax benefit from stock options exercised	(137)	(44)	(923)
Deferred income tax benefit	(3,750)	(3,488)	(4,106)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	13,294	(15,605)	2,492
Costs and estimated earnings in excess of billings on uncompleted contracts			
Inventories	2,537	4,447	(6,625)
Prepaid expenses and other current assets	9,449	(3,477)	1,993
Deferred charges and other assets	(2,218)	3,132	1,500
Accounts payable and accrued expenses	(73)	(191)	789
Accrued litigation settlement	(6,593)	(8,582)	2,867
Billings in excess of costs and estimated earnings on uncompleted contracts			
Income taxes payable	—	—	(2,536)
Other liabilities	7,440	4,324	(2,169)
Net cash provided by operating activities	143	1,166	(1,164)
Cash flows from investing activities:			
Acquisitions of property and equipment	279	(1,668)	(4,704)
Cash paid for acquisitions, net of cash acquired	69,599	12,637	17,665
Net proceeds from sale of assets	(1,076)	(763)	(1,151)
Net cash used in investing activities	—	(37,481)	(44,399)
Cash flows from financing activities:			
Decrease (increase) in restricted cash	657	3,205	7,738
Net repayments on revolving credit lines	(419)	(35,039)	(37,812)
Borrowings of long-term debt	3,137	481	(500)
Repayments of long-term debt	(13,407)	(10,727)	(2,909)
	—	170,000	35,000
	(41,768)	(107,695)	(8,867)

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Deferred financing fees paid	—	(2,923 )	(370 )
Payoff of loans on life insurance policies	(987 )	—	—
Acquisition earnout payments	(9,270 )	(2,488 )	(1,402 )
Proceeds from sale-leaseback transactions	14,244	—	—
Payments on capital leases and sale-leaseback financing liability	(426 )	—	—
Proceeds from employee stock purchase plan, exercise of stock options, and dividend reinvestment plan	1,685	205	1,383
Cash paid for repurchase of common shares	(188 )	—	(973 )
Excess tax benefit from stock options exercised	137	44	923
Dividends paid to common shareholders	(8,995 )	(7,977 )	(5,937 )
Net cash (used in) provided by financing activities	(55,838)	38,920	16,348
Effect of exchange rate changes on cash and cash equivalents	(1,712 )	(486 )	—
Net increase (decrease) in cash and cash equivalents	11,630	16,032	(3,799 )
Cash and cash equivalents at beginning of year	34,194	18,162	21,961
Cash and cash equivalents at end of year	\$45,824	\$34,194	\$18,162

The notes to consolidated financial statements are an integral part of the above statements.

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

(\$ in thousands)	Year Ended December 31,		
	2016	2015	2014
<b>Non-cash transactions</b>			
Common stock issued in business acquisitions	\$—	\$72,145	\$6,335
Property, plant and equipment acquired under capital leases	\$4,385	\$—	\$—
Noncontrolling interest acquired through an issuance of a note payable (See Note 17)	\$5,300	\$—	\$—
Earnout settled through an exchange of accounts receivable	\$3,272	\$—	\$—
Accrual of share repurchase	\$1,050	\$—	\$—
<b>Cash paid during the year for:</b>			
Interest	\$6,923	\$4,742	\$2,816
Income taxes	\$6,415	\$5,080	\$8,665

The notes to consolidated financial statements are an integral part of the above statements.

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016, 2015 and 2014

## 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business— CECO Environmental Corp. and its consolidated subsidiaries (“CECO,” the “Company,” “we,” “us,” or “our”) is a diversified global provider of leading highly engineered technologies to the energy, environmental, and fluid handling and filtration industrial segments, targeting specific niche-focused end markets through an attractive asset-light business model, strategically balanced across the world. CECO targets its installed equipment base with end users to expand and grow higher recurring revenue of aftermarket products and services. CECO’s well respected brands, technologies and solutions have been evolving for well over 50 years to become leading-edge technologies in specific niche global end markets, including natural gas turbine power, refinery & petrochemical engineered cyclones and mid-stream energy pipeline gas transmission.

Principles of consolidation—Our consolidated financial statements include the accounts of the following subsidiaries:

	% Owned As Of	
	December 31, 2016	
CECO Group, Inc.	100	%
CECO Group Global Holdings LLC	100	%
CECO Filters, Inc. and Subsidiaries (“CFI”)	99	%
The Kirk & Blum Manufacturing Company	100	%
CECO Abatement Systems, Inc.	100	%
EFFOX, Inc. (“Effox”)	100	%
Fisher-Klosterman, Inc. (“FKI”)	100	%
Flexor, Inc. (“Flexor”)	100	%
Adwest Technologies, Inc. (“Adwest”)	100	%
Aarding Thermal Acoustics B.V. (“Aarding”)	100	%
Met-Pro Technologies LLC (“Met-Pro”)	100	%
Peerless Mfg. Co. (“PMFG”)	100	%

CFI includes two wholly owned subsidiaries, New Busch Co., Inc. (“Busch”) and CECO Environmental India Private Limited (f/k/a. CECO Filter India Private Limited). The noncontrolling interest in CFI is not material.

FKI includes three wholly owned subsidiaries, AVC, Inc. (“AVC.”), Emtrol LLC (“Emtrol”) and SAT Technology, Inc. (“SAT”).

Met-Pro includes 11 wholly owned subsidiaries, Mefiag B. V., Met-Pro Recovery/Pollution Control Technologies, Inc., Strobic Air Corporation, MPC Inc., Met-Pro Industrial Services, Bio-Reaction Industries, Inc., Mefiag

(Guangzhou) Filter Systems Ltd., Met-Pro (Hong Kong) Company Limited, Met-Pro Holding LLC, Jiangyin Zhongli Industrial Technology Co., Ltd. (“Zhongli”) and Met-Pro Chile Limitada.

CECO Group, Inc. has two wholly owned subsidiaries in Mexico, CECO Environmental Mexico S de RL de CV and CECO Environmental Services Mexico S de RL de CV.

PMFG has five wholly owned subsidiaries, Nitram Energy, Inc., PMC Acquisition, Inc., Peerless Europe, Ltd., Peerless Manufacturing Canada, Ltd., and Peerless Asia-Pacific Pte. Ltd. Additionally, PMFG was the majority owner of Peerless Propulsys China Holdings LLC (“Peerless Propulsys”). The Company’s former 60% equity investment in Peerless Propulsys entitled it to 80% of the earnings. Peerless Propulsys was the sole owner of Peerless China Manufacturing Co. Ltd. (“PCMC”). The noncontrolling interest of Peerless Propulsys was reported as a separate component on the Consolidated Balance Sheets. On July 12, 2016, the Company entered into an agreement with the noncontrolling owner of Peerless Propulsys and acquired 100% ownership in the equity and earnings of Peerless Propulsys of their interest (40%). For a more complete discussion of the transaction, refer to Note 17.

SAT, a leading provider of Volatile Organic Compounds (“VOCs”) abatement solutions for the Chinese air pollution control market, was acquired in September 2014.

Entrol, a designer and manufacturer of fluid catalytic cracking and industrial cyclone technology, was acquired in November 2014.

F-10

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Zhongli, a leader in the design and manufacture of power industry damper, diverter and ball mill systems in China, was acquired in December 2014.

PMFG is a global provider of engineered equipment for the abatement of air pollution, the separation and filtration of contaminants from gases and liquids, and industrial noise control equipment, and was acquired in September 2015.

Unless indicated, all balances within tables are in thousands except per share amounts. All intercompany balances and transactions have been eliminated.

Use of estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents—We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, included in Restricted Cash is cash in support of letters of credit issued by various foreign subsidiaries of the Company. The Company occasionally enters into letters of credit with durations in excess of one year.

Accounts Receivable—Trade receivables are generally uncollateralized customer obligations due under normal trade terms requiring payment generally within 30 days from the invoice date unless otherwise determined by specific contract, generally due to retainage provisions. The Company’s estimate of the allowance for doubtful accounts for trade receivables is primarily determined based upon the length of time that the receivables are past due. In addition, management estimates are used to determine probable losses based upon an analysis of prior collection experience, specific account risks and economic conditions. The Company has a series of actions that occur based upon the aging of past due trade receivables, including letters, statements, direct customer contact and liens. Accounts are deemed uncollectible based on past account experience and current account financial condition.

Inventories—The Company’s inventories are primarily valued at the lower of cost or market using the first-in, first-out inventory costing method as well as the last-in, first-out method. As of December 31, 2016 and 2015, approximately 8% and 13%, respectively, of our inventory is valued on the last-in, first-out method. Inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded based on the Company’s forecast of future demand and market conditions. Significant unanticipated changes to the Company’s forecasts could require a change in the provision for excess or obsolete inventory.

Assets Held for Sale—The Company classifies properties as held for sale when certain criteria are met. At such time, the properties, including significant assets that are expected to be transferred as part of a sale transaction, are presented separately on the consolidated balance sheet at the lower of carrying value or estimated fair value less costs to sell and depreciation is no longer recognized. At December 31, 2016, the Company had two buildings and two tracts of land classified as held for sale. As of December 31, 2015, the Company had one building and one tract of land classified as held for sale.

Property, plant and equipment—Property, plant and equipment are carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Depreciation and amortization are provided using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives (buildings and improvements—generally five to 40 years; machinery and equipment—generally two to 15 years). Upon sale or disposal of property, plant and equipment, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts, and the net amount, less any proceeds from sale, is recorded in income.

Intangible assets— Indefinite life intangible assets are comprised of tradenames, while finite life intangible assets are comprised of patents, employment agreements, technology, customer lists, noncompetition agreements, tradenames, and backlog. Finite life intangible assets are amortized on a straight line or accelerated basis over their estimated useful lives of 17 years for patents, three years for employment agreements, seven to 10 years for technology, five to 20 years for customer lists, five years for noncompetiton agreements, 10 years for tradenames, and one year for backlog.

Long-lived assets—Property, plant and equipment and finite life intangible assets are reviewed whenever events or changes in circumstances occur that indicate possible impairment. If events or changes in circumstances occur that indicate possible impairment, our impairment review is based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of our assets and liabilities. This analysis requires management judgment with respect to changes in technology, the continued success of product lines, and future volume, revenue and expense growth rates. We conduct annual reviews for idle and underutilized equipment, and review business plans for possible impairment. Impairment occurs when the carrying value of the assets exceeds the future undiscounted cash flows expected to be earned by the use of the asset or asset group.

F-11

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When impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset or asset group and an impairment charge is recorded for the difference between the carrying value and the estimated fair value.

Additionally, the Company also evaluates the remaining useful life each reporting period to determine whether events and circumstances warrant a revision to the remaining period of depreciation or amortization. If the estimate of a long lived asset's remaining useful life is changed, the remaining carrying amount of the asset is amortized prospectively over that revised remaining useful life.

The Company completes an annual (or more often if circumstances require) impairment assessment of its indefinite life intangible assets. As a part of its annual assessment, typically, the Company first qualitatively assesses whether current events or changes in circumstances lead to a determination that it is more likely than not (defined as a likelihood of more than 50 percent) that the fair value of an asset is less than its carrying amount. If there is a qualitative determination that the fair value of a particular asset is more likely than not greater than its carrying value, we do not need to proceed to the traditional quantitative estimated fair value test for that asset. If this qualitative assessment indicates a more likely than not potential that the asset may be impaired, the estimated fair value is calculated by the relief from royalty method. If the estimated fair value of an asset is less than its carrying value, an impairment charge is recorded for the amount by which the carrying value of the asset exceeds its calculated implied fair value. For the 2016 annual assessment, given the lower than expected results for certain reporting units, we determined that a quantitative assessment of fair value for all indefinite life intangible assets using the relief from royalty method was appropriate. Refer to Note 7 for the results of this quantitative analysis.

Goodwill—The Company completes an annual (or more often if circumstances require) impairment assessment of its goodwill on a reporting unit level, at or below the operating segment level. As a part of its annual assessment, the Company first qualitatively assesses whether current events or changes in circumstances lead to a determination that it is more likely than not (defined as a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If there is a qualitative determination that the fair value of a particular reporting unit is more likely than not greater than its carrying value, the Company does not need to proceed to the traditional quantitative two-step goodwill test for that reporting unit. If this qualitative assessment indicates a more likely than not potential that the asset may be impaired, the estimated fair value is calculated using a weighting of the income method and the market method. If the estimated fair value of a reporting unit is less than its carrying value, an impairment charge is recorded for the amount by which the carrying value of the goodwill exceeds its calculated implied fair value. For the 2016 annual assessment, given the lower than expected results for certain reporting units, we determined that a quantitative assessment of fair value for all reporting units was appropriate. Refer to Note 7 for the results of this quantitative analysis.

During 2015, management changed the annual impairment testing date from December 31 to October 1.

Deferred charges—Deferred charges include deferred financing costs, which are amortized to interest expense over the life of the related loan. The Company did not incur or capitalize deferred financing fees in 2016. During 2015 and 2014, the Company capitalized deferred financing fees of \$2.9 million and \$0.4 million, respectively. Amortization expense was \$1.1 million, \$0.8 million and \$0.6 million for 2016, 2015 and 2014, respectively, and is classified as interest expense. Also, during 2015, an additional \$0.3 million of existing fees were expensed, and classified as interest expense, as a result of the modification of the Credit Agreement (refer to Note 9 for further details of the modification). As of December 31, 2016 and 2015, remaining capitalized deferred financing costs of \$3.2 million and \$4.2 million, respectively, are included as a discount to debt in the accompanying Consolidated Balance Sheets.

Revenue recognition—Revenues from contracts are primarily recognized on the percentage of completion method, measured by the percentage of contract costs incurred to date compared with estimated total contract costs for each

contract. This method is used because management considers contract costs to be the best available measure of progress on these contracts. For contracts where the duration is short, total contract revenue is insignificant, or reasonably dependable estimates cannot be made, revenues are recognized on a completed contract basis, when risk and title passes to the customer, which is generally upon shipment of product.

During 2016, the Company's Zhongli division within the Energy segment has recognized revenue on a percentage of completion method compared with the completed contracts method that was utilized in 2015 (as the division did not meet the criteria to use percentage of completion). This change was made after determining that the Company had designed and implemented appropriate controls to track project costs and estimates to complete. During the year ended December 31, 2016, this division recognized \$7.9 million in percentage of completion revenue related to open projects as of December 31, 2016.

