

Woodward, Inc.  
Form 10-K  
November 15, 2012  
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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 September 30, 2012**

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 0-8408

**WOODWARD, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of

36-1984010  
(I.R.S. Employer

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incorporation or organization) Identification No.)  
1000 East Drake Road, Fort Collins, Colorado 80525  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code:  
(970) 482-5811

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

Title of each class: Name of each exchange on which registered:  
Common stock, par value \$.001455 per share NASDAQ Global Select Market  
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  No

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  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 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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

Aggregate market value of registrant's common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant's common stock on March 30, 2012 as reported on The NASDAQ Global Select Market on that date: \$2,213,944,471. For purposes of this calculation, shares of common stock held by (i) persons holding more than 5% of the outstanding shares of stock, (ii) officers and directors of the registrant, and (iii) the Woodward Governor Company Profit Sharing Trust, Woodward Governor Company Deferred Shares Trust, or the Woodward Charitable Trust, as of March 31, 2012, are excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive of affiliate status.

Number of shares of the registrant's common stock outstanding as of November 12, 2012: 68,424,649.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of our proxy statement for the Annual Meeting of Stockholders to be held January 23, 2013, are incorporated by reference into Parts II and III of this Form 10-K, to the extent indicated.

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**PART I**

**Forward Looking Statements**

*This Annual Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are statements that are deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of management. Words such as anticipate, believe, estimate, seek, goal, expect, forecast, intend, continue, outlook, plan, project, target, strive, can, could, may, should, will, would, variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characteristics of future events or circumstances are forward-looking statements. Forward-looking statements may include, among others, statements relating to:*

*future sales, earnings, cash flow, uses of cash, and other measures of financial performance;*

*description of our plans and expectations for future operations;*

*the effect of economic downturns or growth in particular regions;*

*the effect of changes in the level of activity in particular industries or markets;*

*the availability and cost of materials, components, services, and supplies;*

*the scope, nature, or impact of acquisition activity and integration into our businesses;*

*the development, production, and support of advanced technologies and new products and services;*

*new business opportunities;*

*restructuring costs and savings;*

*our plans, objectives, expectations and intentions with respect to recent acquisitions and expected business opportunities that may be available to us;*

*the outcome of contingencies;*

*future repurchases of common stock;*

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*future levels of indebtedness and capital spending; and*

*pension plan assumptions and future contributions.*

*Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including:*

*a decline in business with, or financial distress of, our significant customers;*

*the instability in the financial markets, sovereign credit rating downgrades and uncertainty surrounding European sovereign and other debt defaults, and prolonged unfavorable economic and other industry conditions;*

*our ability to obtain financing, on acceptable terms or at all, to implement our business plans, complete acquisitions, or otherwise take advantage of business opportunities or respond to business pressures;*

*the long sales cycle, customer evaluation process, and implementation period of some of our products and services;*

*our ability to implement, and realize the intended effects of, our restructuring efforts;*

*our ability to successfully manage competitive factors, including prices, promotional incentives, industry consolidation, and commodity and other input cost increases;*

*our ability to manage our expenses and product mix while responding to sales increases or decreases;*

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*the ability of our subcontractors to perform contractual obligations and our suppliers to provide us with materials of sufficient quality or quantity required to meet our production needs at favorable prices or at all;*

*the success of, or expenses associated with, our product development activities;*

*our ability to integrate acquisitions and manage costs related thereto;*

*our debt obligations, our debt service requirements, and our ability to operate our business, pursue business strategies and incur additional debt in light of covenants contained in our outstanding debt agreements;*

*risks related to our U. S. Government contracting activities;*

*a significant reduction in defense sales due to decreases in the amount of U.S. Federal defense spending, including as a result of the sequestration of appropriations in fiscal year 2013 under the Budget Control Act of 2011 (the Budget Act ) or other specific budget cuts impacting defense programs in which we participate;*

