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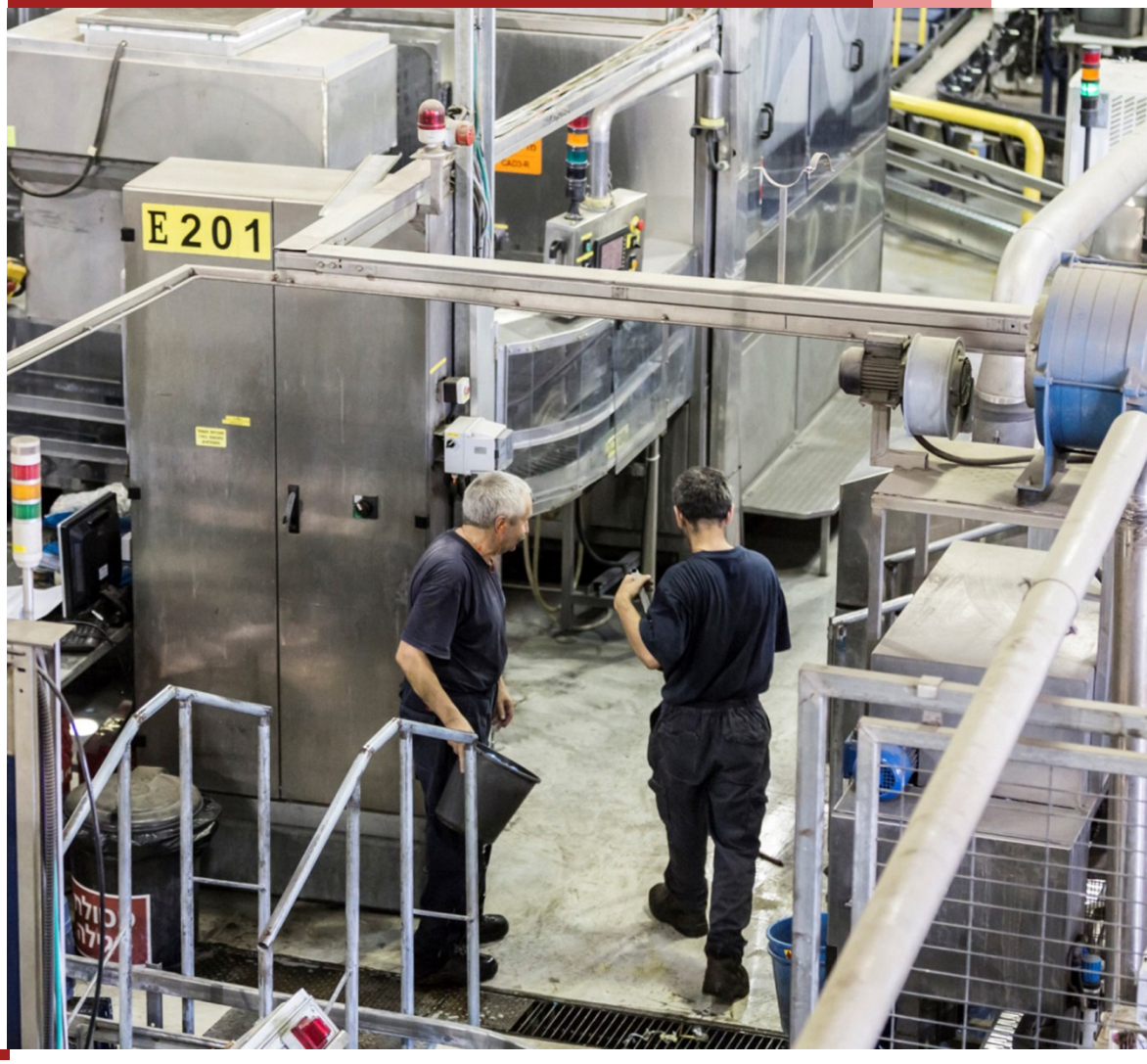
November 2014



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To Our Clients and Friends:

As 2014 draws near to an end, I am sure many of you are turning your attention to the preparation of your year-end financial statements. With the continued uncertainties in the economic and regulatory environment, this is a great time to refresh your understanding of the SEC staff's areas of focus when it comes to preparing high quality annual reports.

We have prepared this publication to assist you with identifying and understanding the SEC's recent areas of focus specific to the industrial products sector. The information summarized in this publication is based on comment letters issued to industrial products companies by the SEC from October 1, 2013 to September 30, 2014. We have highlighted the areas where the industry has received the most comments from the SEC and provided relevant examples of recent comments to aid you in ensuring that your disclosures are robust and consistent with relevant accounting and reporting guidance and recent reporting trends.

We hope you find this summary to be a useful reference tool, and we look forward to working with you through this financial reporting season. Please do not hesitate to reach out to your engagement team or a PwC contact to discuss the information contained in this publication.

