GLOBAL POWER EQUIPMENT GROUP INC.
Form 10-K
March 17, 2014

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Global Power Equipment Group Inc. and Subsidiaries Contents

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF**
**THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2013**
**Commission File No. 001-16501**

## Global Power Equipment Group Inc.

(Exact name of registrant as specified in its charter)

| **Delaware** | **73-1541378** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**400 E. Las Colinas Blvd., Suite 400**
**Irving, TX 75039**
(Address of registrant's principal executive offices and zip code)

Registrant's telephone number, including area code: **(214) 574-2700**
Securities to be registered pursuant to Section 12(b) of the Act:

| **Title of each class to be so registered** | **Name of each exchange on which each class is to be registered** |
|---|---|
| Common Stock, par value $0.01 per share | The NASDAQ Stock Market LLC |

Securities registered pursuant to Section 12(g) 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 o No ý

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

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 ý No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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 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. ý

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. (Check one):

Large accelerated filer o Accelerated filer ý Non-accelerated filer o Smaller reporting company o

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

As of June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter, 16,279,955 shares of our publicly traded common stock held by non-affiliates were outstanding with an aggregate market value of approximately $262 million (based upon the closing price on the NASDAQ Stock Market on June 30, 2013 of $16.12 per share).

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ý No o

As of March 12, 2014, there were 17,063,000 shares of common stock of Global Power Equipment Group Inc. outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for the registrant's 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of the Form 10-K to the extent stated herein. The Proxy Statement or an amended report on Form 10-K will be filed within 120 days of the registrant's year ended December 31, 2013.

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*Statements we make in this Annual Report on Form 10-K that express a belief, expectation or intention or otherwise are not limited to recounting historical facts are forward-looking statements. These forward-looking statements are subject to various risks, uncertainties and assumptions, including those noted under the headings "Cautionary Statement Regarding Forward Looking Statements" and "Risk Factors" in Items 1 and 1A of this Annual Report on Form 10-K.*

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**Cautionary Statement Regarding Forward-Looking Statements**

This Annual Report on Form 10-K and its exhibits contain or incorporate by reference various forward-looking statements that express a belief, expectation or intention or are otherwise not statements of historical fact. Forward-looking statements generally use forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecast" and other words that convey the uncertainty of future events or outcomes. Forward-looking statements include information concerning possible or assumed future results of our operations, including the following:

- business strategies;
- operating and growth initiatives and opportunities;
- competitive position;
- market outlook and trends in our industry;
- contract backlog and related amounts to be recognized as revenue;
- expected financial condition;
- future cash flows;
- financing plans;
- expected results of operations;
- future capital and other expenditures;
- availability of raw materials and inventories;
- plans and objectives of management;
- future exposure to currency devaluations or exchange rate fluctuations;
- future income tax payments and utilization of net operating losses and foreign tax credit carryforwards;
- future compliance with orders and agreements with regulatory agencies;
- expected outcomes of legal or regulatory proceedings and their expected effects on our results of operations; and

any other statements regarding future growth, future cash needs, future operations, business plans and future financial results.

These forward-looking statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, including unpredictable or unanticipated factors that we have not discussed in this Annual Report on Form 10-K. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by the forward-looking statements.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You should consider the areas of risk and uncertainty described above, as well as those discussed under "Item 1A  Risk Factors" in this Annual Report on Form 10-K. Except as may be required by applicable law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise and we caution you not to rely upon them unduly.

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**Part I**

**Item 1. Business.**

*Overview*

Global Power Equipment Group Inc. ("Global Power," "we," "us," "our," or "the Company") is a comprehensive provider of customer-engineered equipment, and modification and maintenance services for customers in the power generation, oil & gas, natural gas, infrastructure and process and industrial markets. Our customers are in and outside the United States ("U.S.") in both developed and emerging economies.

We design, engineer and manufacture a comprehensive range of gas and steam turbine auxiliary products, control houses and generator enclosures primarily used to enhance the efficiency and facilitate the operation of gas turbine power plants, sub-base and stand-alone tanks meeting UL listings UL142, UL2085 and ULC-S 601 and for other industrial, energy and power-related applications. With a strong competitive position in our product lines due to our technology, skilled work force and experience, we benefit from a large installed base of equipment throughout the world.

We provide on-site specialty modification and maintenance services, outage management, facility upgrade services, specialty repair, brazed aluminum heat exchanger repair and maintenance, and other industrial and safety services to nuclear, fossil-fuel, industrial gas, and liquefied natural gas, petrochemical and other industrial operations in the U.S. We have the capability to combine our services and equipment resources to offer turn-key solutions for aftermarket repair applications for the North American gas turbine power generation, process and cogeneration markets.

Through predecessor entities, we have over 50 years of experience providing custom engineered products that are critical for the operation of gas turbine power plants and more than 32 years of experience providing complex outage shutdown services to operators of nuclear power plants, and other industrial maintenance services.

We use the *Braden*, *Consolidated Fabricators*, *Williams*, *Koontz-Wagner*, *IBI Power*, *TOG Manufacturing* and *Hetsco* trade names and the logos for each of those businesses and for Global Power. These trade names and logos are the property of Global Power. Product names and company programs appearing throughout this Annual Report on Form 10-K in italics are trademarks of Global Power. This Annual Report on Form 10-K also may refer to brand names, trademarks, service marks and trade names of other companies and organizations, and these brand names, trademarks, service marks and trade names are the property of their respective owners.