The asset "Costs and estimated earnings in excess of billings on uncompleted contracts" represents revenues recognized in excess of amounts billed. The liability "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues recognized. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes to job performance, job conditions, and estimated profitability may result in revisions to contract

revenue and costs and are recognized in the period in which the revisions are made. No provision for estimated losses on uncompleted contracts was required at December 31, 2016, and 2015.

Cost of sales—Cost of sales amounts include materials, direct labor and associated benefits, inbound freight charges, purchasing and receiving, inspection, warehousing, and depreciation. Generally, customer freight charges are included in sales and actual freight expenses are included in cost of sales.

Claims—Change orders arise when the scope of the original project is modified for any of a variety of reasons. The Company will negotiate the extent of the modifications, its expected costs and recovery with the customer. Costs related to change orders are recognized in the period they are incurred and added to the expected total cost of the project. In cases where contract revenues are assured beyond a reasonable doubt to be increased in excess of the expected costs of the change order, incremental profit also is recognized on the contract. Such assurance is generally only achieved when the customer approves in writing the scope and pricing of the change order. Change orders that are in dispute are effectively handled as claims.

Claims are amounts in excess of the agreed contract price that the Company seeks to collect from customers or others for customer-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price. Costs attributable to claims are treated as contract costs as incurred.

The Company recognizes certain significant claims for recovery of incurred costs when it is probable that the claim will result in additional contract revenue and when the amount of the claim can be reliably estimated. When the customer or other parties agree in writing to the amount of the claim to be recovered by the Company, the amount of the claim becomes contractual and is accounted for as an increase in the contract's total estimated revenue and estimated cost. As actual costs are incurred and revenues are recognized under percentage-of-completion accounting, a corresponding percentage of the revised total estimated profit will therefore be recognized.

Should it become probable that the claim will not result in additional contract revenue, the Company removes the related contract revenues from its previous estimate of total revenues, which effectively reduces the estimated profit margin on the job and negatively impacts profit for the period.

Pre-contract costs—Pre-contract costs are not significant. The Company expenses all pre-contract costs as incurred regardless of whether or not the bids are successful. A majority of our business is obtained through a bidding process and this activity is on-going with multiple bids in process at any one time. These costs consist primarily of engineering, sales and project manager wages, fringes and general corporate overhead and it is deemed impractical to track activities related to any one specific contract.

Selling and administrative expenses—Selling and administrative expenses on the Consolidated Statements of Operations include sales and administrative wages and associated benefits, selling and office expenses, professional fees, bad debt expense, changes in life insurance cash surrender value and depreciation. Selling and administrative expenses are charged to expense as incurred.

Acquisition and integration expenses—Acquisition and integration expenses on the Consolidated Statements of Operations are related to acquisition activities, which include retention, legal, accounting, banking, and other expenses.

Amortization and earn out expenses—Amortization and earn out expenses on the Consolidated Statements of Operations include amortization of intangible assets, and earn-out and contingent compensation expenses related to acquisitions as more fully presented and described in Notes 7 and 8.

Legal reserves—Legal reserves on the Consolidated Statements of Operations are related to certain legal settlements, as more fully described in Note 13.

Indirect Taxes—The Company records taxes collected from customers and remitted to governmental authorities on a net basis in the Consolidated Statements of Operations.

Product Warranties—The Company's warranty reserve is to cover the products sold. The warranty accrual is based on historical claims information. The warranty reserve is reviewed and adjusted as necessary on a quarterly basis. The warranty accrual is not significant to the Company's operations.

Advertising costs—Advertising costs are charged to operations in the year incurred and totaled \$0.9 million, \$1.0 million and \$1.0 million in 2016, 2015 and 2014, respectively.

F-13

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Research and Development—Although not technically defined as research and development, a significant amount of time, effort and expense is devoted to (a) custom engineering which qualifies products for specific customer applications, (b) developing proprietary process technology and (c) partnering with customers to develop new products.

Income taxes—Income taxes are determined using the asset and liability method of accounting for income taxes in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 740, Income Taxes. Under ASC Topic 740, tax expense includes U.S. and international income taxes plus the provision for U.S. taxes on undistributed earnings of international subsidiaries not deemed to be indefinitely reinvested. Tax credits and other incentives reduce tax expense in the year the credits are claimed.

Deferred income taxes are provided using the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases, and are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

In addition, from time to time, management must assess the need to accrue or disclose uncertain tax positions for proposed potential adjustments from various federal, state and foreign tax authorities who regularly audit the Company in the normal course of business. In making these assessments, management must often analyze complex tax laws of multiple jurisdictions, including many foreign jurisdictions. The accounting guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company records the related interest expense and penalties, if any, as tax expense in the tax provision.

Earnings per share—The computational components of basic and diluted earnings per share for 2016, 2015 and 2014 are below.

	For the Year Ended December 31, 2016		
	Numerator	Denominator	Per Share
	(Loss)	(Shares)	Amount
Basic net loss and loss per share	\$(38,218)	33,980	\$(1.12 )
Effect of dilutive securities:			
Common stock equivalents arising from stock options, restricted stock awards, and employee stock purchase plan	—	—	—
Diluted net loss and loss per share	\$(38,218)	33,980	\$(1.12 )
	For the Year Ended December 31, 2015		
	Numerator	Denominator	Per Share
	(Loss)	(Shares)	

			Amount
Basic net loss and loss per share	\$(5,602)	28,792	\$ (0.19 )
Effect of dilutive securities:			
Common stock equivalents arising from stock options, restricted stock awards, and employee stock purchase plan	—	—	—
Diluted net loss and loss per share	\$(5,602)	28,792	\$ (0.19 )

For the Year Ended December  
31, 2014

Per  
Numerator Denominator Share

	(Income)	(Shares)	Amount
Basic net income and earnings per share	\$ 13,077	25,751	\$ 0.51
Effect of dilutive securities and notes:			
Common stock equivalents arising from stock options, restricted stock awards, and employee stock purchase plan	—	446	(0.01 )
Diluted net income and earnings per share	\$ 13,077	26,197	\$ 0.50

Options and warrants included in the computation of diluted earnings per share are so included on the treasury stock method. For the years ended December 31, 2016, 2015 and 2014, outstanding options and warrants and unvested restricted stock units of 1.6 million, 1.5 million and 0.1 million, respectively, were excluded from the computation of diluted earnings per share due to their having an anti-dilutive effect.



Once a restricted stock award vests, it is included in the computation of weighted average shares outstanding for purposes of basic and diluted earnings per share.

**Foreign Currency Translation**—The functional currencies of the Company’s subsidiaries in the Netherlands, United Kingdom, Brazil, Canada, China, Mexico, Chile, and India are the Euro, Pound, Real, Canadian Dollar, Renminbi, Peso, Chilean Peso, and Rupee, respectively, and their books and records are maintained in the local currency. Translation adjustments, which are based upon the exchange rate at the balance sheet date for assets and liabilities and weighted-average rate for the Consolidated Statements of Operations, are recorded in Accumulated Other Comprehensive Loss in Shareholders’ equity on the Consolidated Balance Sheets.

Transaction gain/(loss) of \$0.7 million, \$(1.7) million and \$(2.3) million were recognized by the Company in 2016, 2015 and 2014, respectively. The transaction gain/(loss) is recorded on the “Other income (expense), net” line of the Consolidated Statements of Operations.

#### New Financial Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates Step 2 of the current goodwill impairment test along with amending other parts of the goodwill impairment test. Under this ASU, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods therein with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company plans to early adopt this standard.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” The amendment seeks to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The adoption of ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively on or after the effective dates. The Company is evaluating the effect of this standard on its consolidated financial statements.

In December 2016, the FASB issued ASU 2016-19, “Technical Corrections and Improvements.” The amendments cover a wide range of topics in the Accounting Standards Codification, guidance clarification, reference corrections, simplification, and minor improvements. The adoption of ASU 2016-19 is effective for annual periods, including interim periods, within those annual periods, beginning after December 15, 2016. The Company is evaluating the effect of this standard on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash.” The amendments in ASU 2016-18 will explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The Company is currently in the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 provides guidance on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. ASU 2016-15 will require adoption on a retrospective basis, unless it is impracticable to apply, in which case we would be required to apply the amendments prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current

period. That is, off-balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an “APIC pool.” The ASU also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, ASU 2016-09 elevates the statutory tax withholding threshold to qualify for equity classification up to the maximum statutory tax rates in the applicable jurisdiction(s). The ASU also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. ASU 2016-09 provides an optional accounting policy election (with limited exceptions), to be applied on an entity-wide basis, to either estimate the number of awards that are expected to vest (consistent with existing U.S. GAAP) or account for forfeitures when they occur. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the potential impact of the adoption of this standard on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, “Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.” ASU 2016-05 amends Topic 815 to clarify that novation of a derivative (replacing one of the parties to a derivative instrument with a new party) designated as the hedging instrument would not, in and of itself, be considered a termination of the derivative instrument or a change in critical terms requiring discontinuation of the designated hedging relationship. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the potential impact of the adoption of this standard on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases.” ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company believes that the new standard will have a material impact on its consolidated balance sheet due to the recognition of ROU assets and liabilities for The Company’s operating leases but it will not have a material impact on its liquidity. The Company is continuing to evaluate potential impacts to our financial statements.

On January 1, 2016, we adopted ASU 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments.” ASU 2015-16 eliminated the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. See Note 17 for further discussion of the purchase accounting effects of recent acquisitions.

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory.” ASU 2015-11 requires inventory within the scope of the ASU (e.g., first-in, first-out (“FIFO”) or average cost) to be measured using the lower of cost and net realizable value. Inventory excluded from the scope of the ASU (i.e., last-in, first-out (“LIFO”) or the retail inventory method) will continue to be measured at the lower of cost or market. The ASU also amends some of the other guidance in Topic 330, “Inventory,” to more clearly articulate the requirements for the measurement and disclosure of inventory. However, those amendments are not intended to result in any changes to current practice. ASU 2015-11 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of this standard is not expected to have a significant impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue From Contracts With Customers." ASU 2014-09 supersedes nearly all existing revenue recognition principles under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration an entity expects to be entitled to for those goods or services using a defined five step process. More judgment and estimates may be required to achieve this principle than under existing GAAP. In 2016, the FASB issued accounting standards updates to address implementation issues and to clarify the guidance for identifying performance obligations, licenses and determining if a company is the principal or agent in a revenue arrangement. ASU 2014-09 and its clarifying amendments are effective for annual periods beginning after December 15, 2017, including interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption, which includes additional footnote disclosures. We currently expect to adopt ASU 2014-09 as of January 1, 2018, under the modified retrospective method where the cumulative effect is recognized at the date of initial application. Our evaluation of ASU 2014-09 is ongoing and not complete. The FASB has issued and may issue in the future, interpretative guidance, which may cause our evaluation to change. The Company will not be able to make a determination about the impact of the standard until the time of adoption based upon outstanding contracts at that time. However, the

Company will continue to evaluate our business processes, systems and controls, and potential differences, if any, in the timing and method of revenue recognition.

## 2. Financial Instruments

Our financial instruments consist primarily of investments in cash and cash equivalents, receivables and certain other assets, foreign debt, and accounts payable, which approximate fair value at December 31, 2016 and December 31, 2015, due to their short-term nature or variable, market-driven interest rates.

The fair value of the debt issued under the Credit Agreement was \$125.1 million and \$174.8 million at December 31, 2016 and December 31, 2015, respectively. The fair value of the note payable was \$5.3 million at December 31, 2016.

In accordance with the terms of the Credit Agreement, the Company entered into an interest rate swap on December 30, 2015 to hedge against interest rate exposure related to a portion of the outstanding debt indexed to LIBOR market rates. See Note 9 for further information regarding the interest rate swap.

At December 31, 2016 and 2015, the Company had cash and cash equivalents of \$45.8 million and \$34.2 million, respectively, of which \$25.6 million and \$18.0 million, respectively, was held outside of the United States, principally in the Netherlands, United Kingdom, China, and Canada.

### Concentrations of credit risk:

Financial instruments that potentially subject us to credit risk consist principally of cash and accounts receivable. We maintain cash and cash equivalents with various major financial institutions. We perform periodic evaluations of the financial institutions in which our cash is invested. Concentrations of credit risk with respect to trade and contract receivables are limited due to the large number of customers and various geographic areas. Additionally, we perform ongoing credit evaluations of our customers' financial condition.

## 3. Accounts Receivable

(Table only in thousands)	2016	2015
Trade receivables	\$11,976	\$12,800
Contract receivables	72,835	86,129
Allowance for doubtful accounts	(1,749)	(1,151)
	\$83,062	\$97,778

Balances billed, but not paid by customers under retainage provisions in contracts, amounted to approximately \$3.2 million and \$2.3 million at December 31, 2016 and 2015, respectively. Retainage receivables on contracts in progress are generally collected within a year after contract completion.

Provision for doubtful accounts was approximately \$0.8 million, \$0.7 million and \$0.3 million during 2016, 2015 and 2014, respectively, while accounts charged to the allowance were \$0.3 million, \$0.2 million and \$0.3 million during 2016, 2015 and 2014, respectively.

F-17

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## 4. Costs and Estimated Earnings on Uncompleted Contracts

(Table only in thousands)	2016	2015
Costs incurred on uncompleted contracts	\$186,609	\$178,356
Estimated earnings	77,709	64,957
	264,318	243,313
Less billings to date	(261,280)	(228,138)
	\$3,038	\$15,175

Included in the accompanying consolidated balance sheets

under the following captions:

Costs and estimated earnings in excess of billings on		
uncompleted contracts	\$38,123	\$43,175
Billings in excess of costs and estimated earnings on		
uncompleted contracts	(35,085 )	(28,000 )
	\$3,038	\$15,175

The Company's contracts have various lengths to completion ranging from a few days to several months. The Company anticipates that a majority of our current contracts will be completed within the next 12 months.