Best wishes,

Tracey

Tracey A. Stover
U.S. Industrial Products Assurance Leader

Contents

SEC developments

2014 was a busy year at the SEC. Although there were only a few changes in senior personnel (compared to 2013 when several high profile staff positions were filled and three Commissioners, including a new Chair, were appointed), one notable change was the appointment of Jim Schnurr as the SEC's Chief Accountant. Schnurr joined the SEC staff in October and will play a major role in shaping the SEC's agenda at a time when accounting, auditing and financial reporting are key areas of focus. This focus reflects a common understanding that transparent, accurate and reliable financial reporting forms the foundation of trust which allows our capital markets to function properly and provides the transparency and confidence investors need when making decisions.

Following through on initiatives started in 2013, 2014 has seen a high level of activity in the SEC's enforcement program, with renewed attention on financial fraud, issuer disclosure and gatekeepers. The Enforcement Division's Financial Reporting and Audit Task Force—a small group of experienced attorneys and accountants charged with developing state-of-the art tools to better identify financial fraud and incubating cases to be handled by other groups—is one example of how the SEC has increased its focus. The Task Force monitors high-risk areas, analyzes industry performance trends, reviews restatements, revisions, and class action filings as well as academic research. It is also working on the SEC's Accounting Quality Model—sometimes referred to as Robocop—which is being developed to use data analytics to assess the degree to which a company's financial reporting appears noticeably different from its peers. The Task Force was very busy during 2014 with even more activity expected in 2015.

The SEC staff has continued to focus on internal control over financial reporting, with more attention on how companies evaluate deficiencies relating to immaterial financial statement errors. The SEC staff signaled its intention to increase its focus in this area in late 2013, and this has led to more frequent comments and questions in 2014, with more likely to come in 2015.

Recognizing that full and fair disclosure is a central goal of the U.S. securities laws and is critical to the fulfillment of the SEC's core mission, during 2014 the SEC launched a "Disclosure Effectiveness" initiative. Through this initiative, the SEC is looking for ways to update and modernize its disclosure system and to eliminate duplicative or overlapping requirements, while continuing to provide material information. Trying "to put better disclosure into the hands of investors," the SEC staff is taking a fresh look at the question: what information do investors need to make informed decisions? In addition to looking at the specific disclosures companies provide, the SEC staff is also looking closely at how disclosures are provided, particularly in light of advances in technology and changes in how information is consumed. For instance, the SEC staff might explore a “company file” approach through which investors would access company-specific information on the SEC's website through tabs such as “Business information,” “Financial information,” “Governance information,” and “Executive compensation,” instead of searching for that same information by combing through a reverse chronological list of filings. The SEC staff has been clear that reducing disclosure is not the objective of this important project (indeed, they have said that updating the requirements may well result in additional disclosures), but they have indicated that they believe the initiative can reduce costs and burdens on companies.

Even before any rule changes are adopted (or proposed), companies already have the ability to improve the quality and relevance of their disclosures by reducing redundancy, removing out-of-date, unnecessary information, and refining disclosures to focus on those issues which are truly applicable and material. The SEC staff has been encouraging companies to experiment with the presentation of the information in their filings with the objective of improving the transparency, quality and relevance of their disclosures.

John A. May
SEC Services Leader

Overview

To help registrants gain insight into the SEC's current areas of focus, PwC analyzed comments issued by the SEC's Division of Corporation Finance to domestic large-accelerated and accelerated filers in the industrial products industry on Forms 10-K and 10-Q that were published from October 1, 2013 to September 30, 2014. The population included industrial products subsectors:

- Aerospace & Defense
- Automotive
- Business & Professional Services
- Chemicals
- Forest, Paper & Packaging
- Industrial Manufacturing
- Metals
- Transportation & Logistics

The topics most frequently identified this year are relatively consistent with those issued in prior years. By far the highest volume of comments related to registrants' discussion of results of operations, liquidity, and capital resources in the MD&A.

The following are the "hot topics" that appear most frequently in the comment letters that we analyzed. Many of these topics are not industry-specific, but show consistency in the SEC staff's priority areas across a variety of sectors.

1. Management's discussion and analysis
2. Segments
3. Impairments
4. Income Taxes
5. Loss contingencies
6. Operations in locations identified as state sponsors of terrorism
7. Revenue recognition
8. Guarantor information
9. Compliance
10. Other trends: Non-GAAP measures; risk factors; and controls and procedures

This publication has been prepared to assist management at industrial products companies with their evaluation of the topics that are important for 2014 year-end financial reporting. In the pages that follow, we analyze the trends within each of the topics listed above and provide examples of the SEC staff's comments.