Global Power and all of its then U.S. subsidiaries filed voluntary Chapter 11 petitions under the U.S. Bankruptcy Code on September 28, 2006. We successfully exited Chapter 11 on January 22, 2008 pursuant to an approved Plan of Reorganization. The Company relisted on the NASDAQ stock exchange on August 10, 2010. For discussion regarding our emergence from bankruptcy, see below in this Item 1 under the heading "Corporate History."

*Segments*

In 2013, we realigned our operations into three reportable segments: Product Solutions, Nuclear Services and Energy Services.

Our Product Solutions segment is comprised of two primary product categories: Electrical Solutions and Auxiliary Products.

The Electrical Solutions product category is comprised of Koontz-Wagner Custom Controls Holdings, LLC ("Koontz-Wagner"), including, following its merger with and into Koontz-Wagner (the "Merger"), the former operations of IBI, LLC ("IBI Power" or "IBI"). This product

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category focuses on manufacturing and integrating engineered packaged control house solutions and manufacturing custom power packaging and integration solutions, including control house systems, generator enclosures, and industrial tanks, for the energy, oil & gas and electrical industries. Our Auxiliary Products category is comprised of Braden Manufacturing, L.L.C. ("Braden"), and TOG Manufacturing Company, Inc. ("TOG"), which focus on filter houses, inlet and exhaust systems, diverter dampers, selective catalytic emission reduction systems (commonly referred to as "SCR"), and other products associated with the historic Braden business.

Our Nuclear Services segment was formerly a part of our Services segment. It is comprised of the operations of Williams Plant Services, LLC and Williams Specialty Services, LLC (together, the "Williams business"). Our Nuclear Services segment is focused on the nuclear maintenance and specialty services business of our historic Williams business.

Our Energy Services segment was formerly a part of our Services segment. It is comprised Hetsco, Inc. ("Hetsco") and the operations of Construction & Maintenance Professionals, LLC and Williams Industrial Services, LLC. Our Energy Services segment is focused on providing mission critical brazed aluminum heat exchanger repair, maintenance, and safety services to the industrial gas, liquefied natural gas and petrochemical industries and maintenance and specialty services to the industrial and fossil business of our historic Williams business.

*Backlog*

Our backlog consists of firm orders or blanket authorizations from our customers. Backlog may vary significantly from reporting period to reporting period due to the timing of customer commitments. The time between receipt of an order and actual completion, or delivery, of our products varies from a few weeks, in the case of inventoried precision parts, to a year or more, in the case of custom designed gas turbine auxiliary products, SCR system and other major plant components. We add a booking to our backlog for Product Solutions segment orders when we receive a purchase order or other written contractual commitment from a customer. We reduce Product Solutions segment backlog as revenue is recognized, or upon cancellation. The maintenance services we provide through our Nuclear Services segment and Energy Services segment are typically carried out under long-term contracts spanning several years. Upon signing a multi-year maintenance contract with a customer for services, we add to our backlog only the first twelve months of work that we expect to perform under the contract. Additional work that is not identified under the original contract is added to our backlog when we reach an agreement with the customer as to the scope and pricing of that additional work. Capital project awards are typically defined in terms of scope and pricing at the time of contractual commitment from the customer. Upon receipt of a customer commitment, capital project bookings are added to our backlog at full contract value regardless of the time frame anticipated to complete the project. Maintenance services and capital project bookings are removed from our backlog as work is performed and revenue is recognized, or upon cancellation.

Backlog is not a measure defined by generally accepted accounting principles, and our methodology for determining backlog may vary from the methodology used by other companies in determining their backlog amounts. Backlog may not be indicative of future operating results and projects in our backlog may be cancelled, modified or otherwise altered by our customers.

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The following table shows our backlog, by segment, as of December 31, 2013, 2012 and 2011:

| | Backlog as of December 31, | | |
|---|---|---|---|
| **($ in thousands)** | **2013** | **2012** | **2011** |
| Product Solutions | $ 176,621 | $ 113,193 | $ 130,614 |
| Nuclear Services | 196,674 | 252,715 | 192,050 |
| Energy Services | 17,028 | 27,846 | 21,383 |
| Total | $ 390,323 | $ 393,754 | $ 344,047 |

To the extent practicable, all segment information for the years ended December 31, 2011, 2012, and 2013 has been restated to reflect the realigned three reportable segments.

For detailed information regarding backlog for each segment, see Part II, Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations.

For detailed financial information and geographical sales information regarding each segment, see Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 18 *Segment Information* included in our consolidated financial statements beginning on page F-1.

*Acquisitions*

On July 9, 2013, we acquired IBI Power, a leading manufacturer of custom power packaging and integration solutions, including control house systems, generator enclosures and industrial tanks. The addition of IBI Power's packaged control house solutions broadens our customer base to switchgear original equipment manufacturers and adds backup power and distributed power applications to our products portfolio. The aggregate consideration, following a working capital adjustment and other adjustments, consisted of $18.6 million, of which $17.9 million was paid in the third quarter of 2013, and $0.7 million payable as of the fourth quarter of 2013 and paid in January 2014. We funded the purchase of IBI Power through a combination of cash on hand and a draw on our Revolving Credit Facility, as defined below. Following our fiscal year end, on January 1, 2014, IBI Power merged with and into Koontz-Wagner, with Koontz-Wagner surviving the Merger. IBI Power's financial results have been included in the results of our Product Solutions segment as of the acquisition date.