## 5. Inventories

Inventories consisted of the following:

(Table only in thousands)	2016	2015
Raw materials	\$17,889	\$24,339
Work in process	3,986	6,443
Finished goods	1,508	2,717
Obsolescence allowance	(1,896 )	(990 )
	\$21,487	\$32,509

Amounts credited to the allowance for obsolete inventory and charged to cost of sales amounted to \$(1.2) million, \$(0.7) million and \$(0.6) million during 2016, 2015 and 2014, respectively. Items charged to the allowance for inventory write-offs were \$0.2 million, \$0.2 million and \$0.5 million, during 2016, 2015 and 2014, respectively.

6. Property, Plant and Equipment

(Table only in thousands)	2016	2015
Land	\$1,617	\$5,296
Building and improvements	19,887	30,583
Machinery and equipment	22,219	26,731
	43,723	62,610
Less accumulated depreciation	(16,453)	(17,629)
	\$27,270	\$44,981

Depreciation expense was \$5.0 million, \$4.2 million and \$3.7 million for 2016, 2015 and 2014, respectively.



## 7. Goodwill and Intangible Assets

	Energy	Environmental	Fluid Handling and Filtration	Totals
(Table only in thousands)	Segment	Segment	Segment	
Balance of goodwill at December 31, 2014	\$ 17,773	\$ 55,031	\$ 93,057	\$ 165,861
2015 acquisition	55,655	—	—	55,655
Foreign currency translation	(1,353 )	—	—	(1,353 )
Balance of goodwill at December 31, 2015	72,075	55,031	93,057	220,163
2016 acquisition related adjustments	4,205	—	—	4,205
Impairment charge	—	(6,828 )	(46,934 )	(53,762 )
Foreign currency translation	(453 )	—	—	(453 )
Balance of goodwill at December 31, 2016	\$ 75,827	\$ 48,203	\$ 46,123	\$ 170,153

As of December 31, 2016 and 2015, the Company has an aggregate amount of goodwill acquired of \$241.1 million and \$237.3 million, respectively, and an aggregate amount of impairment losses of \$70.9 million and \$17.1 million, respectively.

2016 acquisition related adjustments consisted of the finalization of the purchase accounting for PMFG. These adjustments included decreases of \$5.5 million to property and equipment and \$1.7 million to current assets partially offset by decreases of \$1.1 million to the deferred income tax liability and \$1.8 million to the noncontrolling interest.

The Company's indefinite lived intangible assets as of December 31, 2016 and 2015 consisted of the following:

	Tradenames	
(Table only in thousands)	2016	2015
Beginning balance	\$26,337	\$19,766
Acquisitions and related adjustments	—	10,280
Impairment charge	(4,161 )	(3,340 )
Foreign currency adjustments	(134 )	(369 )
	\$22,042	\$26,337

The Company completes an annual (or more often if circumstances require) impairment assessment of its goodwill and indefinite life intangible assets. During 2015, management changed the annual impairment testing date from December 31 to October 1. For 2016, the first step of the two step goodwill impairment test as described in FASB ASC 350-20-35 was performed for all reporting units.

Under the first step, the Company bases its measurement of the fair value of a reporting unit using a weighting of the income method and the market method on a 50/50 basis. The income method is based on a discounted future cash flow approach that uses the significant assumptions of projected revenue, projected operational profit, terminal growth

rates, and the cost of capital. Projected revenue, projected operational profit and terminal growth rates were determined to be significant assumptions because they are three primary drivers of the projected cash flows in the discounted future cash flow approach. Cost of capital was also determined to be a significant assumption as it is the discount rate used to calculate the current fair value of those projected cash flows. The market method is based on financial multiples of comparable companies and applies a control premium. Significant estimates in the market approach include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and operating income multiples in estimating the fair value of a reporting unit.

Based on the step 1 analysis, the resultant estimated fair value of the reporting units for all but three of our reporting units exceeded their carrying value as of October 1, 2016. The first step of the impairment test indicated potential impairment for the SAT reporting unit due to lower operating performance as a result of increased competition caused by market and pricing pressures. This impairment was measured in the second step. The first step of the impairment test indicated potential impairment for the Duall and GPS reporting units due to changes in sales forecasts for future years in the fourth quarter of fiscal 2016. These changes were influenced by weaker market conditions, partially due to depressed oil prices. This impairment was measured in the second step. The SAT and Duall reporting units are included in the Environmental Segment. The GPS reporting unit is included in the Fluid Handling and Filtration Segment.

The finalization of the analysis of internal strategic initiatives to improve operating performance did not result in significant projected improvements in operating results for future years, which indicated the existence of potential impairment.

The second step measures the implied value of goodwill by subtracting the fair value of each reporting unit's assets and liabilities, including intangible assets, from the fair value of each reporting unit as estimated in step 1. The goodwill impairment charge was measured as the difference between the implied fair value of goodwill and the carrying value. Impairment charges of \$1.7 million, \$5.1 million and \$46.9 million were recorded during the fourth quarter of fiscal 2016 for the SAT, Duall and GPS reporting units, respectively. These impairment charges resulted in a reduction in goodwill, leaving a balance of zero, \$5.4 million and \$26.8 million in goodwill related to the SAT, Duall and GPS reporting units, respectively, as of December 31, 2016.

Significant assumptions used to estimate the fair value of the SAT, Duall and GPS reporting units include estimates of future cash flows, discount rate and multiples of revenue and operating income. These assumptions are typically not considered individually because assumptions used to select one variable should also be considered when selecting other variables; however, sensitivity of the overall fair value assessment to each significant variable is also considered.

In the 2016 analysis for each of the reporting units that were evaluated in Step 2, a 1% increase in the selected discount rate would have resulted in zero, \$0.4 million and \$2.8 million, of additional impairment for the SAT, Duall, and GPS reporting units, respectively. A 5% decrease in the selected multiples of revenue would have resulted in zero, \$0.2 million and \$1.7 million, of additional impairment for the SAT, Duall and GPS reporting units, respectively.

The Company also performed a step 1 analysis for all reporting units with indefinite life intangible assets. The Company based its measurement of the fair value of the indefinite life intangible assets utilizing the relief from royalty method. The significant assumptions used under the relief from royalty method are projected revenue, royalty rates, terminal growth rates, and the cost of capital. Projected revenue, royalty rates and terminal growth rates were determined to be significant assumptions because they are three primary drivers of the projected royalty cash flows in the relief from royalty method. Cost of capital was also determined to be a significant assumption as it is the discount rate used to calculate the current fair value of those projected royalty cash flows. Changes in any of the significant assumptions used can materially affect the expected cash flows, and such impacts can result in material non-cash impairment charges. Under this approach, the resultant estimated fair value of the indefinite life intangible assets exceeded their carrying value for all but four reporting units as of December 31, 2016. For four of the reporting units, which carried combined indefinite life intangible assets of \$16.5 million, our fair value measurement resulted in the aggregate fair value being 25.2% lower than the aggregate carrying value. Accordingly, we recorded an impairment charge of \$4.2 million during the year ended December 31, 2016. The Duall and SAT reporting units with indefinite life intangible asset impairment of \$0.5 million and \$0.3 million, respectively, were acquired in the second half of fiscal 2014. The GPS reporting unit with indefinite life intangible asset impairment of \$1.8 million was acquired in the second half of 2013. The PMFG reporting unit with indefinite life intangible asset impairment of \$1.6 million was acquired in the second half of 2015. The PMFG reporting unit is included in the Energy Segment. Management's projections used to estimate the fair values at the date of acquisition primarily included increasing sales volumes; however, the units have experienced lower sales than originally projected.

The Company concluded there was a triggering event that required an impairment test to be performed to support the definite lived intangible assets and other long-lived assets carrying value as a result of the impairments noted above. An undiscounted cash flow analysis was performed at the lowest level of cash flows for each asset group and the sum of the undiscounted cash flows exceeded the long-lived assets' carrying values. As a result of this analysis, no impairment related to these assets was recorded in 2016.

During the annual impairment test of indefinite life intangible assets in 2015, the carrying values of three reporting units' indefinite life intangible assets exceeded their fair values. The Company recorded a \$3.3 million impairment charge during the year ended December 31, 2015. There was no goodwill impairment recorded in 2015 or 2014. There was no indefinite life intangible asset impairment recorded in 2014.



As described above, the fair value measurement methods used in the Company's goodwill and indefinite life intangible assets impairment analyses utilizes a number of significant unobservable inputs or Level 3 assumptions. These assumptions include, among others, projections of our future operating results, the implied fair value of these assets using an income approach by preparing a discounted cash flow analysis and other subjective assumptions.

(Table only in thousands)	2016		2015	
	Cost	Accum. Amort.	Cost	Accum. Amort.
Intangible assets – finite life				
Patents	\$1,439	\$1,439	\$1,456	\$1,456
Employment agreements	733	733	733	677
Technology	15,867	6,360	15,867	4,027
Customer lists	77,497	26,041	77,497	17,756
Noncompetition agreements	1,118	478	1,118	257
Tradename	1,390	301	1,390	162
Backlog	4,270	4,270	4,270	1,423
Foreign currency adjustments	(2,964)	(1,000)	(2,309)	(693)
	\$99,350	\$38,622	\$100,022	\$25,065

Amortization expense of finite life intangible assets was \$13.9 million, \$12.3 million and \$7.6 million for 2016, 2015 and 2014, respectively. Amortization over the next five years for finite life intangibles is \$11.5 million in 2017, \$10.0 million in 2018, \$8.8 million in 2019, \$7.1 million in 2020, and \$5.8 million in 2021.

The weighted average amortization period for the finite lived intangible assets acquired in fiscal 2015 is 8.7 years. The weighted average amortization period for finite lived intangible assets acquired in fiscal 2014 is 9.9 years.

#### 8. Accounts Payable and Accrued Expenses

(Table only in thousands)	2016	2015
Trade accounts payable	\$58,985	\$62,199
Compensation and related benefits	8,232	7,899
Current portion of earn-out liability	13,527	14,757
Accrued warranty	2,684	3,080
Other accrued expenses	12,182	11,162
	\$95,610	\$99,097

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The activity in the Company's current portion of earn-out liability and long term portion of earn-out liability was as follows for the twelve months ended December 31, 2016 and 2015:

(Table only in thousands)	Zhongli	SAT	HEE	Other Subsidiaries	Total
Balance of earn-out at December 31, 2015	\$26,951	\$1,000	\$1,267	\$ 3,452	\$32,670
Fair value adjustment	6,485	(1,000)	(1,267)	—	4,218
Compensation expense adjustment	—	—	—	1,213	1,213
Foreign currency translation adjustment	(1,292 )	—	—	(54 )	(1,346 )
Exchange of earn-out for accounts receivable	(3,272 )	—	—	—	(3,272 )
Payment	(6,929 )	—	—	(2,341 )	(9,270 )
Total earn-out liability as of December 31, 2016	\$21,943	\$—	\$—	\$ 2,270	\$24,213
Less: current portion of earn-out	(12,562)	—	—	(965 )	(13,527)
Balance of long term portion of earn-out recorded in other liabilities at December 31, 2016	\$9,381	\$—	\$—	\$ 1,305	\$10,686

F-21

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(Table only in thousands)	Zhongli	SAT	HEE	Other Subsidiaries	Total
Balance of earn-out at December 31, 2014	\$16,997	\$1,000	\$2,000	\$ 4,271	\$24,268
Fair value adjustment	11,222	—	—	—	11,222
Compensation expense adjustment	—	—	—	1,223	1,223
Foreign currency translation adjustment	(1,268 )	—	—	(287 )	(1,555 )
Payment	—	—	(733 )	(1,755 )	(2,488 )
Total earn-out liability as of December 31, 2015	\$26,951	\$1,000	\$1,267	\$ 3,452	\$32,670
Less: current portion of earn-out	(11,657)	(333 )	(667 )	(2,100 )	(14,757)
Balance of long term portion of earn-out recorded in other liabilities at December 31, 2015	\$15,294	\$667	\$600	\$ 1,352	\$17,913

### 9. Senior debt

Debt consisted of the following at December 31, 2016 and 2015:

(Table only in thousands)	December 31, 2016	December 31, 2015
Outstanding borrowings under Credit Facility (defined below).		
Term loan payable in quarterly principal installments of \$1.7 million through September 2017, \$2.3 million through September 2018, and \$2.9 million thereafter with balance due upon maturity in September 2020.		
– Term loan	\$ 125,072	\$ 166,813
– U.S. Dollar revolving loans	—	8,000
– Unamortized debt discount	(3,175 )	(4,229 )
Total outstanding borrowings under Credit Facility	121,897	170,584
Outstanding borrowings (U.S. dollar equivalent) under		
China Facility (defined below)	1,296	1,391
Outstanding borrowings (U.S. dollar equivalent) under		
Aarding Facility (defined below)	—	5,326
Outstanding borrowings (U.S. dollar equivalent) under	—	27

Euro-denominated note payable to a bank, payable in

quarterly installments of €25,000, plus interest, at a fixed rate of 3.82%,

matured January 2016. Collateralized by the Heerenveen,

Netherlands building.

Total outstanding borrowings	\$ 123,193	\$ 177,328
Less: current portion	8,827	19,494
Total debt, less current portion	\$ 114,366	\$ 157,834

During the year ended December 31, 2016, the Company made prepayments of \$31.3 million on the outstanding balance of the term loan. Scheduled principal payments under our debt facilities are \$8.8 million in 2017, \$9.8 million in 2018, \$11.6 million in 2019 and \$96.1 million in 2020.

#### United States Debt

The Company entered into a credit agreement (the “Credit Agreement”) with various lenders (the “Lenders”) and letter of credit issuers (each, an “L/C Issuer”), and Bank of America, N.A., as Administrative Agent (the “Agent”), swing line lender and an L/C Issuer, providing for various senior secured credit facilities (collectively, the “Credit Facility”).

The Company amended the Credit Agreement in 2014. Pursuant to the amendment (i) certain lenders provided an additional term loan under the Credit Agreement in an aggregate principal amount of \$35.0 million and certain lenders increased their revolving credit commitments in an aggregate principal amount of up to \$15.0 million, and (ii) the Credit Agreement was amended to, among other things, (a) modify the calculation of Consolidated EBITDA to include certain pro forma adjustments related to certain acquisitions and other transactions, (b) modify the Consolidated Leverage Ratio covenant and (c) permit additional investments in foreign subsidiaries and additional indebtedness by foreign subsidiaries. The proceeds from the additional term loan were used primarily to finance the acquisition of Emtrol and related expenses. Additionally, the Company



has the option to obtain additional commitments for either the U.S. dollar revolving credit facility or the term loan facility in an aggregate principal amount not to exceed \$50.0 million.