*future impairment charges resulting from changes in the estimates of fair value of reporting units or of long-lived assets;*

*future results of our subsidiaries or changes in domestic or international tax statutes;*

*environmental liabilities related to manufacturing activities;*

*our continued access to a stable workforce and favorable labor relations with our employees;*

*the geographical location of a significant portion of our Aerospace business in California, which historically has been susceptible to natural disasters;*

*our ability to successfully manage regulatory, tax, and legal matters (including product liability, patent, and intellectual property matters);*

*liabilities resulting from legal and regulatory proceedings, inquiries, or investigations by private or U.S. Government persons or entities;*

*risks from operating internationally, including the impact on reported earnings from fluctuations in foreign currency exchange rates, and changes in the legal and regulatory environments of the United States and the countries in which we operate;*

*fair value of defined benefit plan assets and assumptions used in determining our retirement pension and other postretirement benefit obligations and related expenses including, among others, discount rates and investment return on pension assets; and*

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*certain provisions of our charter documents and Delaware law that could discourage or prevent others from acquiring our company. These factors are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed or forecast in our forward-looking statements. Other factors are discussed under the caption Risk Factors in Item 1A in this Annual Report on Form 10-K for the fiscal year ended September 30, 2012 (this Form 10-K), as updated from time to time in our subsequent Securities and Exchange Commission (SEC) filings. We undertake no obligation to revise or update any forward-looking statements for any reason.*

*Unless we have indicated otherwise or the context otherwise requires, references in this Form 10-K to Woodward, the Company, we, us, and our refer to Woodward, Inc. and its consolidated subsidiaries.*

*Except where we have otherwise indicated or the context otherwise requires, amounts presented in this Form 10-K are in thousands except per share amounts.*

### **Item 1. Business** **General**

We are an independent designer, manufacturer, and service provider of energy control and optimization solutions. We design, produce and service reliable, efficient, low-emission, and high-performance energy control products for diverse applications in challenging environments. We have significant production and assembly facilities in the United States, Europe and Asia, and promote our products and services through our worldwide locations.

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Our strategic focus is providing energy control and optimization solutions for the aerospace and energy markets. The precise and efficient control of energy, including fluid and electrical energy, combustion, and motion, is a growing requirement in the markets we serve. Our customers look to us to optimize the efficiency, emissions and operation of power equipment in both commercial and military operations. Our core technologies leverage well across our markets and customer applications, enabling us to develop and integrate cost-effective and state-of-the-art fuel, combustion, fluid, actuation and electronic systems. We focus primarily on original equipment manufacturers ( OEMs ) and equipment packagers, partnering with them to bring superior component and system solutions to their demanding applications. We also provide aftermarket repair, replacement and other service support for our installed products.

Our components and integrated systems optimize performance of commercial aircraft, military aircraft, ground vehicles and other equipment, gas and steam turbines, wind turbines, including converters and power grid related equipment, industrial diesel, gas and alternative fuel reciprocating engines, and electrical power systems. Our innovative fluid energy, combustion control, electrical energy, and motion control systems help our customers offer more cost-effective, cleaner, and more reliable equipment. Our customers include leading OEMs and the end users of their products.

We were established in 1870, incorporated in 1902, and are headquartered in Fort Collins, Colorado. The mailing address of our world headquarters is 1000 East Drake Road, Fort Collins, Colorado 80525. Our telephone number at that location is (970) 482-5811, and our website is [www.woodward.com](http://www.woodward.com). None of the information contained on our website is incorporated into this document by reference.

### **Markets and Principal Lines of Business**

We serve two primary markets – aerospace and energy.

Within the aerospace market, we provide systems, components and solutions for both commercial and military applications. Our key focus areas within this market are:

Propulsion system control solutions for turbine powered aircraft; and

Actuation systems and motion control solutions.