On April 30, 2013, we acquired Hetsco, a global provider of mission critical brazed aluminum heat exchanger repair, maintenance, and safety services to the industrial gas, liquefied natural gas and petrochemical industries. The addition of Hetsco increases our exposure to the macro natural gas growth trend with a focus on adjacent technologies in air and gas separation, heat exchangers and liquefied natural gas ("LNG"). Hetsco's repair and maintenance work further expands our scope of high-margin aftermarket services. The aggregate consideration paid, following a working capital adjustment, consisted of $32.4 million. We funded the purchase of the Hetsco acquisition through a combination of cash on hand and a draw on our Revolving Credit Facility. The financial results of Hetsco have been included in the results of our Energy Services segment as of the acquisition date.

The acquisition of IBI Power and Hetsco are collectively referred to as the "2013 Acquisitions."

On July 30, 2012, we acquired Koontz-Wagner, a leading manufacturer and integrator of engineered packaged control house solutions for the energy, oil & gas, and electrical industries. The aggregate consideration paid consisted of $32.3 million in cash, of which $31.5 million was paid in the third quarter of 2012 and $0.8 million was paid in the fourth quarter of 2012.

On September 5, 2012, we acquired TOG, a precision machined metal and alloy parts provider to original equipment manufacturers for the steam and natural gas turbine power generation market. The consideration paid for the acquisition was $12.2 million in cash. Additionally, the TOG net assets acquired included $0.1 million of cash.

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The addition of Koontz-Wagner's engineered packaged control house solutions expanded our products portfolio to our current customers, and supports the global expansion into adjacent markets such as oil and gas pipelines. The acquisition of TOG expanded our products portfolio to serve the steam turbine segment and, combined with our Consolidated Fabricators business, established a growth platform for aftermarket energy parts sales. The TOG repair and replacement parts business provides a relatively stable revenue stream.

The financial results of the Koontz-Wagner acquisition and the TOG acquisition (together, the "2012 Acquisitions") have been included in our Product Solutions segment as of their respective acquisition dates.

*Dividend and Stock Repurchases*

In May 2012, our Board of Directors approved a dividend policy pursuant to which it declared quarterly dividends in 2012 and 2013. The dividend declared during each of the second, third and fourth quarters of 2012 and each of the first, second, third and fourth quarters of 2013 was $0.09 per share and the dividends paid in each of those quarters totaled approximately $1.5 million.

Additionally, in May 2012, our Board of Directors authorized a program to repurchase up to two million shares of our common stock. The repurchase program is effective through the earlier of June 30, 2014 or upon determination by the our Board of Directors to discontinue such repurchase program. During the year ended December 31, 2012, we repurchased 421,731 shares of common stock for $6.8 million. During the year ended December 31, 2013, we did not repurchase any shares of common stock.

*Revolving Credit Facility*

On February 21, 2012, we terminated our previous $150.0 million credit facility (the "Previous Credit Facility") and entered into a new $100.0 million credit facility (as amended or supplemented from time to time, the "Revolving Credit Facility"). Effective December 17, 2013, we exercised our rights under the accordion feature pursuant to, and in accordance with the terms of the Revolving Credit Facility and increased the revolving credit commitments available to us under the Revolving Credit Facility from $100.0 million to $150.0 million. All other terms of the Revolving Credit Facility remain unchanged. The Revolving Credit Facility has a letter of credit sublimit of $75.0 million and provides access to multi-currency funds. The Revolving Credit Facility has a maturity date of February 21, 2017.

*Sale of Deltak Assets*

On August 31, 2011, we sold substantially all of the operating assets of our Deltak, L.L.C. ("Deltak") business unit, which was part of our Product Solutions segment, to Hamon Corporation, a subsidiary of Hamon & Compagnie International SA, ("Hamon"), for $31.0 million in cash, less a $4.9 million working capital adjustment. We have reclassified the historical results of operations of our Deltak business unit to discontinued operations for all periods presented. Unless noted otherwise, the discussion and analysis that follows relates to our continuing operations only.

*Market Overview*

*Gas Turbine Power Generation, Process and Cogeneration Market.* All gas turbine power plants combine a gas turbine with a generator to produce electricity. In a simple cycle gas turbine plant, the hot exhaust coming out of the gas turbine is vented to the atmosphere through an exhaust stack. In a combined cycle plant, the hot exhaust coming out of the gas turbine is fed into a heat recovery steam generator (commonly referred to as an "HRSG"); the HRSG captures much of the heat from the gas turbine exhaust to generate steam, which in turn is used to power a steam turbine and generate more

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electricity before the exhaust is vented into the atmosphere. We manufacture products that are critical components of both simple cycle and combined cycle plants, including package control houses, cabinets and skids (commonly referred to as balance of plant hardware), filter houses, inlet and exhaust systems and turbine and generator components. We also engineer and manufacture specialized diverter dampers that are used in some combined cycle plants between the gas turbines and the HRSG.