Management's discussion and analysis

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is a critical component of registrants' communications with investors and continued to be the top area for comment by the SEC staff in 2014. The key objectives of MD&A are to provide a narrative explanation of the financial statements that enables investors to see the company through the eyes of management, to offer context to the financial statements, and to provide information that allows investors to assess the likelihood that past results are indicative of future performance. We have found that the majority of SEC staff comments in this area are not aimed at meeting specific technical requirements, but rather at enhancing the quality of disclosures to meet these objectives.

The requirements themselves are set forth in Item 303 of Regulation S-K, which identifies five categories of disclosure in MD&A: liquidity, capital resources, results of operations, off-balance-sheet arrangements, and contractual obligations. Additional guidance is also contained in Financial Reporting Release (FRR) 36 and FRR 72. More recently, following the release of its December 2013 Report on Review of Disclosure Requirements in Regulation S-K mandated by the JOBS Act, the SEC has indicated that the Division of Corporation Finance will pursue a project to develop recommendations focused on improving and streamlining disclosure requirements. This project may reduce the costs and burdens on companies and eliminate duplicative disclosures in MD&A, but may also identify opportunities to increase the transparency of information, which could lead to new requirements.

We have found that the majority of SEC staff comments in this area are not aimed at meeting specific technical requirements, but rather at enhancing the quality of disclosures to meet these objectives.

In the meantime, recent comments issued by the SEC staff have reinforced the well-established MD&A objectives that disclosures should be: 1) transparent in providing relevant information, 2) tailored to the company's facts and circumstances, 3) consistent with the financial statements and other public communications, and 4) comprehensive in addressing the many business risks that exist in today's economic environment. Results of operations, liquidity, and capital resources are the categories of MD&A that have received the most attention in SEC comment letters relative to these objectives. We have provided relevant examples of comments issued in each of these areas.

Results of operations

SEC staff comments have reminded registrants that the results of operations section should provide readers with a clear understanding of the significant components of revenues and expenses and events that have resulted in or are likely to cause a material change in the relationship between costs and revenues.

The SEC staff has frequently issued comments specifying that MD&A should not simply repeat information provided elsewhere in the filing; rather, it should explain the underlying drivers behind changes in the financial position, results of operations and cash flows of registrants. Increasingly, registrants are being challenged to quantify the impacts that such factors have had, especially when an account has been impacted by multiple factors. General observations on the population of SEC staff comments include the following:

- Disclosing known trends - The SEC staff has asked registrants to disclose known trends affecting the business, in particular, disclosure of events that have occurred and how those events were a positive or negative indicator of future performance. Examples include loss of a significant customer, development of new products that might impact future revenues or costs, entering a new market, or an acquisition that is expected to impact operating results. In addition, they encourage a discussion of key operating metrics used by management, coupled with an analysis of the relationship between such metrics and GAAP results.

- Drivers behind fluctuations - Many comments relate to improving registrants' disclosures of significant fluctuations between periods, including pricing, volume, the impact of acquisitions, and currency movements. The SEC staff has asked for more detailed descriptions related to the specific factors driving such fluctuations and for registrants to quantify each factor separately, even when they net to an insignificant change overall.

- Consistency of information - The SEC staff continues to review public information for consistency with the information included in a registrant's periodic filings. When management discusses events or trends on earnings calls, social media channels, or the company's website, the SEC staff may question why such events are not also addressed in MD&A.

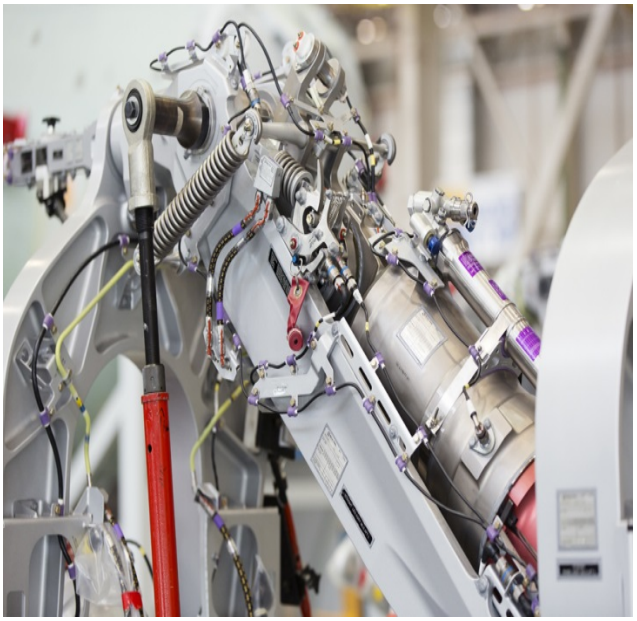
- Segment discussion - SEC staff comments have also encouraged the use of a segment analysis if such analysis would provide investors with a more in-depth understanding of the consolidated results. The segment analysis may be integrated with the discussion of the consolidated results to avoid unnecessary duplication.