Within the energy market, our key focus areas are:

Control solutions for equipment that produce electricity using conventional or renewable energy sources;

Solutions for the control of power quality, distribution and storage on the electrical grid; and

Control solutions for power equipment used in the extraction, distribution and conversion of renewable and fossil fuels in marine, mobile, and industrial equipment applications.

Our customers require technological solutions to meet their needs for performance, efficiency, and reliability, and to reduce their costs of operation.

Additional information about our operations in fiscal year 2012 and outlook for the future, including certain segment information, is included in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations. Additional information about our business segments and certain geographical information is included in Note 21, *Segment information* and Note 22, *Supplemental quarterly financial data (Unaudited)*, to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

### **Products, Services and Applications**

#### *Aerospace*

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Our Aerospace segment designs, produces and services systems and products for the management of fuel, air, combustion and motion. These products include pumps, valves, fuel nozzles, metering units, cockpit controls, actuators, motors and sensors. These products are used on commercial and military fixed-wing aircraft and rotorcraft, as well as weapons and defense systems. We have significant content on a wide variety of commercial aircraft, rotorcraft and business jet platforms, including the Airbus A320, Boeing 787, Bell 429 and Gulfstream G650, and we have significant content on military applications, such as the Blackhawk helicopter, F-35 fighter jet, M1A1 Abrams Tank and guided tactical weapons, such as the Joint Direct Attack Munition ( JDAM ).

Revenues from the Aerospace segment are generated primarily by sales to OEMs and tier-one prime contractors, and through aftermarket sales of components, such as provisioning spares or replacements. We also provide aftermarket repair, overhaul and other services to commercial airlines and other end users, turbine OEM repair facilities, military depots, and third party repair shops.

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Our Energy segment designs, produces and services systems and products for the management of fuel, air, fluids, gases, electricity and motion. These products include power converters, actuators, valves, pumps, injectors, solenoids, ignition systems, governors, electronics and devices that measure, communicate and protect low and medium voltage electrical distribution systems. Our products are used on industrial gas turbines, aeroderivative turbines, reciprocating engines, electrical grids, wind turbines and compressors. The equipment on which our products are found is used to extract and distribute fossil and renewable fuels, generate, distribute or store electricity, and to convert fuel to work in marine, mobile, and industrial equipment applications.

Revenues from the Energy segment are generated primarily by sales, which include aftermarket or replacement sales, to OEMs and tier-one prime contractors, and by providing other related services to our OEM customers and, in some cases, directly to end users or distributors.

**Sales Order Backlog**

Our backlog of unshipped sales orders as of October 31, 2012 and 2011 by segment was as follows:

|           | October 31,<br>2012 | % Expected to be<br>filled by<br>September<br>30, 2013 | October 31,<br>2011 |
|-----------|---------------------|--|---------------------|
| Aerospace | \$ 477,274          | 79%  | \$ 492,263          |
| Energy    | 179,410             | 95   | 266,827             |
|           | \$ 656,684          | 83%  | \$ 759,090          |

Our current estimate of the sales order backlog is based on unshipped sales orders that are open in our order entry systems. Unshipped orders are not necessarily an indicator of future sales levels because of variations in lead times and customer production schedules.

**Seasonality**

We do not believe that our sales, in total or in either business segment, are subject to significant seasonal variation. However, our sales have generally been lower in the first quarter of our fiscal year as compared to the immediately preceding quarter due to fewer working days resulting from the observance of various holidays and scheduled plant shutdowns for annual maintenance.

**Customers**

For the fiscal year ended September 30, 2012, approximately 36% of our consolidated net sales were made to our five largest customers. Sales to our five largest customers represented approximately 34% and 39% of our consolidated net sales for the fiscal years ended September 30, 2011 and September 30, 2010, respectively.

Sales to our largest customer, General Electric, accounted for approximately 14%, 14%, and 15% of consolidated net sales in each of the fiscal years ended September 30, 2012, 2011 and 2010, respectively. Our accounts receivable from General Electric represented approximately 10% of total accounts receivable as of September 30, 2012 and 11% as of September 30, 2011. We believe General Electric and our other significant customers are creditworthy and will be able to satisfy their credit obligations to us.