We believe manufacturers of equipment and components supporting gas turbine power plants are well positioned to benefit from the need for new or more efficient power generation infrastructure. The advantages of power generation plants utilizing gas turbine technologies versus other technologies include:

lower construction costs;

shorter construction periods;

improved operating efficiency;

lower emissions of $CO_2$;

minimal other environmental impact;

flexibility to expand plant capacity;

smaller geographical footprint;

rapid start-up and shutdown time; and

improved maintenance cycles.

As a provider of equipment for simple and combined cycle gas turbine power plants, we expect to benefit from the forecasted growth of gas turbine power plant capacity related to the factors listed above. In 2013, the largest growing markets for gas turbine shipments were China, the U.S., Russia and the Middle East. Current forecasts indicate the shipments of gas turbines will continue to rise through 2020, particularly in these aforementioned markets.

*Oil & Gas Market.* The American Petroleum Institute defines the oil and gas industry as having three segments: Exploration and Production (also known as Upstream), Transportation (also known as Midstream), and Refining (also known as Downstream). North America oil and gas sustained growth due to advanced extraction methods, including fracking, pipeline expansions, and gas separation projects.

We believe manufacturers of equipment and components supporting the oil and gas midstream and downstream markets are well positioned to benefit from these investments. High utilization rates of these facilities will also drive an increase in service and repair opportunities.

*Industrial Services Industry and Market.* The U.S. industrial services industry is a multi-billion dollar industry broadly defined as routine modification, maintenance and technical services provided to industrial facilities ranging from manufacturing facilities to power generation plants. The industry continues to benefit from a shift towards outsourcing as plant operators seek to alleviate financial constraints, reduce labor costs, increase labor utilization and productivity and eliminate operational redundancies.

We expect that power industry demand for these services will be driven by the following factors in the future:

*Aging Infrastructure Maintains Constant Demand for Nuclear Plant Maintenance.* According to the U.S. Department of Energy's ("DOE") Energy Information Administration, more than half of the electrical generating capacity in the U.S. was placed in service before 1980. Coupled with the relatively limited number of large scale power generation facilities being constructed in the U.S.,

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the efforts to maintain older plants of all types and take advantage of newer and more efficient technologies at existing sites provide opportunities for companies providing these services. A large number of simple cycle gas turbines were installed for peaking capacity. With the low price of gas, it is more economical to run the plants more often thus driving the demand for conversions of these plants to combined cycle. Further, with the U.S. having 102 operating nuclear reactors that have been in operation for more than 31 years, they require extensive ongoing engineering and maintenance services to support operations and improve performance. Nuclear power plants in the U.S. are subject to a rigorous program of U.S. Nuclear Regulatory Commission (the "NRC") oversight, inspection, preventive and corrective maintenance, equipment replacement and equipment testing. Nuclear power plants are required by the NRC to go offline to refuel at intervals of no more than 24 months and to perform condition monitoring and preventive maintenance during every refueling outage. Initially, commercial nuclear power plants in the U.S. were licensed to operate for 40 years, reflecting the amortization period generally used by electric utility companies for large capital investments. In 2000, the NRC issued the first license renewal for a nuclear power plant, extending its license for an additional 20 years. As of June 2013, the NRC had extended the licenses of 73 reactors. In all, about 90 reactors are expected to operate for 60 years, with owners undertaking increasing modification, maintenance and construction capital projects to upgrade these facilities.

*International Growth, in particular, China, Russia and the Middle East.* China continues to see new plant construction on the rise leading all other markets with respect to number of gas turbines shipped in 2013. The forecast for China remains strong. Russia was third behind the U.S. in terms of number of gas turbine shipments in 2013, with Saudi Arabia just behind Russia. The Middle East is also seeing a rise in plant upgrades and conversion from simple cycle to combined cycle technology. Among the factors driving this increase in gas turbines is the operational flexibility, short construction time and the major original equipment manufacturers ("OEMs") have developed CCGT technology to exceed 60 percent efficiency.

*North America Infrastructure Growth.* A major factor in this expansion is the continued widespread development of shale gas. New production, transmission and distribution infrastructure will be developed to increase production and reduce bottlenecks relative to transportation of the gas and thus bring more gas to key markets. Shale gas value is transitioning from upstream to downstream users including petrochemical facilities and power generation assets.

*New Nuclear Reactor Construction.* Currently there are four new nuclear reactors at two sites in the early stages of construction or being re-commissioned in the U.S. Our Nuclear Services segment is involved in each of these projects at varying levels. We are one of three contractors with a qualified and audited Nuclear Quality Assurance-1 ("NQA-1") Program which is required to perform contract services at the new build reactors.

In addition, we are one of a limited number of companies qualified to perform comprehensive services in U.S. nuclear power plants under rules issued by the NRC. Under these rules, owners of nuclear facilities must qualify contractors by requiring the contractors to demonstrate that they will comply with NRC regulations on quality assurance, reporting of safety issues, security and control of personnel access and conduct. With respect to capital project work, we may be engaged as a general contractor or subcontract our services to full-scope engineering, procurement and construction contractor ("EPC") firms. We maintain good relationships with those firms that may be engaged to manage the full scope of the new operations as well as with the end customers who often specifically request that we provide certain aspects of a particular project based on their experience with us.