On September 3, 2015, concurrent with the closing of the PMFG acquisition, the Company amended and restated the Credit Agreement. Pursuant to the amended and restated Credit Agreement, the Lenders provided a term loan in an aggregate principal amount of \$170.0 million and the Lenders decreased their senior secured U.S. dollar revolving credit commitments to the aggregate principal amount of \$60.5 million. All other provisions of the agreement remained substantially unchanged. The proceeds from the increased term loan were used primarily to (i) finance the cash portion of the PMFG purchase price, (ii) pay off certain outstanding indebtedness of the Company and its subsidiaries (including certain indebtedness of PMFG and its subsidiaries), and (iii) pay certain fees and expenses incurred in connection with the amendment to the Credit Agreement and the PMFG acquisition.

As of December 31, 2016 and 2015, \$18.0 million and \$15.4 million of letters of credit were outstanding, respectively. Total unused credit availability under the Credit Facility was \$62.0 million and \$56.6 million at December 31, 2016 and 2015, respectively. Revolving loans may be borrowed, repaid and reborrowed until September 3, 2020, at which time all amounts borrowed pursuant to the Credit Facility must be repaid.

At the Company's option, revolving loans and the term loans accrue interest at a per annum rate based on either the highest of (a) the federal funds rate plus 0.5%, (b) the Agent's prime lending rate, and (c) one-month LIBOR plus 1.00%, plus a margin ranging from 1.0% to 2.0% depending on the Company's consolidated leverage ratio ("Base Rate"), or a Eurocurrency Rate (as defined in the Credit Agreement) plus 2.0% to 3.0% depending on the Company's consolidated leverage ratio. Interest on swing line loans is the Base Rate.

Accrued interest on Base Rate loans is payable quarterly in arrears on the last day of each calendar quarter and at maturity. Interest on Eurocurrency Rate loans is payable on the last date of each applicable Interest Period (as defined in the agreement), but in no event less than once every three months and at maturity. The weighted average interest rate on outstanding borrowings was 3.26% and 3.42% at December 31, 2016 and 2015, respectively.

In accordance with the Credit Facility terms, the Company entered into an interest rate swap on December 30, 2015 to hedge against interest rate exposure related to approximately one-third of the outstanding debt as of the date of the agreement indexed to LIBOR market rates. The fair value of the interest rate swap was a \$0.2 million and \$0.4 million liability at December 31, 2016, and 2015, respectively, which is recorded in "Accounts payable and accrued expenses" on the Consolidated Balance Sheets. The Company did not designate the interest rate swap as an effective hedge until the first quarter of 2016. The change in the fair value of the hedge prior to being designated as an effective hedge during the year ended December 31, 2016 and 2015 of \$0.5 million and \$0.4 million, respectively, was recorded in earnings in "Other income (expense), net" in the Consolidated Statements of Operations. From the date of designation, all changes to the fair value of the interest rate swap are recorded in other comprehensive income (loss) as long as the hedge is deemed effective.

The Company has granted a security interest in substantially all of its assets to secure its obligations pursuant to the Credit Agreement. The Company's obligations under the Credit Agreement are guaranteed by the Company's U.S. subsidiaries and such guaranty obligations are secured by a security interest on substantially all of the assets of such subsidiaries, including certain real property. The Company's obligations under the Credit Agreement may also be guaranteed by the Company's material foreign subsidiaries to the extent no adverse tax consequences would result to the Company.

The Credit Agreement contains customary affirmative and negative covenants, including the requirement to maintain compliance with a consolidated leverage ratio of less than 3.75 and a consolidated fixed charge coverage ratio of more than 1.25. Per the Credit Agreement, the consolidated leverage ratio decreased to 3.50 on December 31, 2016, and

then is set to decrease again to 3.00 by December 31, 2017. The consolidated leverage ratio will then remain at 3.00 until the end Credit Agreement term. The Credit Agreement also includes customary events of default and the occurrence of an event of default could result in an increased interest rate equal to 2.0% above the applicable interest rate for loans, the acceleration of the Company's obligations pursuant to the Credit Agreement and an obligation of the subsidiary guarantors to repay the full amount of the Company's borrowings pursuant to the Credit Agreement.

As of December 31, 2016 and 2015, the Company was in compliance with all related financial and other restrictive covenants under the Credit Agreement.

F-23

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## Foreign Debt

A subsidiary of the Company located in the Netherlands has a Euro denominated facilities agreement with ING Bank N.V. as the lender (“Aarding Facility”) with a total borrowing capacity of \$13.7 million. The facilities agreement includes a \$7.4 million bank guarantee facility and a \$6.3 million overdraft facility. The bank guarantee interest rate is the three months Euribor plus 265 basis points (2.65% as of December 31, 2016 and 2015) and the overdraft interest rate is three months Euribor plus 195 basis points (1.95% as of December 31, 2016 and 2015). All of the borrowers’ assets are pledged for this facility, and the borrowers’ solvency ratio must be at least 30% and net debt/last twelve months EBITDA less than 3.0. The subsidiary of the Company located in the Netherlands has a Euro denominated debenture facility used to facilitate issuances of letters of credit and bank guarantees of December 31, 2016. As of December 31, 2016 and 2015, the borrowers were in compliance with all related financial and other restrictive covenants. As of December 31, 2016, \$5.3 million of the bank guarantees and none of the overdraft facility are being used by the borrowers. As of December 31, 2015, \$6.6 million of the bank guarantee and \$5.3 million of the overdraft facility was being used by the borrowers. There is no stated expiration date on the facilities agreement.

A subsidiary of the Company located in China has a Chinese Yuan Renminbi denominated short term loan with Bank of America (“China Facility”) with amounts outstanding of \$1.3 million and \$1.4 million as of December 31, 2016 and 2015, respectively. The short term loan has a total borrowing capacity of \$4.3 million and \$4.5 million as of December 31, 2016 and 2015, respectively. The short term loan has an interest rate of 4.79%, and will mature in February 2017. This loan was subsequently renewed on a short term basis through May of 2017.

A subsidiary of the Company located in the U.K. has a debenture agreement used to facilitate issuances of letters of credit and bank guarantees of \$9.0 million at December 31, 2016 and 2015. In 2015, this agreement was denominated in British Pounds. This agreement is currently denominated in US Dollars. This facility was secured by a protective letter of credit issued by the Company to HSBC Bank at December 31, 2016. At December 31, 2016 and 2015, there was \$6.2 million and \$5.8 million, respectively, of outstanding stand-by letters of credit and bank guarantees under this debenture agreement.

A subsidiary of the Company located in Germany has a Euro denominated debenture agreement used to facilitate issuances of letters of credit and bank guarantees of \$0.9 million and \$1.2 million at December 31, 2016 and 2015, respectively. This facility is secured by cash deposits of \$0.9 million and \$0.7 million at December 31, 2016 and 2015, respectively. There were \$0.9 million and \$1.2 million of outstanding stand-by letters of credit and bank guarantees under this debenture agreement as of December 31, 2016 and 2015, respectively.

A subsidiary of the Company located in Singapore had bank guarantees of \$1.7 million and \$1.5 million at December 31, 2016 and December 31, 2015, respectively. These guarantees are secured with cash deposits of \$0.3 million and \$0.5 million as of December 31, 2016 and December 31, 2015, respectively, and a protective letter of credit issued by the Company to Citibank.

## 10. Shareholders’ Equity

### Dividends

Our dividend policy and the payment of cash dividends under that policy are subject to the Board of Director’s continuing determination that the dividend policy and the declaration of dividends are in the best interest of the Company’s shareholders. Future dividends and the dividend policy may be changed or cancelled at the Company’s

discretion at any time. Payment of dividends is also subject to the continuing compliance with our financial covenants under our Credit Facility.

During 2016, 2015 and 2014, our Board declared the following quarterly cash dividends on our common stock:

Dividend

Per Share	Record Date	Payment Date
\$0.066	December 16, 2016	December 30, 2016
\$0.066	September 16, 2016	September 30, 2016
\$0.066	June 18, 2016	June 30, 2016
\$0.066	March 18, 2016	March 31, 2016
\$0.066	December 16, 2015	December 30, 2015
\$0.066	September 18, 2015	September 30, 2015
\$0.066	June 12, 2015	June 26, 2015
\$0.066	March 19, 2015	March 31, 2015
\$0.060	December 19, 2014	December 30, 2014
\$0.060	September 16, 2014	September 30, 2014
\$0.060	June 13, 2014	June 27, 2014
\$0.050	March 19, 2014	March 31, 2014

On March 6, 2017, our Board of Directors declared a quarterly dividend of \$0.075 per share. The dividend will be paid on March 31, 2017 to all shareholders of record at the close of business on March 17, 2017.

Effective August 13, 2012, the Company implemented a Dividend Reinvestment Plan (the “Plan”), under which the Company may issue up to 750,000 shares of common stock. The Plan provides a way for interested shareholders to increase their holdings in our common stock. Participation in the Plan is strictly voluntary and is open only to existing shareholders. The Plan has had limited participation.

#### Share-Based Compensation

The 2007 Equity Incentive Plan (the “2007 Plan”) was approved by shareholders on May 23, 2007 and replaced the 1997 Stock Option Plan (the “1997 Plan”). The 2007 Plan permits the granting of stock options and stock awards which are granted at a price equal to or greater than the fair market value of the Company’s common stock at the date of the grant. Stock options granted to employees generally vest equally over a period of three to five years from the date of the grant. Stock awards granted to employees generally vest equally over a period of four to five years from the date of the grant. During 2016, approximately 105,000 stock options and 267,000 restricted stock awards were granted to plan participants under the 2007 Plan. During 2015, approximately 286,000 stock options and 323,000 restricted stock awards were granted to plan participants under the 2007 Plan. There are approximately 53,000 performance-based awards outstanding at December 31, 2016 and December 31, 2015. The remainder of the awards outstanding are service based awards that vest over a service period. The number of shares reserved for issuance under the 2007 Plan is 3,300,000, of which approximately 414,000 shares were available for future grant as of December 31, 2016.

Share-based compensation expense for stock options and restricted stock awards under these plans of \$2.2 million, \$1.9 million and \$1.7 million was recorded in the years ended December 31, 2016, 2015 and 2014, respectively. The tax benefit related to share based compensation expense was \$0.2 million, zero, and \$0.2 million in 2016, 2015 and 2014, respectively.

#### Employee Stock Purchase Plan

The 2009 Employee Stock Purchase Plan (“ESPP”) was approved by shareholders on May 21, 2009.

The ESPP is administered by the Compensation Committee. The aggregate maximum number of shares of the Company’s common stock that may be granted under the ESPP is 1,500,000 shares over the ten-year term of the ESPP, subject to adjustment in the event there is a reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, or similar transaction with respect to the common stock.

The ESPP allows employees to purchase shares of common stock at a 15% discount from market price and pay for the shares through payroll deductions. Eligible employees can enter the plan at specific “offering dates” that occur in six month intervals.

The Company recognized employee stock purchase plan expense of \$71,000, \$54,000 and \$19,000 during the years ended December 31, 2016, 2015 and 2014, respectively.

#### Employees’ Stock Ownership Trust

The Company sponsors an employee stock ownership plan under which it may make discretionary contributions to the trust, either in cash or in shares of Company common stock, for certain salaried employees of Met-Pro in the United States who are eligible to participate in the Plan. There were no contributions to the Employees’ Stock Ownership

Trust for the years ended December 31, 2016, 2015 and 2014. All shares are considered to be allocated to participants or to be released for allocation to participants, and are included in the earnings per share computations.

#### Stock Options and Restricted Awards

The weighted-average fair value of stock options granted during 2016, 2015, and 2014 was estimated at \$2.07, \$4.35 and \$6.48 per option, respectively, using the Black-Scholes option-pricing model based on the following assumptions:

**Expected Volatility:** The Company utilizes a volatility factor based on the Company's historical stock prices for a period of time equal to the expected term of the stock option utilizing weekly price observations. For 2016, 2015, and 2014, the Company utilized weighted-average volatility factors of 39%, 44% and 55%, respectively.

F-25

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Expected Term: Due to limited historical exercise data, the Company utilizes the simplified method of determining the expected term based on the vesting schedules and terms of the stock options. For 2016, 2015 and 2014, the Company utilized weighted-average expected term factors of 6.5 years, 6.3 years and 6.3 years, respectively.

Risk-Free Interest Rate: The risk-free interest rate factor utilized is based upon the implied yields currently available on U.S. Treasury zero-coupon issues over the expected term of the stock options. For 2016, 2015 and 2014, the Company utilized a weighted-average risk-free interest rate factor of 2.1%, 1.9% and 2.2%, respectively.

Expected Dividends: The Company utilized a weighted average expected dividend rate of 3.6%, 2.4% and 1.7% to value options granted during 2016, 2015 and 2014, respectively.

Information related to all stock options under the 2007 Plan and 1997 Plan for the years ended December 31, 2016, 2015 and 2014 is shown in the tables below:

(Shares in thousands)	Shares	Price	Weighted	
			Weighted Average Exercise	Aggregate Intrinsic Value
Outstanding at December 31, 2015	1,877	\$ 10.30	6.8 years	
Granted	105	7.36		
Forfeitures	(268 )	11.91		
Exercised	(195 )	6.90		
Outstanding at December 31, 2016	1,519	10.25	6.1 years	\$ 5,816
Exercisable at December 31, 2016	959	9.23	5.3 years	\$ 4,608

(Shares in thousands)	Shares	Price	Weighted	
			Weighted Average Exercise	Aggregate Intrinsic Value
Outstanding at December 31, 2014	1,727	\$ 10.12	7.3 years	
Granted	286	11.55		
Forfeitures	(106 )	12.31		
Exercised	(30 )	4.47		
Outstanding at December 31, 2015	1,877	10.30	6.8 years	\$ 1,769
Exercisable at December 31, 2015	977	8.48	5.4 years	\$ 1,765

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		Weighted	Weighted	Average	Aggregate
		Average	Remaining	Intrinsic	
		Exercise	Contractual	Value	
(Shares in thousands)	Shares	Price	Term		(\$000)
Outstanding at December 31, 2013	1,807	\$ 9.05	7.7 years		
Granted	280	13.78			
Forfeitures	(121 )	12.45			
Exercised	(239 )	5.18			
Outstanding at December 31, 2014	1,727	10.12	7.3 years		\$ 9,390
Exercisable at December 31, 2014	655	5.02	5.8 years		\$ 5,332

F-26

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Information related to all restricted stock awards under the 2007 Plan for the years ended December 31, 2016 is shown in the table below. The fair value of restricted stock awards is based on the price of the stock in the open market on the date of the grant. The fair value of the restricted stock awards is recorded as compensation expense on a straight-line basis over the vesting periods of the awards adjusted for the Company's estimate of pre-vesting forfeitures. The pre-vesting forfeiture estimate is based on historical activity and is reviewed periodically and updated as necessary.