Sample comments

1. We note the brevity of your discussion of the changes in cost of goods sold despite of the fact that such costs comprise a significant portion of the Company's total operating expenses. In this regard, we believe you should significantly expand your discussion of cost of sales in light of their overall significance and impact on the company's profitability levels on both a consolidated basis and at the segment level. Your revised discussion should quantify and discuss the impact of each significant component of cost of sales that cause cost of sales to materially vary from period to period. The disclosures should be presented in a manner so as to allow investors to discern the relative contribution of each of multiple components cited to the total change in cost of sales and resultant operating profits. In addition, the impacts of material variances in components of cost of sales that offset each other should be separately disclosed, quantified, and discussed (and not netted).

2. In your discussion and analysis of results of operations regarding material changes in your consolidated net revenues, consolidated gross profit, consolidated operating income, revenues by segment, gross profit by segment and operating income by segment, you cite several references to higher/lower sales volume, improved pricing and mix and raw material inflation as contributing factors regarding these changes. In future filings, please expand your discussion to quantify the effects of sales volume, sales prices, raw material prices and related product mix, to the extent possible, and explain the underlying causes to allow the reader to assess the relative importance and overall significance. Where you discuss a shift in product mix, provide a detailed explanation of the nature of the shift and underlying reasons. Address the expected future impact of related trends. Refer to Section 501.04 of the Codification of Financial Reporting Policies and SEC Release 33-8350.

3. In future filings, please provide a more detailed analysis of the factors that impact your operations, including a complete discussion of known or anticipated trends that may continue to have an impact. Your discussion and analysis is to provide investors with sufficient information to understand the historical trends and the expectations for the future as seen through the eyes of management. Refer to Section 501.04 of the Financial Reporting Codification and SEC Release 33-8350 for guidance.



Liquidity and capital resources

A key objective of the liquidity and capital resources discussion is to provide a clear picture of the registrant's ability to generate cash and to meet existing known or reasonably likely future cash requirements. The SEC staff expects companies to discuss material cash requirements, sources and uses of cash, and material trends and uncertainties related to its ability to use capital resources to satisfy its obligations. General observations on the population of SEC staff comments include the following:

- Disclosure of events impacting liquidity - The SEC staff has asked registrants to discuss known trends, events, or uncertainties that are reasonably likely to impact future liquidity. Such events could include entry into material commitments, loss of customers or contracts, treasury stock repurchase programs, or plans for significant capital expenditures.

- Debt agreements and related covenants - Comments from the SEC staff have requested expanded disclosure of the material terms of debt agreements, including an indication of compliance with financial covenants. In situations where there has been or is projected to be a violation with regard to covenant compliance, registrants should provide a detailed description of the covenants, the target and actual covenant measures for the most recent reporting period, and an indication of the sensitivity of those measurements, if applicable. Other items potentially impacting the availability of credit should also be made clear, including limitations on the ability to draw on existing lines of credit, or other borrowing limitations.

- Stranded cash - For companies with foreign operations, the SEC staff has focused on the registrant's ability to permanently reinvest cash outside the United States in light of significant upcoming obligations, such as debt repayments or mandatory pension contributions. Comments have focused on the relationship between liquidity needs and the income tax assertion about management's intent and ability to permanently reinvest foreign earnings. The SEC staff has also asked companies to quantify the amount of cash held overseas and the amount of incremental deferred tax, if any, which would be recorded if cash were to be repatriated. This is also a common topic in SEC staff comments related to income taxes.

- Cash flow analysis - One of the common criticisms in the liquidity analysis is the recitation of information readily found on the face of the statement of cash flows. Instead, registrants should disclose the underlying factors driving changes in operating assets and liabilities and the related cash flows.

Sample comments

1. Please expand your disclosures to discuss the underlying reasons for changes in working capital components, with specific discussions for accounts receivable, inventories and accounts payable. Given the impact that the changes in accounts receivable and inventories have had on your cash flows from operations, please also consider whether a discussion of financial measures such as days sales outstanding and days sales in inventory would be relevant to a reader of your financial statements. Please revise your disclosure for all periods presented. See Section IV.B of the SEC Interpretive Release No. 33-8350.

2. Please clearly disclose whether you were in compliance with your debt covenants. Please also disclose the actual ratios/amounts as of each reporting date for any material debt covenants for which it is reasonably likely that you will not be able to meet. Please also consider showing the specific computations used to arrive at the actual ratios/amounts with corresponding reconciliations to U.S. GAAP amounts. See Sections I.D and IV.C of the SEC Interpretive Release No. 33-8350 and Compliance and Disclosures Interpretation 102.09 which is available on our website at http://www.sec.gov/divisions/corpfin/guidance/nongaapinterp.htm.