The customers who account for approximately 10% or more of sales to each of our reporting segments for the fiscal year ended September 30, 2012 follow:

|           | <b>Customer</b>                                   |
|-----------|---|
| Aerospace | United Technologies, Boeing, General Electric     |
| Energy    | General Electric, Repower Systems AG, Caterpillar |

**Government Contracts and Regulation**

Portions of our business, particularly in our Aerospace segment, are heavily regulated. We contract with numerous U.S. Government agencies and entities, including all of the branches of the U.S. military, the National Aeronautics and Space Administration ( NASA ), and the Departments of Defense, Homeland Security, and Transportation. We also contract with similar government authorities outside the United States with respect to our international efforts.

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The U.S. Government, and other governments, may terminate any of our government contracts (and, in general, subcontracts) at their convenience, as well as for default based on specified performance measurements. If any of our government contracts were to be terminated for convenience, we generally would be entitled to receive payment for work completed and allowable termination or cancellation costs. If any of our government contracts were to be terminated for our default, the U.S. Government generally would pay only for the work accepted, and could require us to pay the difference between the original contract price and the cost to re-procure the contract items, net of the work accepted from the original contract. The U.S. Government could also hold us liable for damages resulting from the default.

We must comply with, and are affected by, laws and regulations relating to the formation, administration and performance of U.S. Government contracts. These laws and regulations, among other things:

require accurate, complete and current disclosure and certification of cost and pricing data in connection with certain contracts;

impose specific and unique cost accounting practices that may differ from accounting principles generally accepted in the United States ( U.S. GAAP ), and therefore require reconciliation;

impose regulations that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts;

impose manufacturing, specifications and other quality standards that may be more restrictive than for non-government business activities; and

restrict the use and dissemination of information classified for national security purposes and with respect to both the U.S.

Government s and the governments of foreign countries regulations pertaining to the export of certain products and technical data. Sales made directly to U.S. Government agencies and entities, or indirectly through third party manufacturers utilizing Woodward parts and subassemblies, collectively represent 18% of our sales for fiscal year 2012, 19% of our sales for fiscal year 2011, and 23% of our sales for fiscal year 2010. The level of U.S. spending for defense, alternative energy and other programs, and the mix of programs to which such funding is allocated, is subject to periodic congressional appropriation actions, including the sequestration of appropriations in fiscal year 2013 under the Budget Act, and is subject to change at any time.

U.S. Government related sales from our reporting segments for fiscal year 2012 and fiscal year 2011 follows:

|  | Direct U.S.<br>Government<br>Sales | Indirect U.S.<br>Government<br>Sales | Commercial<br>Sales | Total        |
|--|------------------------------------|--------------------------------------|---------------------|--------------|
| <b><u>Fiscal year ended September 30, 2012</u></b> |                                    |                                      |                     |              |
| Aerospace  | \$ 78,075                          | \$ 254,636                           | \$ 563,372          | \$ 896,083   |
| Energy   | 3,904                              | 7,228                                | 958,412             | 969,544      |
| Total net external sales                           | \$ 81,979                          | \$ 261,864                           | \$ 1,521,784        | \$ 1,865,627 |
| Percentage of total net sales                      | 4%                                 | 14%                                  | 82%                 | 100%         |
| <b><u>Fiscal year ended September 30, 2011</u></b> |                                    |                                      |                     |              |
| Aerospace  | \$ 67,116                          | \$ 252,462                           | \$ 523,454          | \$ 843,032   |
| Energy   | 3,448                              | 7,530                                | 857,692             | 868,670      |

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|                               |           |            |              |              |
|-------------------------------|-----------|------------|--------------|--------------|
| Total net external sales      | \$ 70,564 | \$ 259,992 | \$ 1,381,146 | \$ 1,711,702 |
| Percentage of total net sales | 4%        | 15%        | 81%          | 100%         |

### **Manufacturing**

We operate manufacturing and assembly plants in the United States, Europe and Asia. Our products consist of mechanical, electronic and electromagnetic systems and components.