	Weighted Average Grant Date	
(Shares in thousands)	Shares	Fair Value
Nonvested at December 31, 2015	322	\$ 9.55
Granted	267	9.76
Vested	(17 )	10.24
Forfeited	(62 )	9.61
Nonvested at December 31, 2016	510	9.64

The weighted average grant date fair value of restricted stock awards granted was \$9.76, \$9.48 and \$14.41 per share in fiscal years 2016, 2015 and 2014.

The Company received \$1.3 million in cash from employees exercising options during the year ended December 31, 2016, \$0.1 million in cash from employees exercising options during the year ended December 31, 2015 and \$1.2 million from employees exercising options during the year ended December 31, 2014. The intrinsic value of options exercised during the years ended December 31, 2016, 2015 and 2014 was \$1.0 million, \$0.2 million and \$2.4 million, respectively. Unrecognized compensation expense related to nonvested shares of stock options and restricted stock was \$6.5 million at December 31, 2016 and will be recognized over a weighted average vesting period of 3.0 years.

#### Warrants to Purchase Common Stock

The Company has historically issued warrants to purchase common shares in conjunction with business acquisitions, debt issuances and employment contracts.

On December 28, 2006, the Company issued warrants to purchase 250,000 shares to Icarus Investment Corp. ("Icarus"), a related party, at an exercise price of \$9.07 and an expiration date of December 26, 2016. On December 7, 2016, the Company and Icarus entered into an amendment of the warrant agreement pursuant to which the warrants were issued to provide for the cashless exercise of the warrants. During the year ended December 31, 2016, all of the Company's previously outstanding warrants were exercised and the Company issued 89,640 shares of common stock through a cashless exercise pursuant to such amendment at an effective price of \$9.07 per share.

#### Stock Purchase

During 2016, the Company repurchased 30,000 shares of common stock from a former owner of a subsidiary acquired by the Company in 2014 for a total cost of \$0.2 million. In December 2016, the Company entered into an agreement to repurchase 75,000 shares of common stock from a current segment president, who is a former owner of a subsidiary acquired by the Company in 2013, for a total cost of \$1.1 million, which was paid in January of 2017. This transaction is reflected in the accounts payable and accrued expenses line in the Consolidated Balance Sheets as of December 31, 2016. The shares were immediately retired subsequent to their repurchase.

There were no stock repurchases during 2015.

During 2014, the Company repurchased 61,500 shares of common stock from a former director for a total cost of \$1.0 million. The shares were immediately retired.

#### 11. Pension and Employee Benefit Plans

We sponsor a non-contributory defined benefit pension plan for certain union employees. The Company acquired two defined benefit pension plans covering eligible employees in the United States in connection with the acquisition of a current subsidiary. During 2015, these pension plans were merged with the other defined benefit pension plan mentioned above. Therefore, as of December 31, 2015, the Company sponsors only one non-contributory defined benefit pension plan. The accrual of future benefits

F-27

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for all participants who are non-union employees was frozen effective December 31, 2008. The plan is funded in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974.

We also sponsor a postretirement health care plan for office employees retired before January 1, 1990. The plan allows retirees who have attained the age of 65 to elect the type of coverage desired.

The following tables set forth the plans' changes in benefit obligations, plan assets and funded status on the measurement dates, December 31, 2016, 2015 and 2014, and amounts recognized in our consolidated balance sheets as of those dates.

(Table only in thousands)	Pension Benefits			Other Benefits		
	2016	2015	2014	2016	2015	2014
<b>Change in projected benefit obligation:</b>						
Projected benefit obligation at beginning of year	\$36,140	\$38,208	\$32,311	n/a	n/a	n/a
Accumulated postretirement benefit obligation	n/a	n/a	n/a	\$159	\$155	\$116
Service cost	447	233	204	—	—	—
Interest cost	1,426	1,412	1,428	4	5	5
Amendments	—	—	—	—	9	24
Actuarial (gain)/loss	301	(1,744 )	6,015	(8 )	18	38
Administrative expenses	(606 )	(214 )	(174 )	—	—	—
Benefits paid	(2,696 )	(1,755 )	(1,576 )	(24 )	(28 )	(28 )
Projected benefit obligation at end of year	35,012	36,140	38,208	131	159	155
<b>Change in plan assets:</b>						
Fair value of plan assets at beginning of year	25,296	27,302	25,822	—	—	—
Actual return (loss) on plan assets	2,040	(443 )	1,404	—	—	—
Employer contribution	29	406	1,826	24	28	28
Administrative expenses	(606 )	(214 )	(174 )	—	—	—
Benefits paid	(2,696 )	(1,755 )	(1,576 )	(24 )	(28 )	(28 )
Fair value of plan assets at end of year	24,063	25,296	27,302	—	—	—
Funded status	\$(10,949)	\$(10,844)	\$(10,906)	\$(131)	\$(159)	\$(155)
<b>Defined benefit liabilities included in accounts payable and accrued expenses</b>						
	\$—	\$—	\$—	\$(25 )	\$(26 )	\$(25 )
<b>Defined benefit liabilities included in other liabilities</b>						
	(10,949)	(10,844)	(10,906)	(106)	(133)	(130)
Deferred tax benefit associated with accumulated other comprehensive loss	3,107	3,154	2,983	15	15	8
Accumulated other comprehensive loss, net of tax	5,074	5,144	4,865	9	27	14
Net amount recognized	\$(2,768 )	\$(2,546 )	\$(3,058 )	\$(107)	\$(117)	\$(133)
<b>Other comprehensive income (loss):</b>						
Net loss (gain)	\$90	\$708	\$6,561	\$(9 )	\$17	\$38
Prior service cost	—	—	—	—	9	24
Amortization of prior service cost	—	—	(4 )	(10 )	(9 )	(6 )
Amortization of net actuarial loss (gain)	(212 )	(258 )	(173 )	1	3	11
Total recognized in other comprehensive income (loss)	\$(122 )	\$450	\$6,384	\$(18 )	\$20	\$67

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Accumulated other comprehensive income:

Net loss (gain)	\$8,181	\$8,298	\$7,848	\$(28 )	\$(20 )	\$(40 )
Prior service cost	—	—	—	52	62	62
Amount recognized in accumulated other comprehensive income	\$8,181	\$8,298	\$7,848	\$24	\$42	\$22

Weighted-average assumptions used to determine

benefit obligations for the year ended

December 31:

Discount rate	3.85	%	4.00	%	3.75	%	2.75	%	3.00	%	3.75	%
Compensation increase rate	n/a		n/a		n/a		n/a		n/a		n/a	

F-28

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Benefits under the plans are not based on wages and, therefore, future wage adjustments have no effect on the projected benefit obligations.

During 2016, 2015 and 2014 the Company updated the mortality tables (RP-2016 Total Mortality Table, RP-2015 Total Mortality Table, and RP-2014 Total Mortality Table for each respective year) in the underlying assumptions used to determine benefit obligations.

Included in other comprehensive income for our defined benefit plans, net of related tax effect, were an increase in the minimum liability of \$0.1 million in 2016, a decrease of \$0.3 million in 2015 and an increase of \$4.0 million in 2014.

The details of net periodic benefit cost for pension benefits included in the accompanying Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014 are as follows:

(Table only in thousands)	2016	2015	2014
Service cost	\$447	\$233	\$204
Interest cost	1,426	1,412	1,428
Expected return on plan assets	(1,829)	(2,009)	(1,950)
Net amortization and deferral	212	258	177
Net periodic benefit income (cost)	\$256	\$(106 )	\$(141 )
Weighted-average assumptions used to determine net			
periodic benefit costs for the years ended December 31:			
Discount rate	4.00 %	3.75 %	4.50 %
Expected return on assets	7.50 %	7.50 %	7.50 %
Compensation increase rate	n/a	n/a	n/a

The basis of the long-term rate of return assumption reflects the current asset mix for the pension plans of approximately 30% to 40% debt securities and 60% to 70% equity securities with assumed average annual returns of approximately 4% to 6% for debt securities and 8% to 12% for equity securities. The investment portfolio for the pension plans will be adjusted periodically to maintain the current ratios of debt securities and equity securities. Additional consideration is given to the historical returns for the pension plan as well as future long range projections of investment returns for each asset category.

The net loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2017 are \$0.2 million and zero, respectively. The net gain and prior service cost for the healthcare plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2017 is \$3,000 and \$11,000, respectively.

At December 31, 2016, a 25 basis point change in the discount rate would change the projected benefit obligation by approximately \$1.0 million and the annual pension expense by approximately \$6,000. Additionally, a 25 basis point change in the expected return on plan assets would change the pension expense by approximately \$60,000.

The net periodic benefit cost (representing interest cost and amortization of net actuarial loss only) for the healthcare plan included in the accompanying Consolidated Statements of Operations was \$15,000, \$12,000 and zero for the years ended December 31, 2016, 2015 and 2014, respectively. The weighted average discount rate to determine the net periodic benefit cost for 2016, 2015 and 2014 was 3.00%, 3.75% and 4.50%, respectively.

Changes in health care costs have no effect on the plan as future increases are assumed by the retirees.

F-29

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Pension plan assets are invested in trusts comprised primarily of investments in various debt and equity funds. A fiduciary committee establishes the target asset mix and monitors asset performance. The expected rate of return on assets includes the determination of a real rate of return for equity and fixed income investment applied to the portfolio based on their relative weighting, increased by an underlying inflation rate. Our defined benefit pension plan asset allocation by asset category is as follows:

Asset Category:	Target	Percentage of	
	Allocation 2016	Plan Assets 2016 2015	
Cash and cash equivalents	0	% 4	% 25
Equity securities	70	% 67	% 52
Debt securities	30	% 29	% 23
Total	100	% 100	% 100

Estimated pension plan cash obligations are \$1.9 million, \$1.9 million, \$2.1 million, \$2.1 million, and \$2.1 million for 2017 through 2021, respectively, and a total of \$10.7 million for the years 2022 through 2025. Estimated healthcare plan cash obligations are \$25,000, \$22,000, \$19,000, \$16,000, and \$13,000 for 2017 through 2021, respectively, and a total of \$38,000 for the years 2022 through 2026.

#### Fair Value Measurements of Pension Plan Assets

Following is a description of the valuation methodologies used for pension assets measured at fair value:

• **Cash and cash equivalents:** Cash and cash equivalents consist primarily of cash on deposit in money market funds. Cash and cash equivalents are stated at cost, which approximates fair value.

• **Equity securities:** Equity securities consist of various managed funds that invest primarily in common stocks. These securities are valued at the net asset value of shares held by the plans at year-end. The net asset value is calculated based on the underlying shares and investments held by the funds.

• **Debt securities:** Debt securities consist of U.S. government and agency securities, corporate bonds and notes, and managed funds that invest in fixed income securities. U.S governmental and agency securities are valued at closing prices reported in the active market in which the individual securities are traded. Corporate bonds and notes are valued using market inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Inputs may be prioritized differently at certain times based on market conditions. Managed funds are valued at the net asset value of shares held by the plans at year end. The net asset value is calculated based on the underlying investments held by the fund.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The levels assigned to the defined benefit plan assets as of December 31, 2016, are summarized in the tables below:

(Table only in thousands)	Level 1	Level 2	Level 3	Total
Pension assets, at fair value:				
Cash and cash equivalents	\$894	\$ —	\$ —	\$894
Equity securities	16,153	—	—	16,153
Debt securities	7,016	—	—	7,016
Total assets	\$24,063	\$ —	\$ —	\$24,063



The levels assigned to the defined benefit plan assets as of December 31, 2015, are summarized in the tables below:

(Table only in thousands)	Level 1	Level 2	Level 3	Total
Pension assets, at fair value:				
Cash and cash equivalents	\$6,397	\$ —	\$ —	\$6,397
Equity securities	13,187	—	—	13,187
Debt securities	5,712	—	—	5,712
Total assets	\$25,296	\$ —	\$ —	\$25,296

The Company contributes to a number of multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

• Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

• If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

• If the Company chooses to stop participating in some of its multiemployer plans, CECO may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company participation in these plans for the annual period ended December 31, 2016, is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employee Identification Number and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2016, 2015 and 2014 is for the plan’s year-end at December 31, 2015, December 31, 2014 and December 31, 2013, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject.

	Pension Protection				Expiration of Collective Bargaining	
	EIN/Pension Plan Number	Act Zone	FIF/RP Status Pending/Implemented	Surcharge Imposed	Bargaining Agreement	
Pension Fund						
Sheet Metal Workers’ National Pension Fund	52-6112463/001	Yellow	FIF: Yes - Implemented RP: Yes - Implemented	No	various	
Sheet Metal Workers Local 224 Pension Plan	31-6171353/001	Yellow	FIF: Yes - Implemented	No	May 31, 2017	
Sheet Metal Workers Local No. 20,	51-0168516/001	Green	Is not subject	No	May 31, 2017	

Indianapolis Area					
Pension fund					
Sheet Metal Workers					
Local No. 177 Pension					
Fund	62-6093256/001	Green	Is not subject	No	May 1, 2018

Kirk and Blum was listed in the Sheet Metal Workers Local No. 177 Pension Fund's Form 5500 as providing more than five percent of total contributions for the year ended December 31, 2015. The Company was not listed in any of the other plans' Forms 5500 as providing more than five percent of the total contributions for the plans and plan years. At the date the financial statements were issued, Forms 5500 were not available for the plan years ended December 31, 2016.

We have no current intention of withdrawing from any plan and, therefore, no liability has been provided in the accompanying consolidated financial statements.