*Industrial Gas and Natural Gas Markets.* Industrial gases are used in a variety of end-markets. The global industrial gas market is projected to grow, which is being driven by emerging markets and

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energy demand. In addition, natural gas demand is expected to grow, particularly from feedstock chemical manufacturers and LNG processors. We believe that a larger, installed base and higher utilization of brazed aluminum heat exchangers and related equipment will lead to an increase in demand for our repair, maintenance and safety services and that a greater level of infrastructure will lead to an increase in demand for our fabrication, construction and safety services.

*Business Strategy*

Our growth strategy is to build a market leadership position in our targeted segments, utilizing our strong brands, application expertise and re-investment in new products and services offerings. Our strategic imperatives to implement this strategy are as follows: focus on natural gas growth trend, invest in growth, localize in emerging markets, deliver the base business performance and, most importantly, build our team to execute.

To that end, we plan to expand our gas turbine offering with our utility-scale customers, seek to capture product scope within the industrial turbine segment and explore opportunities to localize investments in emerging markets to support our customers. We also plan to invest in adjacent technologies such as the gas separation and cleaning/air quality segment and the industrial heat transfer space segment. We also plan to broaden our services offering by expanding our aftermarket services and parts platforms and delivering improved customer reliability and efficiency. Additionally, while our Nuclear Services core contract labor business is expected to grow, we also plan to expand services into higher value segments such as the aftermarket energy parts and the natural gas segment. Our recent acquisitions, Hetsco and IBI Power, both support our strategic direction.

Our financial goals are to double our revenues and our operating margin during the next two to four years through organic growth initiatives and acquisitions. As we advance towards these goals, we are also transforming our Company and the way we do business through the following actions:

Moving from product-based to solutions-oriented organization;

Expanding margins through simplification;

Creating a customer-centric organization;

Improving processes to deliver consistency, quality and efficiencies for the customer;

Creating a scalable structure to support revenue goals;

Flattening the organization to bring employees closer to the customer and Global Power leadership; and

Implementing a new organizational structure to create better target identification and more growth.

*Product Solutions Segment*

Our Product Solutions segment designs, engineers and manufactures two primary product categories, Auxiliary Products and Electrical Solutions, for the worldwide power generation and cogeneration, oil & gas process and industrial markets. Our principal customers are utility-scale gas turbine, distributed power, switchgear and large drives OEMs, Owner/Operators (including Oil & Gas Midstream), Electric Utilities and EPC firms as well as providers and distributors of backup and distributed power. We also provide precision parts, replacement parts, filter elements and aftermarket retrofit equipment to both OEMs and end users. Our products are critical to the efficient operation of gas turbine power plants and steam turbine systems and are custom engineered to meet customer-specific requirements.

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*Gas Turbine Auxiliary Products.* Our technical and engineering capabilities enable us to design and manufacture what we believe are among the broadest ranges of gas turbine power plant and other power-related equipment to meet each customer's specific performance requirements. We provide the following comprehensive range of products critical to the operation of gas turbine power plants:

*Inlet Systems.* Inlet systems are comprised of filter houses and air intake ducts that condition the air that enters the turbine and provide silencing for the noise emanating from the gas turbine.

*Exhaust Systems.* Exhaust systems and diverter dampers direct the hot exhaust from the turbine to the atmosphere in the case of simple cycle operation or into a heat recovery steam generator when the power plant is operated as a combined cycle facility and provides silencing as well.

*Selective Catalytic Emission Reduction Systems.* SCR systems are used in simple cycle gas turbine facilities and are focused on removing oxides of nitrogen and carbon monoxide from exhaust gas.

*(PCH) Control Houses.* (PCH) control houses are comprised of fabricated metal buildings to house electrical power and control equipment, namely switchgear, motor control centers, variable frequency drives, utilities for the gas turbine Power Generation, Oil & Gas, Utility and Renewables market segments.

*Generator Enclosures and Sub-Base Tanks.* Generator enclosures are sound attenuated, acoustical buildings fabricated from metal and sound dampening materials to meet site sound requirements. The enclosures are used to house both prime and standby diesel/natural gas generators that range from 30KW - 4000KW in a wide range of environments from desert to arctic. Offered are sub-base and stand-alone tanks meeting UL listings UL142, UL2085 and ULC-S 601.

The contracts under which we sell our products are generally fixed-price contracts, most of which are "lump sum bid" contracts. Under lump sum bid contracts, we bid against other contractors based on customer or project specifications. A significant portion of our Product Solutions segment project destinations are outside of the U.S.

*Supply Chain Structure.* We fabricate our equipment through a combination of in-house manufacturing at our own facilities in the U.S. and Mexico and outsourced manufacturing in other countries around the world. Our network of high-quality international manufacturing partners, located in more than 20 countries, allows us to manufacture equipment worldwide and maintain a competitive cost structure. Outsourcing the majority of our gas turbine auxiliary product manufacturing enables us to meet increasing demand without being restricted by internal manufacturing capacity limitations and also reduces our capital expenditure requirements. Our employees work closely with our international manufacturing partners to supervise the fabrication of our products at their facilities to ensure high levels of quality and workmanship. Our use of manufacturing facilities around the world, whether our own or those of our manufacturing partners, allows us to respond to the particular sourcing initiatives of our customers, whether those initiatives call for global sourcing or for localized supply content. While we generally have proven long-term relationships with our subcontractors, we also routinely search for additional fabricators to enhance our ability to manufacture equipment at the lowest cost while maintaining high-quality standards and on-time delivery.