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Aluminum, iron and steel are primary raw materials used to produce our mechanical components. Other commodities, such as gold, copper and nickel, are also used in the manufacture of our products, although in much smaller quantities. We purchase various goods, including component parts and services used in production, logistics and product development processes from third parties. Generally there are numerous sources for the raw materials and components used in our products, which we believe are sufficiently available to meet current requirements.

In August of 2012, the SEC issued a final rule implementing Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that imposes reporting requirements on issuers who use or may use Conflict Minerals, defined as columbite-tantalite (the metal ore from which tantalum is extracted), cassiterite (the metal ore from which tin is extracted), gold, and wolframite (the metal ore from which tungsten is extracted), or their derivatives, originating from the Democratic Republic of the Congo and neighboring countries (collectively, covered countries). The rule was mandated in response to humanitarian concerns that trade in conflict minerals is used to finance armed groups in the covered countries. The rule describes assessment and reporting requirements for all issuers for which conflict minerals originating in a covered country are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by the issuer. Such issuers are required to file a newly created Form SD annually by May 31 for the prior calendar year. Initial Form SDs are required to be filed by May 31, 2014 for the calendar year 2013. We are currently in the process of assessing whether the Company will be required to file a Form SD for calendar year 2013, and we are implementing necessary processes and procedures to collect information necessary to make any required filing. We do not anticipate that any requirement to file this new Form SD will have a material impact on our Consolidated Financial Statements.

We maintain global strategic sourcing models to meet our global facilities' production needs while building long-term supplier relationships and efficiently managing our overall supply costs. We expect our suppliers to maintain adequate levels of quality raw materials and component parts, and to deliver such parts on a timely basis to support production of our various products. We use a variety of agreements with suppliers intended to protect our intellectual property and processes and to monitor and mitigate risks of disruption in our supply base that could cause a business disruption to our production schedules or to our customers. The risks monitored include supplier financial viability, business continuity, quality, delivery and protection of our intellectual property and processes.

Our customers expect us to maintain adequate levels of certain finished goods and certain component parts to support our warranty commitments and sales to our aftermarket customers, and to deliver such parts on a timely basis to support our customers' standard and customary needs. We carry certain finished goods and component parts in inventory to meet these rapid delivery requirements of our customers.

## **Research and Development**

We finance our research and development activities primarily with our own independent research and development funds, but in some cases research and development costs are shared by the customer. Our research and development costs include basic research, applied research, development, systems and other concept formulation studies. We also conduct research and development activities aimed at improving our manufacturing processes.

Company funded expenditures related to new product development activities are expensed as incurred and are separately reported in the Company's Consolidated Statements of Earnings. Across both of our segments, research and development costs totaled \$143,274 in fiscal year 2012, \$115,633 in fiscal year 2011, and \$82,560 in fiscal year 2010. Research and development costs were 7.7% of consolidated net sales in fiscal year 2012 compared to 6.8% in fiscal year 2011 and 5.7% in fiscal year 2010. See Research and development costs in Note 1, *Operations and summary of significant accounting policies*, to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

*Aerospace* is focused on developing systems and components that we believe will be instrumental in helping our customers achieve their objectives of lower fuel consumption, lighter weight, more efficient performance, reduced emissions, and improved operating economics. Our development efforts support technology for a wide range of:

aerospace turbine applications, including commercial, business and military engines of various thrust classes;

electromechanical and hydraulic actuation systems for cockpit-to-flight surface control of fixed-wing aircraft and rotorcraft, as well as for weapon systems; and

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motion control components for integration into comprehensive actuation systems.