3. Please enhance your liquidity disclosure to address the following: disclose the amount of foreign cash and short-term investments you have as compared to your total amount of cash and short-term investments as of the latest balance sheet date; discuss the fact that if the foreign cash and short-term investments are needed for your operations in the U.S., you would be required to accrue and pay U.S. taxes to repatriate these funds; and disclose that your intent is to permanently reinvest foreign amounts outside of the U.S. and your current plans do not demonstrate a need to repatriate the foreign amounts to fund your U.S. operations, if true.

4. Please provide a comparative discussion of each section of your cash flows (i.e., operating, investing and financing) between all comparable periods presented in the statements of cash flows. Your discussion should be accompanied by an analysis at the appropriate level of detail. Please note that in regard to operating cash flows your analysis should focus on factors that directly affect cash, and not merely refer to noncash items, or to results, items reported in the statement of cash flows or changes in line items presented in your balance sheet without discussing how such items directly affect cash. In so doing, please quantify all factors cited as a cause of a variance, particularly for operating activities, and ensure that your analysis addresses factors in substantial explanation of the total variance. Refer to item 1 of Section IV.B of "Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations" which is available on our website at http://www.sec.gov/rules/interp/33-8350.htm.

Segments

The purpose of segment disclosures is to provide investors with the ability to see the company through the eyes of management. In particular, it allows investors to assess the financial performance of a company at a disaggregated level.

Segment reporting continues to be a hot topic for comment letters across all industries, including industrial products. The most frequent comments issued by the SEC staff have been on the proper identification of operating segments and the aggregation of operating segments into reportable segments. It is not unusual for the SEC staff to request documentation supporting the registrant's identification of operating segments.

The SEC staff has often asked issuers to submit the information given to the chief operating decision maker (CODM) to allow the SEC staff to consider whether the information is consistent with the registrant's identification of its segments (particularly when a company reports only one segment). It is important to remember that the SEC staff reviews publicly available information for consistency between segment disclosures and the types of other information provided to the public. For example, the SEC staff may evaluate communications from companies' earnings calls, press releases and investor presentations, and on a company's website to identify inconsistencies.

The SEC staff has also challenged registrants to explain how the operating segments meet the "economic similarities" criterion for purposes of aggregation. Comment letters may request information from registrants to demonstrate that the operating segments exhibit similar long-term financial performance, sometimes requesting an analysis of the historical gross margins for each operating segment.

It is not unusual for the SEC staff to request documentation supporting the registrant's identification of operating segments.

The FASB and SEC have both supported the re-evaluation of segment reporting guidance given changes in technology and how information can be accessed and used. Until and unless changes are made, registrants should assess their segments based on the existing guidance in ASC 280, and continually reassess their segment conclusions, especially when there is a change in the registrant's business and management reporting structure.

Sample comments

1. We note that for several years you have made presentations at conferences in which you provided charts that showed the breakout of a fiscal year's sales by various product groups. In this regard, please provide the disclosure required by ASC 280-10-50-40.

2. We note that, during the second quarter, you changed your segment presentation to reflect the way your Chief Executive Officer now evaluates performance and the way you are organized internally. You now report your activities in two business segments. In this regard, please describe to us in your response the operating segments that aggregate to the two new reporting segments, and why these operating segments meet the aggregation criteria set forth in FASB ASC 280-10-50-11 and 12. Your response should be supported with the reports reviewed by your CODM, as well as any recent material changes to your internal reporting structure.

3. We note throughout your document your change to a single reportable segment in manufacturing, marketing, selling and distributing your products worldwide, whereas prior to 2012, you had four operating and reportable segments based on the geographic location of your subsidiaries. In order for us to further assess this matter, please provide to us the CODM reports for the last three years and two quarters of 2013. We may have further comment.

Segments

4. We note your statement that you operate in five business segments. Please tell us and revise your disclosures in future filings to clarify whether these five business segments meet the definition of operating segments, or if the five business segments are reportable segments that are comprised of the aggregation of two or more operating segments. If you are aggregating operating segments into a reportable segment, please also expand your disclosures in future filings to disclose your operating segments that are aggregated into the corresponding reportable segment and confirm that all of the aggregated segments meet all six of the criteria discussed in ASC 280-10-50-11. Please note that to the extent one or more aggregated operating segment has diverged from the reportable segments long-term financial performance for an isolated period, detailed disclosure of this divergence should have been fully discussed and analyzed in your analysis of your segment operating results in MD&A. Please refer to ASC 280-10-50-21.a. for guidance.

Impairments

The SEC staff continues to issue comments on registrants' considerations of disclosures surrounding critical accounting estimates related to goodwill, indefinite-lived intangible assets, and long-lived asset impairments.

These disclosures allow an investor to assess the likelihood of a future material impairment charge.