Amounts charged to pension expense under the above plans including the multi-employer plans totaled \$2.1 million, \$1.3 million and \$1.2 million in 2016, 2015 and 2014, respectively.

We have a profit sharing and 401(k) savings retirement plan for employees of certain of our subsidiaries. The plan covers substantially all employees who have 30 days of service, and who have attained 18 years of age. The plan allows us to make

discretionary contributions and provides for employee salary deferrals of up to 100%. We made aggregate matching contributions and discretionary contributions of \$1.5 million, \$1.2 million, and \$1.1 million during 2016, 2015 and 2014, respectively.

As a result of the PMFG acquisition, the Company acquired a defined contribution pension plan under Section 401(k) of the Internal Revenue Code for eligible employees who have completed at least 90 days of service (“PMFG Plan”). Company contributions are voluntary and at the discretion of the board of directors. For the year ended December 31, 2015, matching contributions of \$0.1 million were made by the Company after the acquisition. The PMFG Plan was merged with the CECO 401(k) savings retirement plan in January 2016. The contributions made to these participants for the year ended December 31, 2016 were included in the profit-sharing and 401(k) savings retirement plan contributions noted above.

## 12. Leases

### Sale-leaseback Transactions

#### Denton Facility

On June 2, 2016, the Company entered into an agreement to sell its manufacturing facility in Denton, Texas for gross proceeds of \$5.0 million, less costs associated with the transaction of \$0.3 million, or net proceeds of \$4.7 million. As a part of the transaction, the Company entered into a lease for the property from the purchaser for a period of 13 years.

Prior to the consummation of the above transaction, the Company entered into a sublease agreement with a supplier of the Company at this facility for a period of five years. Due to the Company’s continuing involvement through the sublease agreement, the Company has accounted for the sale-leaseback as a financing liability. Payments made by the Company are allocated between interest expense and a reduction to the sale-leaseback financing liability. The weighted-average effective interest rate of the sale-leaseback financing liability was 2.22%.

As of December 31, 2016, future payments on the sale-leaseback financing liability are as follows (in thousands):

Fiscal Years	Payments
2017	399
2018	407
2019	415
2020	423
2021	431
Thereafter	3,480

Total payments	5,555
Less amount representing interest	(729 )
Total sale-leaseback financing liability	4,826
Less current portion of sale-leaseback financing liability included in accounts payable	
and accrued expenses	(294 )
Long-term portion of sale-leaseback financing liability included in other liabilities	\$ 4,532

As of December 31, 2016 and 2015, the net carrying value of the Denton facility assets that are included in property, plant, and equipment on our Consolidated Balance Sheets amounted to \$12.3 million and \$13.1 million, respectively. The useful life of these assets was modified to the remainder of the lease's duration.

#### Telford Facility

On June 2, 2016, the Company entered into an agreement to sell its manufacturing facility in Telford, Pennsylvania for gross proceeds of \$6.0 million, less costs associated with the transaction of \$0.4 million, or net proceeds of \$5.6 million. As a part of the transaction, the Company entered into a lease for the property from the purchaser for a period of 13 years.

The Company recorded a deferred gain on the sale of this facility in the amount of \$2.4 million recorded in the Consolidated Balance Sheets as an offset to property, plant, and equipment, which will be recognized over the 13-year lease term. As a result of this transaction, the Company initially recorded a capital lease obligation of \$5.7 million for the facilities leased. The weighted-average effective interest rate of the capital lease was 3.43%.

## Indianapolis Facility

On August 16, 2016, the Company entered into an agreement to sell its manufacturing facility in Indianapolis, Indiana for gross proceeds of \$3.3 million, less costs associated with the transaction of \$0.1 million, or net proceeds of \$3.2 million. As a part of the transaction, the Company entered into a lease for the property from the purchaser for a period of 13 years.

The Company recorded a deferred gain on the sale of this facility in the amount of \$2.0 million recorded in the Consolidated Balance Sheets as an offset to property, plant, and equipment, which will be recognized over the 13-year lease term. As a result of this transaction, the Company initially recorded a capital lease obligation of \$3.0 million for the facilities leased. The weighted-average effective interest rate of the capital lease was 3.25%.

The future minimum payments for the Indianapolis and Telford capital leases that the Company entered into as of December 31, 2016, are as follows (in thousands):

Fiscal Years	Payments
2017	\$ 744
2018	759
2019	774
2020	790
2021	805
Thereafter	6,577
Total payments	10,449
Less amount representing interest	(1,978 )
Present value of future minimum lease payments	8,471
Less current portion of capital lease obligation included in accounts payable and accrued expenses	(470 )
Long-term portion of capital lease obligation included in other liabilities	\$ 8,001

Prior to the execution of these transactions, the Company did not have any assets held under capital leases. Capital lease assets included in the Consolidated Balance Sheets as part of property, plant, and equipment as of December 31, 2016, are as follows (in thousands):

	December 31, 2016	Depreciable Life (Years)
Building and improvements, net of deferred gain	\$ 4,385	13
Less: Accumulated depreciation	(197 )	

Total	\$ 4,188
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## Rent

We lease certain facilities on a year-to-year basis. We also have future annual minimum rental commitments under noncancellable operating leases as follows:

(Table only in thousands)

December 31,	Commitment
2017	\$ 3,753
2018	3,072
2019	1,982
2020	1,456
2021	1,236
2022 and thereafter	3,976
	\$ 15,475

F-33

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Total rent expense under all operating leases for 2016, 2015 and 2014 was \$4.5 million, \$4.0 million and \$2.9 million, respectively.

### 13. Commitments and Contingencies

#### Legal Proceedings

##### Asbestos cases

Our subsidiary, Met-Pro, beginning in 2002 began to be named in asbestos-related lawsuits filed against a large number of industrial companies including, in particular, those in the pump and fluid handling industries. In management's opinion, the complaints typically have been vague, general and speculative, alleging that Met-Pro, along with the numerous other defendants, sold unidentified asbestos-containing products and engaged in other related actions which caused injuries (including death) and loss to the plaintiffs. Counsel has advised that more recent cases typically allege more serious claims of mesothelioma. The Company's insurers have hired attorneys who, together with the Company, are vigorously defending these cases. Many cases have been dismissed after the plaintiff fails to produce evidence of exposure to Met-Pro's products. In those cases where evidence has been produced, the Company's experience has been that the exposure levels are low and the Company's position has been that its products were not a cause of death, injury or loss. The Company has been dismissed from or settled a large number of these cases. Cumulative settlement payments from 2002 through December 31, 2016 for cases involving asbestos-related claims were \$1.1 million which together with all legal fees other than corporate counsel expenses; \$1.0 million have been paid by the Company's insurers. The average cost per settled claim, excluding legal fees, was approximately \$30,000.

Based upon the most recent information available to the Company regarding such claims, there were a total of 229 cases pending against the Company as of December 31, 2016 (with Connecticut, New York, Pennsylvania and West Virginia having the largest number of cases), as compared with 221 cases that were pending as of January 1, 2016. During 2016, 75 new cases were filed against the Company, and the Company was dismissed from 63 cases and settled 4 cases. Most of the pending cases have not advanced beyond the early stages of discovery, although a number of cases are on schedules leading to, or are scheduled for trial. The Company believes that its insurance coverage is adequate for the cases currently pending against the Company and for the foreseeable future, assuming a continuation of the current volume, nature of cases and settlement amounts. However, the Company has no control over the number and nature of cases that are filed against it, nor as to the financial health of its insurers or their position as to coverage. The Company also presently believes that none of the pending cases will have a material adverse impact upon the Company's results of operations, liquidity or financial condition.

##### Valero

One of our subsidiaries, Fisher-Klosterman, Inc. ("FKI"), was a defendant in a products liability lawsuit filed in Harris County, Texas on August 23, 2010 by three Valero refining companies ("Valero Suit"). The plaintiffs claimed that FKI (and its co-Defendants) used an allegedly defective refractory material included in cyclones it supplied to Valero that caused damages to refineries they own and operate. Plaintiffs claimed to have suffered property damages, including catalyst loss, regenerator repair costs, replacement part costs, damage to other property and business interruption loss. During 2014, the Company reached a settlement with the plaintiffs for \$0.5 million and, accordingly, recorded a corresponding charge to operations. In addition, the Company reached an agreement with a supplier to recover \$0.2

million related to this matter. The recovery was also recorded during 2014. The Company's insurer, Valley Forge Insurance Company ("Valley Forge") who had paid for FKI's defense in this matter, initiated a new case in the Southern District of Ohio against the Company in October 2014 seeking, among other things, recoupment of past legal costs paid. Valley Forge claims that it did not have an obligation to defend FKI and is entitled to recoup all amounts paid to defend FKI. In April 2016, the Court rejected Valley Forge's position on the duty to defend as contrary to Ohio law. However, the Court found that, if Valley Forge could prove that FKI breached its duty to cooperate in defending the Valero Suit, Valley Forge may be relieved of its duty to defend to some extent. Valley Forge moved for reconsideration of the Court's Opinion and Order in May 2016 and the motion is pending. The Southern District of Ohio subsequently ruled in 2016 that the Company's insurer did have a duty to defend the Company. The Company is vigorously disputing this claim, including the pursuit of counterclaims against the insurer. FKI maintains that it fully complied with its duty to cooperate at all times.

#### Viron

On October 3, 2014, Viron International ("Viron") filed a complaint against us and our subsidiary, the Kirk and Blum Manufacturing Company ("Kirk & Blum"), in the United States District Court for the Western District of Texas (the "Court") seeking damages against us and Kirk & Blum for alleged breach of contract. After a trial in 2015, the Court issued Findings of Fact and Conclusions of Law that provide that we breached our contract with Viron and that Viron is entitled to damages in the amount of

F-34

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approximately \$0.6 million plus attorneys' fees. Additionally, the Court concluded that we are not entitled to an offset for the invoiced amounts of \$0.2 million not paid by Viron under the contract. In 2015, we settled with Viron for \$0.5 million, \$0.3 million was previously accrued in 2014, and the remaining \$0.2 million was recorded as expense and paid in 2015.

#### PMFG shareholder lawsuits

Since the public announcement of the proposed Mergers on May 4, 2015, CECO, Merger Sub I, Merger Sub II, PMFG and the members of the PMFG Board have been named as defendants in three lawsuits related to the Mergers, which were filed by alleged stockholders of PMFG on May 17, 2015, June 29, 2015 and July 17, 2015. The first filed lawsuit, which is a derivative action that also purports to assert class claims, was filed in the District Court of Dallas County, Texas (the "Texas Lawsuit"). The second and third filed lawsuits, which are class actions, were filed in the Court of Chancery of the State of Delaware and have now been consolidated into a single action (the "Delaware Lawsuit," and collectively with the Texas Lawsuit, the "Lawsuits"). In the Lawsuits, the plaintiffs generally allege that the Mergers fail to properly value PMFG, that the individual defendants breached their fiduciary duties in approving the Merger Agreement, and that those breaches were aided and abetted by CECO, Merger Sub I and Merger Sub II.

In the Lawsuits, the plaintiffs allege, among other things, (a) that the PMFG Board breached its fiduciary duties by agreeing to the Mergers for inadequate consideration and pursuant to a tainted process by (1) agreeing to lock up the Mergers with deal protection devices that, notwithstanding the ability of PMFG to solicit actively alternative transactions, prevent other bidders from making a successful competing offer for PMFG, (2) participating in a transaction where the loyalties of the PMFG Board and management are divided, and (3) relying on financial and legal advisors who plaintiffs allege were conflicted; (b) that those breaches of fiduciary duties were aided and abetted by CECO, Merger Sub I, Merger Sub II and PMFG, and (c) that the disclosure provided in the registration statement filed by CECO on June 9, 2015 was inadequate in a number of respects.

In the Lawsuits, the plaintiffs sought, among other things, (a) to enjoin the defendants from completing the Mergers on the agreed-upon terms, (b) rescission, to the extent already implemented, of the Merger Agreement or any of the terms therein, and (c) costs and disbursements and attorneys' and experts' fees, as well as other equitable relief as the courts deem proper.

Effective as of August 23, 2015, PMFG and the other defendants entered a memorandum of understanding with the plaintiffs in the Delaware Lawsuit regarding the settlement of the Delaware Lawsuit. In connection with this memorandum of understanding, PMFG agreed to make certain additional disclosures to PMFG's stockholders in order to supplement those contained in the joint proxy statement/prospectus. After PMFG enters into a definitive agreement with the plaintiffs in the Delaware Lawsuit, the proposed settlement will be subject to notice to the class, Court approval, and, if the Court approves the settlement, the settlement, as outlined in the memorandum of understanding, will resolve all of the claims that were or could have been brought in the Delaware Lawsuit, including all claims relating to the decision to enter into the Mergers, entry of the Merger Agreement and any disclosure made in connection therewith including any such claims against CECO, Merger Sub I or Merger Sub II, but did not affect any stockholder's rights to pursue appraisal rights. It is expected that the resolution of the Delaware Lawsuit will also resolve the Texas Lawsuit, which was stayed voluntarily by the plaintiff, but placed on Texas court's two-week docket for a non-jury trial on August 15, 2016. On May 11, 2016, the Court entered an order preliminarily approving the proposed settlement and setting a hearing on July 13, 2016 during which it would consider whether to enter an order granting final approval of the proposed settlement.

On September 1, 2016, the plaintiffs withdrew from the settlement and filed a notice of dismissal of their claims with prejudice. On September 2, 2016, the Court granted plaintiffs' request and dismissed their claims with prejudice. The Court retained jurisdiction to consider any applications for "mootness" based attorneys' fees and expenses from plaintiffs

and/or the counsel for the objector. Briefing on the attorneys' fees request is complete, and it remains pending.

#### Summary

The Company is also a party to routine contract and employment-related litigation matters and routine audits of state and local tax returns arising in the ordinary course of its business.

The final outcome and impact of open matters, and related claims and investigations that may be brought in the future, are subject to many variables, and cannot be predicted. In accordance with ASC 450, Contingencies, and related guidance, we record accruals for estimated losses relating to claims and lawsuits when available information indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. The Company expenses legal costs as they are incurred.

We are not aware of pending claims or assessments, other than as described above, which may have a material adverse impact on our liquidity, financial position, results of operations, or cash flows.