We maintain exclusivity agreements with respect to power generation auxiliary products with key third-party fabricators for OEMs. We conduct regular quality audits of our fabricators and maintain staff onsite. Fabricators can take one to several years to qualify and meet international standards and it can take one to two years to bring a new fabricator online for OEM products. We work with our international manufacturing partners to maintain their OEM certification and approved vendor status.

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*Nuclear Services and Energy Services Segments*

Both our Nuclear Services and Energy Services segments provide a comprehensive range of modification, maintenance and construction support services where the Nuclear Services segment services nuclear power plants and the Energy Services segment services a wide range of utilities and industrial customers, including fossil-fuel, industrial gas, liquefied natural gas, petrochemical and other industrial operations. We provide these services in a general contracting capacity where we manage multiple subcontractors in some cases and in other cases we are retained as a subcontractor on the project. Both our Nuclear and Energy Services segments primarily service U.S. based plants and perform tasks designed to improve or sustain operating efficiencies; a portion of the Energy Services segment generates revenues from off-shore repairs of installed aluminum heat exchangers, primarily in the Middle East, Africa and Asia.

Services provided by our Nuclear and Energy Services segments are designed to improve or sustain operating efficiencies and extend the useful lives of process equipment in these facilities. We provide these services both on a constant presence basis and for discrete projects. Our offerings include the following:

Specific Services by Nuclear Services Segment:

*Nuclear Power Plant Modification, Maintenance and Construction.* We perform a full range of critical services for the nuclear facility market, including capital project, facility upgrades, routine modification and maintenance work.

*Decontamination, Decommissioning and Demolition.* We are at the forefront of nuclear decontamination, decommissioning and demolition projects in the U. S., with experience performing major projects for both the commercial nuclear industry and the U. S. Department of Energy. Our Williams business utilizes proven methods to provide the safest, most cost-effective means to preserve and recover components and physical resources while minimizing personnel exposures.

Specific Services by Energy Services Segment:

*Fossil-fuel, Industrial Gas, Liquefied Natural Gas, and Petrochemical Operations Modification and Construction.* We provide routine maintenance, repair and capital project services designed to extend plant life cycles.

*Specialty Welding Services.* We provide the following specialty services to manufacturers and users of aluminum heat exchangers:

*Brazed Aluminum Heat Exchanger Repair, Maintenance, and Safety Services.* We routinely perform on-site or in-situ repairs and associated mechanical and safety support services to users of aluminum heat exchangers used in air separation and gas or liquid processing applications.

*Fabrication.* We have the demonstrated capability to fabricate and assemble complete process systems into integrated solutions for the air and gas processing industries.

Common Services by Both our Nuclear Services and Energy Services Segments:

*Industrial Painting and Coatings.* We perform cleaning, surface preparation, coatings application, quality control and inspection testing, utilizing the Williams Insight® proprietary analysis systems to help our customers schedule and prioritize major coating projects.

*Insulation.* We provide a variety of industrial insulation services, primarily in process-piping installations. These services are commonly packaged with industrial coating projects.

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*Asbestos and Lead Abatement.* We provide abatement services for the removal of asbestos and removal of heavy metal based coatings such as lead paint. We do not take ownership of hazardous materials and do not assume responsibility for the liability associated with the materials other than for our actions meeting applicable statutory and regulatory requirements.

*Roofing Systems.* We routinely replace, repair and upgrade industrial facility roofing systems, primarily within the highly corrosive environments of pulp and paper manufacturing facilities. Our suspended modular floor assembly allows our employees to safely work above operational equipment on roofing projects while completely containing all refuse materials.

*Valve Services.* We provide integrated valve and actuator services that include inspection, preventative maintenance and repair of various types of valves and actuators. We offer a full spectrum of valve services for diagnostic testing and analysis, project management, training and engineering.

We provide these services throughout the U.S. with experienced, temporary craft labor directed and supervised by an experienced team of project managers across our network. Our flexible staffing and equipment model enables us to meet seasonal and outage demand without being restricted by internal capacity limitations, thus minimizing our fixed costs.

Our Nuclear Services segment, contracts for approximately 90% of the services it provides on a cost-plus basis under contracts that provide for reimbursement of costs incurred plus an amount of profit in the form of a mark-up. It contracts for approximately 10% of the services it provides on a fixed-price basis. Our Energy Services segment, contracts for approximately 50% of the services it provides on a cost-plus basis under contracts that provide for reimbursement of costs incurred plus an amount of profit in the form of a mark-up. It contracts for approximately 50% of the services it provides on a fixed-price basis.

We bid against other contractors based on customer specifications. Fixed-price contracts present certain inherent risks, including the possibility of ambiguities in the specifications received, problems with new technologies and economic and other changes that may occur over the contract period. Alternatively, because of efficiencies that may be realized during the contract term, fixed-price contracts may offer greater profit potential than cost-plus contracts.