Goodwill

SEC staff comments during the 2014 comment letter cycle reflected themes similar to 2013 and 2012. Comments have requested additional details about impairment tests and the related assumptions. For reporting units whose fair values are not substantially in excess of their carrying amounts ("at risk" reporting units), the SEC staff has asked registrants to disclose:

- The percentage by which the fair value of the reporting unit exceeded its carrying value as of the date of the most recent quantitative analysis
- The amount of goodwill allocated to the reporting unit
- A description of the methods and key assumptions used in the impairment assessment and how they were determined
- A discussion of the degree of uncertainty associated with key assumptions
- A description of potential events and circumstances that could have a negative effect on the reporting unit's fair value

This type of request is consistent with the guidance outlined in the Division of Corporation Finance Financial Reporting Manual Section 9510.3.

The SEC staff has also continued to challenge whether impairment charges were recognized in the appropriate period. In some instances, the SEC staff has requested that registrants provide the current period and historical impairment analyses, accompanied by a comparison of key assumptions underlying each analysis with supporting evidence for changes in those assumptions. Some registrants also received comments from the SEC staff when no impairment charge was recorded during the annual assessment, but other publicly available data indicated the presence of a negative trend that could impact the impairment assessment.

When an impairment charge is recognized, registrants should disclose in the footnotes the events that gave rise to the impairment, such as changes in the underlying business or environment, the amount of the impairment loss, and the method of determining fair value of the reporting unit. Such disclosures should provide sufficient linkage to answer the question of why the charge belongs in the current period.

Sample comment

1. Please expand your disclosure to discuss the significant assumptions you use in your goodwill impairment analysis. In addition, to the extent that any of your reporting units have estimated fair values that are not substantially in excess of their carrying values, and goodwill for your reporting units, in the aggregate or individually, if impaired, could materially impact your results of operations or total shareholders' equity, please identify and provide the following disclosures for each such reporting unit:
    - The percentage by which fair value exceeds carrying value;
    - A description of the material assumptions that drive estimated fair value;
    - A discussion of any uncertainties associated with each key assumption; and
    - A discussion of any potential events, trends and/or circumstances that could have a negative effect on estimated fair value.

Long-lived assets

The SEC staff comments related to long-lived assets were consistent with the themes presented for goodwill and other indefinite-lived intangible assets. Specifically, the SEC staff scrutinized the timing of when impairment charges were recorded and the sufficiency of disclosures of valuation methodologies.

The SEC staff has also requested that registrants provide additional information about the level of uncertainty and sensitivity of key assumptions related to "at risk" assets or asset groups. In some instances, the SEC staff requested details of the impairment analysis and challenged registrants' conclusions relative to how registrants considered economic challenges, operating losses at a specific segment, or how they defined the lowest level of identifiable cash flows used to identify the asset group.

Long-lived assets are assessed for impairment under two models: (1) assets to be held and used, and (2) assets to be disposed of by sale.

Held and used assets should be tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. An asset group that satisfies all of the held for sale criteria under ASC 360, *Property, Plant and Equipment* should be measured at the lower of its carrying amount or fair value less cost to sell.

Comments from the SEC staff have also focused on the following areas:

- The consideration of economic challenges, operating losses at a specific segment and the impairment of similar assets as a potential triggering event
- The adequacy of foreshadowing disclosures for assets at risk of impairment including the percentage by which undiscounted cash flows exceed carrying value
- The timing of impairment charges

SEC staff scrutinized the timing of when impairment charges were recorded and the sufficiency of disclosures of valuation methodologies.

Sample comments

1. We note that you recorded fixed asset impairment charges of $XX million. Please describe to us in greater detail the specific fixed assets that were considered at risk for possible impairment and their carrying amount as a result of this draft regulation and, if different, the fixed assets that were eventually impaired. Please describe for us the methodology used for determining the fair value of the fixed assets and the significant assumptions inherent in that model. Refer to FASB ASC 360-10-35 and 360-10-50.

2. We note your disclosure that the $XX million decrease in your revenue for the six months ended June 30, 2013 was primarily due to a XX% decrease in the volume of shipments. We also note that substantially all of your sales are to one customer who has decreased its sales orders with you starting in the second quarter of 2011 and continuing through the first quarter of 2013. Please tell us if this customer is included within the customer list intangible asset which has a net book value of nearly $XX million as of June 30, 2013. If so, please tell us how you considered if the decline in orders from this customer represents a significant adverse change in circumstances which could cause you to evaluate the recoverability of this intangible asset for possible impairment as of June 30, 2013. Please refer to ASC 350-30-35-14, ASC 360-10-35-21 and 35-22.

Income taxes

The accounting for income taxes, including the related disclosure requirements, is often complex and involves significant judgment. SEC staff comments have focused on disaggregation in the income tax provision disclosures, additional detail related to the determination of valuation allowances, and the sufficiency and consistency of indefinite reinvestment disclosures.

Income tax provision disclosures

SEC staff comments frequently asked registrants to enhance their disclosure of how the results of operations are impacted by having proportionally higher or lower earnings in jurisdictions with different tax rates and the extent to which foreign effective tax rates differ from the domestic rate.