## 14. Income Taxes

(Loss) income before income taxes was generated in the United States and globally as follows:

(Table only in thousands)	2016	2015	2014
Domestic	\$(39,623)	\$997	\$14,638
Foreign	6,659	(4,093)	1,576
	\$(32,964)	\$(3,096)	\$16,214

The Company has not recorded deferred income taxes on the undistributed earnings of its foreign subsidiaries because of management's intent to indefinitely reinvest such earnings. At December 31, 2016, the aggregate undistributed earnings of the foreign subsidiaries amounted to \$44.7 million. If the Company were to distribute these earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes and foreign withholding taxes. The unrecognized deferred income tax liability on this temporary difference is estimated to be approximately \$7.1 million at December 31, 2016.

Income tax provision consisted of the following for the years ended December 31:

(Table only in thousands)	2016	2015	2014
Current:			
Federal	\$4,957	\$3,429	\$4,672
State	892	753	947
Foreign	3,191	1,944	1,624
	9,040	6,126	7,243
Deferred:			
Federal	(2,794)	(3,012)	(3,033)
State	(409 )	(563 )	(367 )
Foreign	(547 )	87	(706 )
	(3,750)	(3,488)	(4,106)
	\$5,290	\$2,638	\$3,137

The income tax provision differs from the statutory rate due to the following:

(Table only in thousands)	2016	2015	2014
Tax (benefit) expense at statutory rate	\$(11,525)	\$(1,083)	\$5,675
Increase (decrease) in tax resulting from:			
State income tax, net of federal benefit	174	34	416
Domestic production activities deduction	(561 )	(211 )	(670 )
Intangible asset and goodwill impairment	17,859	—	—
Change in uncertain tax position reserves	(624 )	(1,281)	388

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Permanent differences	(31 )	1,162	58
Impact of rate differences and adjustments	(1,655 )	(1,489)	296
United States and foreign tax incentives	(1,035 )	(883 )	(3,026)
Non-deductible transaction costs	7	1,356	—
Earnout expenses	2,573	3,928	—
Change in valuation allowance	222	483	—
Audit settlements	—	65	—
Provision-to-return adjustments	108	808	—
Other	(222 )	(251 )	—
	\$5,290	\$2,638	\$3,137

F-36

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Deferred income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and tax credit carry forwards. The net deferred tax liabilities consisted of the following at December 31:

(Table only in thousands)	2016	2015
<b>Gross deferred tax assets:</b>		
Accrued expenses and other	\$3	\$1,175
Reserves on assets	3,078	2,949
Share-based compensation awards	1,340	1,057
Minimum pension / post retirement	4,197	4,118
Net operating loss carry-forwards	5,932	8,473
Tax credit carry-forwards	1,634	1,626
Valuation allowances	(3,135 )	(1,500 )
	13,049	17,898
<b>Gross deferred tax liabilities:</b>		
Depreciation	(614 )	(3,658 )
Goodwill and intangibles	(23,060)	(30,133)
Prepaid expenses and inventory	(785 )	(192 )
Revenue recognition	(1,554 )	(1,634 )
	(26,013)	(35,617)
Net deferred liabilities	\$(12,964)	\$(17,719)

As of December 31, 2016, the Company has federal net operating loss carry forwards of \$11.5 million, and state and local net operating loss carry forwards of \$12.4 million, which expire from 2018 to 2033. The Company has recorded a valuation allowance on certain of these net operating loss carry forwards to reflect expected realization. The Company also has net operating loss carry forwards in international jurisdictions totaling \$7.0 million. A full valuation allowance has been established against substantially all of these losses in international jurisdictions. As of December 31, 2016 and 2015, the Company has recorded a valuation reserve in the amount of \$3.1 million and \$1.5 million, respectively. The changes in the valuation allowance resulted in additional income tax expense of \$0.2 million, \$0.6 million, and \$0.1 million in 2016, 2015, and 2014, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carry forward periods), projected future taxable income, and tax-planning strategies in making this assessment. Based on this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2016. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Company accounts for uncertain tax positions pursuant to FASB ASC Topic 740. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The reserve for uncertain tax positions is not expected to change significantly in the next twelve months. A reconciliation of the beginning and ending amount of uncertain tax position reserves included in other liabilities on the Consolidated Balance Sheets is as follows:

(Table only in thousands)	2016	2015
Balance as of January 1,	\$1,024	\$1,166
Additions for tax positions taken in prior years	—	50
Additions for tax positions of acquired company	—	1,139
Statute expirations	(576 )	—
Reductions for settlements on tax positions of acquired company	—	(165 )
Reductions of tax positions taken in prior years	(47 )	—
Reductions for settlements on tax positions of prior years	—	(1,166)
Balance as of December 31,	\$401	\$1,024

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During 2016, 2015, and 2014, there was no such expense for interest and penalties. The favorable settlement of all uncertain tax positions would impact the Company's effective income tax rate. Tax years going back to 2014 remain open for examination by Federal authorities, and back to 2011 remain open for all significant state and foreign authorities.

#### 15. Related Party Transactions

During 2016, 2015 and 2014, we paid fees of \$0.4 million per year to Icarus for management consulting services. These services were provided by Jason DeZwirek, our Chairman of our Board, through Icarus. During 2016, 2015 and 2014, we paid fees of \$0.1 million, \$0.3 million and \$0.1 million, respectively, for consulting services to JMP Fam Holdings Inc., through which Jonathan Pollack, a member of the Board of Directors, provides services. All services described above are based on verbal agreements with the Company. The Board of Directors approves the above services on an annual basis.

During the year ended December 31, 2016, the Company issued 89,640 shares of common stock to Icarus in connection with a cashless exercise of a warrant. In 2016, the Company entered into an agreement to repurchase 75,000 shares of common stock from a current segment president. See Note 10 for further detail related to these transactions.

During 2016, 2015, and 2014, we incurred rent expense of \$1.1 million, \$1.1 million, and \$0.3 million, respectively, to lease facilities at the Adwest, Zhongli, and Emtrol subsidiaries. These are recently acquired subsidiaries, and the facilities are owned by the former owners of these subsidiaries. The Company currently employs the former owners in a managerial role at the respective subsidiaries.

During 2016 and 2015, we purchased \$0.8 million and \$0.3 million in inventory from a company owned by the former owner of the Zhongli subsidiary. During 2016 and 2015, we sold zero and \$0.4 million of inventory to the same company. The Company currently employs the former owner in a managerial role at this subsidiary.

#### 16. Major Customers and Foreign Sales

No single customer represented greater than 10% of consolidated net sales or accounts receivable for 2016, 2015, or 2014.

For 2016, 2015 and 2014, sales to customers outside the United States, including export sales, accounted for approximately 37%, 38% and 30%, respectively, of consolidated net sales. The largest portion of export sales in 2016 was destined for Asia (16% of the total export sales) and Europe (9% of total export sales). Of consolidated long lived assets, \$34.8 million and \$51.8 million were located outside of the United States as of December 31, 2016 and 2015, respectively. The largest portion of long-lived assets located outside the United States at December 31, 2016 were in Europe (\$17.8 million of the total long-lived assets), and Asia, (\$14.8 million of the total long-lived assets).

## 17. Acquisitions

### PMFG

On September 3, 2015, the Company completed its acquisition of 100% of PMFG's outstanding common stock for a purchase price of \$136.7 million. PMFG's shareholders had the option to elect to exchange each share of PMFG common stock for either (i) \$6.85 in cash, without interest, or (ii) shares of the Company's common stock valued at \$6.85, based on the volume weighted average trading price of the Company's common stock for the 15-trading day period ending on September 2, 2015, the last trading day before the closing of the acquisition, subject to a collar so that there was a maximum exchange ratio of 0.6456 shares of the Company's common stock for each share of PMFG common stock and a minimum exchange ratio of 0.5282 shares of the Company's common stock for each share of PMFG common stock, subject to certain exceptions and with overall elections subject to proration.

Approximately 44.5% of the shares of PMFG common stock converted into the right to receive the \$6.85 cash consideration, for an approximate total of \$64.6 million. The Company's common stock trading price for the 15 day period was \$9.6655. As a result, each of the remaining shares of PMFG common stock converted into the right to receive 0.6456 shares of Company common stock, or an approximate total of 7,602,166 shares of Company common stock in aggregate.

In accordance with the proration and reallocation provisions of the merger agreement, because the \$6.85 per share cash consideration was oversubscribed by PMFG shareholders prior to the election deadline, (a) each PMFG share for which a valid stock election was made or for which no valid cash or stock election was made was automatically cancelled and converted into the right to receive the stock consideration and (b) each PMFG shareholder of record that made a valid cash election by the deadline received (i) the cash consideration for approximately 58.05% of such holder's PMFG shares for which a valid cash election was made and (ii) the stock consideration for approximately 41.95% of such holder's PMFG Shares for which a valid cash election was made. The value of stock recorded for purchase accounting was \$72.1 million, which equates to approximately \$9.49 per share.



PMFG is a global provider of engineered equipment for the abatement of air pollution, the separation and filtration of containments from gases and liquids, and industrial noise control equipment, which complements our Energy segment businesses.

As a result of the PMFG acquisition, the Company acquired a 60% equity investment in Peerless Propulsys that entitled the Company to 80% of Peerless Propulsys's earnings. In prior periods, the noncontrolling interest of Peerless Propulsys was reported as a separate component on the Consolidated Balance Sheets. During 2016, the Company entered into an agreement with the noncontrolling owner of Peerless Propulsys and issued a promissory note in the amount of \$5.3 million due on July 11, 2019 in exchange for 100% ownership in the equity and earnings of Peerless Propulsys. The minority interest had a carrying value of \$4.1 million on July 11, 2016, compared to the purchase price of \$5.3 million. Since the Company already had control over the equity investment, the excess paid of \$1.2 million was recorded as a debit to additional paid in capital. The interest rate on the note payable is 1.50%, which approximates the market rate given the short term duration of the note payable. All of the borrowers' assets are pledged to secure this agreement. As of December 31, 2016, \$5.3 million of the note payable was outstanding. The note is payable at the earlier of July 11, 2019 or thirty days subsequent to the sale of building and land that the Company owns in China. As the Company intends to sell this building and land within one year of December 31, 2016, this note payable is currently classified as a current liability in the Consolidated Balance Sheets as of December 31, 2016. In conjunction with entering into the agreement to acquire the noncontrolling interest of Peerless Propulsys, the Company listed the land and building as assets held for sale with a carrying value of \$5.4 million in the Consolidated Balance Sheets as of December 31, 2016.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of closing after the Company finalized purchase accounting during 2016.

(Table only in thousands)	
Current assets (including cash of \$27,100)	\$92,293
Property and equipment	24,787
Other assets	953
Assets held for sale (a)	950
Deferred income tax asset	—
Goodwill	59,860
Intangible – finite life	29,940
Intangible – indefinite life	10,280
Total assets acquired	219,063
Current liabilities assumed	(73,364 )
Deferred income tax liability	(800 )
Long term liabilities assumed	(3,961 )
Noncontrolling interest	(4,212 )
Net assets acquired	\$ 136,726

(a) The assets held for sale consists primarily of real property, and are valued at the estimated proceeds less cost to sell. The Company has not recorded a gain or loss on the classification of the subject assets to held for sale. The Company expects to complete the sale of the subject assets within the next twelve months.

During 2016 and 2015, PMFG accounted for \$101.7 and \$40.8 million of revenue, respectively, and \$13.1 million and \$2.2 million of pre-tax income, respectively, included in the Company's results.

Zhongli

On December 15, 2014, the Company acquired 100% of the equity interests of Zhongli for \$7.0 million in cash. As additional consideration, the former owners are entitled to earn-out payments based upon a multiple of specified financial results through December 31, 2017. There is no maximum amount of earn-out, under the terms of the Framework Agreement. Based on projections at the acquisition date, the Company estimated the fair value of the earn-out to be \$17.1 million. See Note 8 for a presentation of the earn-out activity during 2016 and 2015. During 2016, the Company settled \$3.2 million of the earn-out due by exchanging the liability for accounts receivable acquired in conjunction with the acquisition that remained uncollected as of the date of the exchange. This offset was agreed to in the original terms of the Zhongli acquisition agreement.

F-40

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Zhongli is a leader in the design and manufacture of power industry damper, diverter and ball mill systems in China, which complements our Energy segment businesses. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of closing after the Company finalized purchase accounting during 2015.

(Table only in thousands)

Current assets (including cash of \$1,025)	\$16,223
Property and equipment	1,477
Goodwill	4,752
Intangible – finite life	4,262
Intangible – indefinite life	960
Total assets acquired	27,674
Current liabilities assumed	(1,840)
Deferred tax liabilities	(1,739)
Net assets acquired	\$24,095

During 2016, 2015 and 2014, Zhongli accounted for \$30.4 million, \$28.2 million and \$0.1 million of revenue, respectively, and \$(2.1) million, \$(6.0) million, and zero of pre-tax income (loss) (inclusive of the earnout adjustments), respectively, included in the Company's results.

#### Emtrol

On November 3, 2014, the Company acquired 100% of the membership interests of Emtrol. The Company paid cash at closing of \$31.9 million, which was financed with additional debt. The Company also issued 453,858 shares of the Company's common stock with an agreed upon value of \$6.0 million computed based on the average closing price of the Company's common stock for the 30 trading days immediately preceding the acquisition date. The shares of common stock issued to the former members contain restrictions on sale or transfer for periods ranging from one to two years from the acquisition date. Accordingly, the fair value of the common stock issued has been determined to be \$5.8 million, which reflects the estimated fair value of the shares based on the closing price of the Company's common stock on the acquisition date and a discount related to the sale and transfer restrictions.

Emtrol is engaged in the business of designing and manufacturing of fluid catalytic cracking and industrial cyclone technology for a variety of industries including the refinery, petrochemical, and chemical sectors, which complements our Environmental segment businesses. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of closing after the Company finalized purchase accounting during 2015.

(Table only in thousands)

Current assets	\$9,922
Property and equipment	125
Goodwill	24,998
Intangible – finite life	12,890
Total assets acquired	47,935
Current liabilities assumed	(10,173)
Net assets acquired	\$37,762

During 2016, 2015 and 2014, Emtrol accounted for \$33.4 million, \$33.7 million, and \$9.8 million of revenue, respectively, and \$4.5 million, \$3.3 million, and \$1.3 million of pre-tax income, respectively, included in the Company's results.