*Customers, Marketing and Seasonality*

*Product Solutions.* Our Product Solutions segment customers are utility-scale gas turbine, distributed power, switchgear and large drives OEMs, Owner/Operators (including Oil & Gas Midstream), Electric Utilities and EPC firms as well as providers and distributors of backup and distributed power. The end users of most of our products sold to OEMs and EPC firms are owners and operators of gas turbine power plants, process plants, oil & gas pipelines, refineries, data centers and other industrial and commercial facilities such as wastewater treatment plants and hospitals. We focus our sales and marketing efforts on OEMs and EPC firms engaged by end users of our products, including the developers and operators of gas turbine power plants, oil & gas pipelines, industrial and commercial facilities and data centers. We also market our products globally through a sales network consisting of employees and independent representatives in various countries including China, the Netherlands, Egypt, Italy and the U.S. Our sales initiatives focus on highly engineered solutions, excellent performance on existing projects and on-time deliveries that we believe differentiate us from our competitors.

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*Energy Services and Nuclear Services.* Our Energy Services segment and Nuclear Services segment customers include major private and government-owned utilities throughout the U.S., as well as leaders in the U.S. paper and industrial sectors. We depend on a relatively small number of customers for a significant portion of our revenue. For the fiscal year ended December 31, 2013, Southern Nuclear Operating Company, General Electric Company, Siemens Energy, Inc. and Tennessee Valley Authority accounted for approximately 16%, 18%, 13% and 15%, respectively, of our consolidated revenue. For a listing of our major customers, see Note 16 *Major Customers and Concentration of Credit Risk* included in our notes to consolidated financial statements beginning on page F-9. We market our services using dedicated sales and marketing personnel as well as our experienced on-site operations personnel. We use our safety and service track record with long-term renewable contracts to expand our services and supplement the existing contracts with small to medium sized capital projects. Both segments sales initiatives directly seek to apply operational strengths to specific facilities within the targeted industries and customers throughout the U.S.

A portion of our business, primarily in our Energy Services and Nuclear Services segments, is seasonal, resulting in fluctuations in revenue and gross profit during our fiscal year. Generally, second and fourth quarters are the peak periods for our Energy Services and Nuclear Services segments as those are periods of low electricity demand during which our customers schedule planned outages. Our Product Solutions segment is less affected by seasons and is more impacted by the cyclicality of and fluctuations in the U.S. and international economies that we serve.

*Engineering, Design and Maintenance Capabilities*

*Product Solutions.* We believe the design and engineering expertise of our Product Solutions segment along with our global manufacturing strategy makes us an industry leader in the products we manufacture. We provide original design, retrofit and upgrade engineering, installation technical services and after-sales maintenance and repair of our products.

Our products are custom-designed and engineered to meet the specifications of our customers. We employ a number of degreed engineers specializing in structural, electrical/controls, mechanical, and other technical areas. Our engineers and designers use engineering and drafting programs such as the AutoCAD® and Solidworks® programs and other analytics applications.

*Energy Services.* Through our programs, we provide extensive training, certifications and ongoing safety monitoring to all of our project-based employees. For over 12 years, we have maintained a safety record in the top quartile of the industry, benefitting both us and our customers. We also maintain a broad range of professional certifications and memberships in national organizations relevant to the performance of many of the specialized services we provide.

*Nuclear Services.* We are one of a limited number of companies qualified to work anywhere in a U.S. nuclear facility and have been one of the leading providers of coatings at U.S. nuclear facilities for more than 38 years. In addition, we are one of three contractors with a qualified and audited NQA-1 Program which is required to perform contract services at the new build reactors. Through our NQA-1 Program and other programs, we provide extensive training, certifications and ongoing safety monitoring to all of our project-based employees. For over 12 years, we have maintained a safety record in the top quartile of the industry, benefitting both us and our customers. We also maintain a broad range of professional certifications and memberships in national organizations relevant to the performance of many of the specialized services we provide.

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*Materials and Suppliers*

The majority of materials purchased are for the Product Solutions segment. The principal materials for our products are carbon steel plate, sheet steel, stainless steel products and other structural shapes, wire, cable and insulation. We obtain these products from a number of U.S. and international suppliers. The markets for most of the materials we use are served by a large number of suppliers and we believe that we can obtain each of the materials we require from more than one supplier.

*Competition*

*Product Solutions.* We compete with a large number of domestic and international companies, although most competitors are smaller and more regional. We compete based on product fit, price, quality and reputation of our products and our ability to engineer and design products to meet each customer's unique specifications and delivery cycles. Some of our competitors are significantly larger than we are and have significantly greater financial resources which can vary with respect to each product category we offer. We believe that no single competitor offers our breadth of products to the gas turbine power generation, process and cogeneration industries.

*Energy Services and Nuclear Services.* Our competitors vary depending on plant geography and scope of services to be rendered. Several national vendors, which are significantly larger and have significantly greater financial resources than we, will often compete for larger maintenance and capital project opportunities that become available. Additionally, smaller vendors that operate on a regional basis often compete for smaller opportunities associated with open shop labor sources. We believe that the key competitive factors in the services we offer are reputation, safety, price, service, quality, breadth of service capabilities and the ability to identify and retain qualified personnel. We believe our project management capabilities, including service diversity, long-term customer relationships, safety record and performance, differentiate us from our competitors. We also believe that the fact that we maintain a constant presence at many of our customers' sites is a key competitive advantage because it provides us with an intimate understanding of these facilities which allows us to better identify our customers' service needs. Specific to the Nuclear Services segment, the barriers to entry include requirement of NRC qualifications and safety standards. It is also our belief that our ability to deliver high quality services with immediate response capabilities differentiates us from our competitors. Specific to the Energy Services segment, our key competitive advantage is our highly skilled labor pool of non-union specialty welders.