The SEC staff also issued comments when it was unclear whether the registrant's effective tax rate reconciliation included each item that exceeded five percent of income tax expense calculated using the applicable statutory tax rate (as required by ASC 740-10-50-12 and Rule 4-08(h) of Regulation S-X).

Valuation allowances

The SEC staff continued to scrutinize registrants' assessments of the realizability of deferred tax assets. These assessments involve significant judgment. In comment letters, the SEC staff asked registrants to explain the nature and weight of the positive and negative evidence considered. When significant changes occurred in the realizability of deferred tax assets, comments often asked registrants to explain the circumstance that lead to the change in the valuation allowance and to justify the timing of when the change was recorded. When changes in circumstances impacting the realizability of net deferred tax assets can be foreseen, registrants should consider foreshadowing disclosures in periods preceding the change.

Indefinite reinvestment assertion and related liquidity disclosures

The SEC staff has frequently asked registrants to explain the factors supporting their indefinite reinvestment assertion, including a description of their plans for reinvestment in each foreign jurisdiction. In addition, the SEC staff reminded registrants that when an indefinite reinvestment assertion was made, ASC 740-30-50 requires disclosure of the amount of the unrecognized deferred tax liability on undistributed earnings of foreign subsidiaries, or a statement that such determination is not practicable.

As discussed in the MD&A section above, the interplay between a registrant's indefinite reinvestment assertion and liquidity has continued to be an area of SEC staff comment. Registrants have been asked to disclose the amount of cash and cash equivalents in jurisdictions with an indefinite reinvestment assertion, the potential tax consequence of repatriation, and a description of events that may cause such foreign earnings to become taxable. The SEC staff has indicated that highlighting the amount of cash that may not be available to fund domestic operations or obligations without paying a significant amount of taxes upon repatriation is an important element of transparent liquidity disclosures.

The SEC staff may also request further information or disclosure when a registrant asserts indefinite reinvestment for certain foreign jurisdictions, but also discloses amounts repatriated from others.

The interplay between a registrant's indefinite reinvestment assertion and liquidity has continued to be an area of SEC staff comment.

Income taxes

Sample comments

1. We note that you reversed $XX million of the deferred tax asset valuation allowance based on five consecutive quarters of earnings, the expectation of your continued profitability, and signs of recovery in the housing market. In your Form 10-K, you noted the inability to carry back current net operating losses and your recent earnings history are significant evidence of the need for a valuation allowance against your net deferred tax assets. Considering the reversal of the valuation allowance materially impacted net income, it is unclear how your current disclosures sufficiently explain to investors the material positive and negative evidence you considered when arriving at the conclusion that the majority of the valuation allowance for your net deferred tax assets should be reversed. Please substantially revise your disclosure in future filings to provide investors with quantitative and qualitative information of the material positive and negative factors that you considered when arriving at your conclusion that it is more likely than not that the deferred tax assets will be realized. Please refer to ASC 740-10-30-16 - 30-25 for guidance. Please provide us with the disclosures you would have included in this Form 10-Q in response to this comment.

2. We note from your disclosure that the company has not recognized a provision for United States income taxes on $XX million of undistributed earnings of international subsidiaries because it is your intention to reinvest those earnings indefinitely and the determination of unrecognized deferred U.S tax liability for the undistributed earnings of such subsidiaries is not practicable. Please revise your discussion in the Liquidity and Capital Resources section of MD&A to discuss the amount of cash held by your foreign subsidiaries at the most recent balance sheet date, the fact that you would be required to recognize U.S. income taxes on such funds if they were repatriated to the United States and a statement indicating that you have no current plans to repatriate such funds.

3. We note that your effective tax rate has had significant variability between periods presented with a continuing reference to changes in the mix of income in tax jurisdictions among other factors. In future filings, please expand upon this disclosure to provide investors with additional insight into the tax jurisdictions materially impacting your effective tax rate for each period presented that includes quantified information. Please refer to Item 303(a)(3) of Regulation S-K and Section 501.12.b. of the Financial Reporting Codification for guidance. Please provide us with the disclosures that you would have included in your first quarter of fiscal year 2014 Form 10-Q in response to this comment.

Loss contingencies

The SEC staff continues to focus on ensuring that registrants comply with the guidance of ASC 450, *Contingencies*. Some registrants are resistant to providing the required disclosures for fear that they may divulge information that could adversely affect the outcome of litigation. To that end, the SEC staff has indicated that they will accept disclosure of estimated exposure on an aggregated basis, rather than requiring separate disclosure for each individual matter.

GAAP requires companies to record an accrual for a loss contingency when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Even if the criteria for accrual have not been met, disclosure may still be required if the loss is reasonably possible. For loss contingencies that meet the criteria for disclosure, registrants should disclose the nature of the contingency and an estimate of the possible loss or range of loss (or a statement that such estimate cannot be made).