#### SAT

On September 26, 2014, the Company acquired 100% of the stock of SAT for \$1.4 million in cash. The Company is holding back \$0.2 million of this cash until certain working capital requirements are determined to be met, as defined in the agreement. As additional consideration, the former owners are entitled to earn-out payments upon the achievement of specified financial results through September 30, 2017. Based on projections at the acquisition date, the Company estimated the fair value of the earn-out to be \$1.0 million, which is the maximum amount of the earn-out. See Note 8 for a presentation of the earn-out activity during 2016 and 2015.

F-41

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SAT is a leading provider of volatile organic compounds abatement solutions for the Chinese air pollution control market, which complements our Environmental segment businesses. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of closing after the Company finalized purchase accounting during 2015.

(Table only in thousands)

Current assets	\$1,679
Property and equipment	10
Goodwill	1,733
Intangible – finite life	840
Intangible – indefinite life	260
Total assets acquired	4,522
Current liabilities assumed	(1,847)
Deferred tax liabilities	(275 )
Net assets acquired	\$2,400

During 2016, 2015 and 2014, SAT accounted for \$2.4 million, \$2.3 million, and \$1.0 million of revenue, respectively, and \$(1.1) million, \$(0.8) million, and zero pre-tax income (loss) (inclusive of the earnout adjustments), respectively, included in the Company's results.

#### HEE

On August 13, 2014, the Company acquired certain assets and liabilities of HEE for \$7.0 million in cash. The Company also issued 34,626 shares of the Company's common stock with an agreed upon value of \$0.5 million computed based on the average closing price of the Company's common stock for the thirty trading days immediately preceding the acquisition date. The shares of common stock issued to the former owners contain restrictions on sale or transfer for a period of six months from the acquisition date. Accordingly, the fair value of the common stock issued has been determined to be \$0.5 million, which reflects the estimated fair value of the shares based on the closing price of the Company's common stock on the acquisition date and a discount related to the sale and transfer restrictions. As additional consideration, the former owners are entitled to earn-out payments upon the achievement of specified financial results through July 31, 2017. Based on projections at the acquisition date, the Company estimated the fair value of the earn-out to be \$2.0 million which is the maximum amount of the earn-out. See Note 8 for a presentation of the earn-out activity during 2016 and 2015.

HEE is a leading North American designer and manufacturer of scrubbers and fans for the air pollution control market, which complements our Environmental segment businesses. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of closing after the Company finalized purchase accounting during 2015.

(Table only in thousands)

Current assets	\$913
Property and equipment	158
Goodwill	5,644
Intangible – finite life	2,690

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Intangible – indefinite life	510
Total assets acquired	9,915
Current liabilities assumed	(415 )
Net assets acquired	\$9,500

During 2016, 2015 and 2014, HEE accounted for \$4.2 million, \$11.3 million, and \$2.3 million of revenue, respectively, and \$(0.5) million, \$0.9 million, and \$0.1 million pre-tax income (loss), respectively, (inclusive of the earnout adjustments), included in the Company's results.

Goodwill related to the PMFG, HEE, and Emtrol acquisitions is not deductible for tax purposes. Goodwill related to the Zhongli and SAT acquisitions is deductible for tax purposes.

F-42

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The following unaudited pro forma information represents the Company's results of operations as if PMFG acquisition had occurred as of January 1, 2014 and the HEE, SAT, Emtrol and Zhongli acquisitions had occurred as of January 1, 2013:

	Year Ended	
	December 31,	
(Table only in thousands, except per share data)	2015	2014
Net sales	\$460,726	\$493,246
Net loss	\$(29,568 )	\$(22,990 )
Earnings per share:		
Basic	\$(0.87 )	\$(0.68 )
Diluted	\$(0.87 )	\$(0.68 )

The pro forma results have been prepared for informational purposes only and include adjustments to amortize acquired intangible assets with finite life, reflect foregone interest income on cash paid for the acquisitions, reflect additional interest expense on debt used to fund the acquisitions, and to record the income tax consequences of the pro forma adjustments. Included in the pro forma results are acquisition related expenses of \$17.7 million and \$1.3 million, and certain nonrecurring expenses, such as goodwill impairment, of \$3.7 million and \$26.6 million, for the years ended December 31, 2015 and 2014, respectively. Shares used to calculate the basic and diluted earnings per share were adjusted to reflect the additional shares of common stock issued to fund a portion of the acquisition price. These pro forma results do not purport to be indicative of the results of operations that would have occurred had the purchases been made as of the beginning of the periods presented or of the results of operations that may occur in the future.

Goodwill recognized on all of the above acquisitions represents value the Company expects to be created by combining the various operations of the acquired businesses with the Company's operations, including the expansion into markets within existing business segments, access to new customers and potential cost savings and synergies. See Note 7 for further discussion related to the Company's goodwill.

Acquisition and integration expenses on the Consolidated Statements of Operations are related to acquisition activities, which include retention, legal, accounting, banking, and other expenses.

#### 18. Business Segment Information

The Company's operations are organized and reviewed by management along its product lines or end market that the segment serves and are presented in three reportable segments. The results of the segments are reviewed through to the "Income (loss) from operations" line on the Consolidated Statements of Operations. The accounting policies of the segments are the same as those in the consolidated financial statements. Except for the information reported on a segment basis, the Company does not accumulate net sales information by product or service and therefore, the Company does not disclose net sales by product or service because to do so would be impractical. The Company's reportable segments are however organized as groups of similar products and services, defined as follows:

##### Energy Segment

Our Energy segment provides customized solutions for the power and petrochemical industry. This includes gas turbine exhaust systems, dampers and diverters, gas and liquid separation and filtration equipment, selective catalytic reduction (“SCR”) and selective non-catalytic reduction (“SNCR”) systems, acoustical components and silencers, secondary separators (nuclear plant reactor vessels) and expansion joints, the design and manufacture of technologies for flue gas and diverter dampers, non-metallic expansion joints, natural gas turbine exhaust systems, and silencer and precipitator applications, primarily for coal-fired and natural gas power plants, refining, oil production and petrochemical processing, as well as a variety of other industries.

#### Environmental Segment

Our Environmental segment, formerly known as the Air Pollution Control segment, provides the design and manufacture of product recovery and air pollution control technologies that enable our customers to leave a lower carbon footprint, lower energy consumption, minimize waste and meet compliance targets for toxic emissions, fumes, volatile organic compounds, process and industrial odors. These products and solutions include chemical and biological scrubbers, fabric filters and cartridge collectors, thermal and catalytic oxidation systems, cyclones, separators, gas absorbers and industrial ventilation systems. This segment also provides component parts for industrial air systems and provides cost effective alternatives to traditional duct components, as well as custom metal engineered fabrication services. These products and services are applicable to a wide variety of industries. During 2015,



the Company concluded that changing the name of this segment was appropriate to more accurately describe the long-term goals of the Company in conjunction with the products and services offered within the segment.

#### Fluid Handling and Filtration Segment

Our Fluid Handling and Filtration segment provides the design and manufacture of high quality pump, filtration and fume exhaust solutions. This includes centrifugal pumps for corrosive, abrasive and high temperature liquids, filter products for air and liquid filtration, precious metal recovery systems, carbonate precipitators, and technologically advanced air movement and exhaust systems. These products are applicable to a wide variety of industries, particularly the aquarium/aquaculture, plating and metal finishing, food and beverage, chemical/petrochemical, wastewater treatment, desalination and pharmaceutical markets.

	2016	2015	2014
Net Sales (less intra-, inter-segment sales) (Table only in thousands)			
Energy Segment	\$203,376	\$142,150	\$70,285
Environmental Segment	153,344	158,371	127,707
Fluid Handling and Filtration Segment	61,783	67,610	65,638
Corporate and Other (1)	(1,492 )	(709 )	(413 )
Net sales	\$417,011	\$367,422	\$263,217

(1) Includes adjustment for revenue on intercompany jobs.

	2016	2015	2014
(Loss) income from Operations (Table only in thousands)			
Energy Segment	\$23,575	\$3,488	\$7,799
Environmental Segment	15,652	17,021	16,803
Fluid Handling and Filtration Segment	(36,209)	11,741	13,188
Corporate and Other (2)	(26,981)	(26,592)	(14,297)
Eliminations	(1,599 )	(709 )	(1,830 )
(Loss) income from operations	\$(25,562)	\$4,949	\$21,663

(2) Includes corporate compensation, professional services, information technology, acquisition and integration expenses, and other general and administrative corporate expenses.

	2016	2015	2014
Property and Equipment Additions (Table only in thousands)			
Energy Segment	\$569	\$429	\$136
Environmental Segment	404	166	486
Fluid Handling and Filtration Segment (3)	4,481	150	486
Corporate and Other	7	18	43

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Property and equipment additions                      \$5,461   \$763   \$1,151

(3)Includes non-cash additions of \$4,385 for property, plant, and equipment acquired under capital leases for the year ended December 31, 2016. See Note 12 for further detail.

	2016	2015	2014
Depreciation and Amortization (Table only in thousands)			
Energy Segment	\$9,555	\$5,293	\$2,329
Environmental Segment	3,816	4,443	2,263
Fluid Handling and Filtration Segment	5,406	6,331	6,545
Corporate and Other	126	453	131
Depreciation and amortization	\$18,903	\$16,520	\$11,268

F-44

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	December 31,	
	2016	2015
<b>Identifiable Assets</b>		
(Table only in thousands)		
Energy Segment	\$257,566	\$283,002
Environmental Segment	118,680	135,171
Fluid Handling and Filtration Segment	104,294	161,394
Corporate and Other (4)	18,094	19,252
Identifiable assets	\$498,634	\$598,819

(4) Corporate assets primarily consist of cash and income tax related assets.

	December 31,	
	2016	2015
<b>Goodwill</b>		
(Table only in thousands)		
Energy Segment	\$75,827	\$72,075
Environmental Segment	\$48,203	\$55,031
Fluid Handling and Filtration Segment	46,123	93,057
Goodwill	\$170,153	\$220,163

**Intra-segment and Inter-segment Revenues**

The Company has multiple divisions that sell to each other within segments (intra-segment sales) and between segments (inter-segment sales) as indicated in the following tables:

	Year Ended December 31, 2016							Net Sales to Outside Customers
	Total Sales	Intra - Segment Sales					Other	
		Energy	Enviro	FHF	Other	Corp		
<b>Net Sales</b>								
(Table only in thousands)								
Energy Segment	\$207,280	\$ (3,506 )	\$(398)	\$—	\$—	\$—	\$203,376	
Environmental Segment	160,959	(4,256 )	—	(3,153)	(206)	—	153,344	
Fluid Handling and Filtration Segment	64,327	(1,714 )	(317)	(513 )	—	—	61,783	
Corporate and Other (4)	—	—	—	—	—	(1,492)	(1,492 )	
Net Sales	\$432,566	\$ (9,476 )	\$(715)	\$(3,666)	\$(206)	\$(1,492)	\$417,011	

Year Ended December 31, 2015

Less Inter-Segment Sales

	Total Sales	Intra - Segment Sales	Environmental Energy	FHF	Other	Corp and Outside Customers	Net Sales to
Net Sales							
(Table only in thousands)							
Energy Segment	\$ 147,661	\$ (4,876 )	\$(635)	\$—	\$—	\$—	\$ 142,150
Environmental Segment	167,247	(6,744 )	0	(1,937)	(195)	—	158,371
Fluid Handling and Filtration Segment	70,084	(2,277 )	(197)	—	—	—	67,610
Corporate and Other (4)	—	—	—	—	—	(709)	(709 )
Net Sales	\$ 384,992	\$ (13,897 )	\$(832)	\$(1,937)	\$(195)	\$(709)	\$ 367,422

F-45

## Year Ended December 31, 2014

	Total Sales	Less Inter-Segment Sales					Net Sales to Outside Customers
		Intra - Segment Sales	Environmental	Energy	FHF	Other	
Net Sales							
(Table only in thousands)							
Energy Segment	\$76,302	\$ (5,964 )	\$ (53 )	\$—	\$—	\$—	\$70,285
Environmental Segment	136,544	(7,089 )	0	(1,403)	(345)	—	127,707
Fluid Handling and Filtration Segment	67,558	(1,845 )	(75 )	—	—	—	65,638
Corporate and Other (4)	—	—	—	—	—	(413)	(413 )
Net Sales	\$280,404	\$ (14,898 )	\$ (128)	\$ (1,403)	\$ (345)	\$ (413)	\$263,217

(4) Includes adjustment for revenue on intercompany jobs.

## 19. Quarterly Data (Unaudited)

Earnings per share amounts are computed independently each quarter. Accordingly, the sum of each quarter's per share amount may not equal the total per share amount for the respective year.

(Table only in thousands, except per share data)	Quarter			
	First	Second	Third	Fourth
Year ended December 31, 2016				
Net sales	\$103,175	\$112,258	\$101,596	\$99,982
Gross profit	31,586	33,930	33,676	35,667
Net income (loss)	3,055	4,037	5,826	(51,172)
Net income (loss) attributable to CECO Environmental Corp.	3,100	4,050	5,804	(51,172)
Basic earnings (loss) per share	\$0.09	\$0.12	\$0.17	\$(1.49 )
Diluted earnings (loss) per share	\$0.09	\$0.12	\$0.17	\$(1.49 )
Year ended December 31, 2015				
Net sales	\$80,985	\$86,961	\$98,230	\$101,246 (1)
Gross profit	20,975	26,628	30,795	30,773 (1)
Net income (loss)	198	2,104	(4,825 )	(3,211 )
Net income (loss) attributable to CECO Environmental Corp.	198	2,104	(4,825 )	(3,079 )
Basic earnings (loss) per share	\$0.01	\$0.08	\$(0.17 )	\$(0.09 )
Diluted earnings (loss) per share	\$0.01	\$0.08	\$(0.17 )	\$(0.09 )

(1) In making final closing adjustments for the year ended December 31, 2015, the Company became aware of additional information affecting the determination of year-to-date revenue recognition for certain business units,

which resulted in the Company recording, for the three month period ended December 31, 2015, a decrease in net sales of \$5.2 million, and a decrease in cost of goods sold of \$5.0 million.