*Employees*

We had 1,244 full and part-time employees, excluding temporary staff and craft labor for our Energy Services segment and Nuclear Services segment, as of December 31, 2013. Of these, 167 were employed at our facility in Mexico under a collective bargaining agreement, which is amended annually and expired January 25, 2014. Negotiations for an amended agreement began the second week of February 2014 and are ongoing as of the issue date of this report. At our Koontz-Wagner business, there are 63 employees who are covered under a collective bargaining agreement which will expire on May 31, 2016. The number of employees in our Energy Services segment and Nuclear Services segment can vary greatly, depending on the timing and requirements for craft labor. Many of the craft labor employees for our Energy Services segment and Nuclear Services segment are contracted through various union agreements. As of December 31, 2013, there were 333 craft labor employees for our Energy Services segment and Nuclear Services segment, of which 235 were under collective bargaining agreements. We believe that our relationships with our employees, both permanent and temporary, are satisfactory. We are not aware of any circumstances that are likely to result in a work stoppage at any of our facilities.

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*Insurance and Warranty*

We maintain insurance coverage for various aspects of our operations. However, exposure to potential losses is retained through the use of deductibles, coverage limits and self-insured retentions.

Typically, our contracts require us to indemnify our customers for injury, damage or loss arising from the performance of our services and provide for warranties for materials and workmanship. We may also be required to name the customer as an additional insured up to the limits of insurance available, or we may be required to purchase special insurance policies or surety bonds for specific customers or provide letters of credit in lieu of bonds to satisfy performance and financial guarantees on some projects.

We maintain performance and payment bonding lines sufficient to support the business and a credit facility that is adequate to provide any required letters of credit. We require certain of our Product Solutions segment subcontractors to indemnify us and name us as an additional insured for activities arising out of such subcontractors' work. We require the subcontractors that we use for our Energy Services segment and Nuclear Services segment to indemnify us and our customer and name Williams or other subsidiaries as an additional insured for activities arising out of such subcontractors' work. We also require certain subcontractors to provide additional insurance policies, including surety bonds in favor of us, to secure such subcontractors' work or as required by contract. There can be no assurance that our insurance and the additional insurance coverage provided by our subcontractors will fully protect us against a valid claim or loss under the contracts with our customers.

*Intellectual Property*

We use a variety of trademarks, proprietary technologies and other intellectual property in the ordinary course of business in our segments. We rely upon our pending and issued patents, registered and unregistered trademark rights, nondisclosure and confidentiality agreements with our employees, subcontractors, customers and others, and on various other security measures to protect our intellectual property. Our patents relating to certain exhaust systems will expire in 2016, and a patent relating to a filter element clip will expire in 2027. During 2013, we were issued a patent for the acoustic module enclosure door which expires in 2032. We have patent applications pending for other products. We do not believe that any single patent or proprietary technology is material to our business and we do not believe our competitive position would be materially affected by competitors also using similar technologies and systems.

*Compliance with Government Regulations*

We are subject to certain federal, state and local environmental, occupational health, nuclear regulatory, export and product safety laws applicable in the countries in which we operate. We also purchase materials and equipment from third-parties, and engage subcontractors, who are also subject to these laws and regulations.

*Environmental.* We are subject to extensive and changing environmental laws and regulations in the U.S. and in international jurisdictions where we do business. These laws and regulations relate primarily to air and water pollutants and the management and disposal of hazardous materials. We are exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or hazardous materials.

*Health and Safety Regulations.* We are subject to the requirements of the U.S. Occupational Safety and Health Act and comparable state and international laws. Regulations promulgated by these agencies require employers and independent contractors who perform construction services, including electrical and repair and maintenance, to implement work practices, medical surveillance systems and personnel protection programs in order to protect employees from workplace hazards and exposure to hazardous chemicals and materials. In recognition of the potential for accidents within various scopes of work, these agencies have enacted very strict and comprehensive safety regulations.

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*Nuclear Regulatory Commission.* Owners of nuclear power plants are licensed to build, operate and maintain those plants by the NRC. Their license requires that they qualify their suppliers and contractors to ensure that the suppliers and contractors comply with NRC regulations. Our Nuclear Services segment must demonstrate to its customers that we will comply with NRC regulations related to quality assurance, reporting of safety issues, security and control of personnel access and conduct.

*Other Regulatory Matters.* To the extent we export technical services, data and products outside of the U.S., we are subject to U.S. and international laws and regulations governing international trade and exports. These include and are not limited to the Foreign Corrupt Practices Act and the Export Administration Regulations and trade sanctions against embargoed countries, which are administered by the Office of Foreign Assets Control within the U.S. Department of the Treasury. A failure to comply with these laws and regulations could result in civil or criminal sanctions, including the imposition of fines, the denial of export privileges and suspension or debarment from participation in U.S. government contracts.

While we believe that we operate safely and prudently and in material compliance with all environmental, occupational health, nuclear regulatory, export and product safety laws, there can be no assurance that accidents will not occur or that we will not incur substantial liability in connection with the operation of our business. However, we believe that all our operations are in material compliance with those laws and we do not anticipate any material capital expenditures or material adverse effect on earnings or cash flows as a result of complying with these laws.

*Available Information*

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