The aerospace industry is moving toward more electronic ( fly-by-wire ), lighter weight aircraft, while demanding increased reliability and redundancy. In response, we are developing an expanded family of intelligent cockpit control products (including throttle and rudder controls) with both conventional and fly-by-wire technology as well as motor driven actuation systems.

We collaborate closely with our customers in the early stages of a project as they develop their new product concepts. We believe this collaboration allows us to develop technology that is aligned with our customers' needs and therefore, increases the likelihood that our systems and components will be selected for inclusion in the platforms developed by our customers. We believe our close collaboration with our customers during preliminary design stages allows us to provide products that deliver the component and system performance necessary for our customers' product.

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Some technology development programs begin years before an expected entry to service, such as those for the next-generation commercial aircraft engines. Other development programs result in nearer-term product launches associated with new OEM offerings, product upgrades, or product replacements on existing programs.

We are currently developing the fuel system, air management, and actuation hardware for CFM International's LEAP-X engine program, and several components (including fuel nozzles, high- and low-pressure stator vane actuators, a bleed valve actuator, an oil valve package, a fuel flow divider, and return-to-tank valves) for the newest models of Pratt & Whitney's PurePower engine program. These programs target applications in the single-aisle aircraft market with expected entry into service in the 2016 to 2017 timeframe. Both the LEAP-X engine and the PurePower engine have been selected by Airbus as options for its re-engined A320neo aircraft. In addition, the LEAP-X has been selected exclusively by Comac for its C919 aircraft and by Boeing for its re-engined 737 MAX, and the PurePower engine has been selected exclusively by Irkut for the MS-21 aircraft.

We are also currently developing the fuel system, air management, and actuation hardware for the Passport 20 engine program, the next-generation GE Aviation engine for the large business aviation market, and GE Aviation's NG34 technology development program, which will advance technology for the next generation CF34 engine for regional jets. Bombardier selected the Passport 20 engine to power its Global 7000 and 8000 long-range business aircraft, targeting entry into service in 2016 and 2017, respectively.

**Energy** is focused on developing more efficient, cleaner technologies, including integrated control systems and system components that we believe will allow our OEM customers to cost-effectively meet mandated emissions regulations and fuel efficiency demands, allow for usage of a wider range of fuel sources, support global infrastructure requirements, and safely distribute and store power on the electrical grid. Our development efforts support technology for a wide range of:

power converters for multi-megawatt (where megawatt is referred to as MW) class wind turbines in the power range of 1MW to 6MW, both for on-shore and off-shore-applications;

power converters for multi-MW solar farms in the power range of 100kW to 2.5MW;

power converters for energy storage and micro-grids in the power range of 100kW to 6.0MW;

distributed generator system (Genset) controls;

controls for switchgear;

new generation of protection and control relays for medium-voltage applications;

modernization of the self powered protection relay lines;

industrial gas and steam turbines;

industrial compressors;

engines and turbines driving pumps, generators and compressors; and

engines and turbines used for propulsion of mobile, marine and industrial equipment.

Our clean technology development efforts include controls for diesel, natural gas and alternative fuel engines, and full-scale converters. Major development projects, including diesel common rail systems, air and gaseous fuel systems, and automated diesel particulate regeneration systems are targeted for future global emissions regulations for the year 2015 and beyond.

We believe that our technologies make marine and industrial power generation and distribution, and alternative fueled bus, truck and ship engines operate cleaner, more efficiently, and more reliably.

### **Competitive Environment**

Our products and product support services are sold worldwide into a variety of competitive markets. In all markets, we compete on the basis of differentiated technology and design, product performance and conformity with customer specifications, customer service and support, including on-time delivery and customer partnering, product quality, price, reputation and local presence. Both of our segments operate in uniquely competitive environments.

We believe that new competitors face significant barriers to entry into many of our markets, including various government mandated certification requirements to compete in the aerospace markets in which we participate.

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*Aerospace* industr