To keep investors apprised of material developments associated with the nature, timing and amount of a loss contingency, such details should generally not be disclosed for the first time in the period in which they are recorded. The SEC staff has frequently evaluated the disclosures in periods prior to the period in which a loss is recorded and commented on the lack of adequate early-warning or foreshadowing disclosures. Such comments often request additional information to understand the triggering event for recording the loss and whether such losses should have been recorded in an earlier period. The SEC staff expects that loss contingency disclosures will be updated regularly, both qualitatively and quantitatively, for developments in the related matters and as more information becomes available.

Sample comments:

1. You state that, the Company is subject to various claims and legal actions arising in the ordinary course of business, none of which management believes is likely to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. With reference to Question 2 of SAB Topic 5Y please note that a statement that the contingency is not expected to be material does not satisfy the requirements of FASB ASC Topic 450 if there is at least a reasonable possibility that a loss exceeding amounts already recognized may have been incurred and the amount of that additional loss would be material to a decision to buy or sell the registrants securities. In that case, the registrant must either (a) disclose the estimated additional loss, or range of loss, that is reasonably possible, or (b) state that such an estimate cannot be made. In future filings, please revise your disclosures accordingly.

2. For multiple matters you state that the impact of the final resolution on your results of operations in a particular reporting period is not known. It is not clear for these matters whether there is at least a reasonable possibility that a loss exceeding amounts already recognized may have been incurred. If so, please either disclose an estimate (or, if true, state that the estimate is immaterial in lieu of providing quantified amounts) of the additional loss or range of loss, or state that such an estimate cannot be made. Please refer to ASC 450-20-50. If you conclude that you cannot estimate the reasonably possible additional loss or range of loss, please supplementally: (1) explain to us the procedures you undertake on a quarterly basis to attempt to develop a range of reasonably possible loss for disclosure and (2) for each material matter, what specific factors are causing the inability to estimate and when you expect those factors to be alleviated. We recognize that there are a number of uncertainties and potential outcomes associated with loss contingencies. Nonetheless, an effort should be made to develop estimates for purposes of disclosure, including determining which of the potential outcomes are reasonably

possible and what the reasonably possible range of losses would be for those reasonably possible outcomes. You may provide your disclosures on an aggregated basis. Please show us in your supplemental response what the revisions in future filings will look like.

3. Please supplementally justify your statement that none of the investigations, claims and lawsuits in which you are involved is expected to have a material adverse effect on your consolidated financial position, results of operations, cash flows or your ability to conduct business. Also, should this be deemed a material legal proceeding, disclose the factual basis alleged to underlie the proceeding and the relief sought required by Item 103 of Regulation S-K and Section 501.13 of the Financial Reporting Codification Policies in Legal Proceedings and in this note to the financial statements.

Operations in locations identified as state sponsors of terrorism

As companies continue to expand their operations internationally, some find themselves doing business, directly or indirectly, with countries that have been identified by the U.S. government as state sponsors of terrorism. Countries in this category currently comprise Cuba, Iran, Sudan, and Syria. The U.S. government has imposed sanctions and embargoes restricting commerce and trade with these countries.

The SEC staff regularly asks registrants, particularly global organizations, to provide incremental disclosure about business activities that occur in or with these countries. In addition, they have issued comment letters requesting that registrants discuss qualitative and quantitative factors that a reasonable investor would regard as important in making an investment decision. Comments have requested information or disclosures about:

- The nature and extent of past, current, and any anticipated operations in or with a country designated as a state sponsor of terrorism
- Any agreements, goods, services, technology, or support that registrants have provided for the referenced countries or other contracts that the registrant has had with the governments or entries controlled by the governments in these countries
- Whether there are offices, facilities, equipment, ground services, sales agents, or other employees in such countries
- A quantitative discussion of revenues, assets, and liabilities associated with each of the referenced countries

Sample comments

1. We note from the Code of Business Conduct and Ethics found on your website that employees must obtain a legal review of any transaction involving Syria, Sudan or Cuba. Syria, Sudan and Cuba are identified by the State Department as state sponsors of terrorism and are subject to U.S. economic sanctions and export controls. Your Form 10-K does not include disclosure regarding those countries. Please describe to us the nature and extent of any past, current, and anticipated contacts with Syria, Sudan or Cuba, whether through subsidiaries, affiliates, distributors, resellers, joint venture partners or other direct or indirect arrangements. Your response should describe any products, components or technologies you have provided to or received from Syria, Sudan or Cuba, and any agreements, commercial arrangements, or other contacts you have had with the governments of those countries or entities controlled by their governments.
2. Please discuss the materiality of any contact with Syria, Sudan and Cuba and whether those contacts constitute a material investment risk for your security holders. You should address materiality in quantitative terms, including the approximate dollar amounts of any associated revenues, assets, and liabilities for the last three fiscal years and the subsequent interim period. Also, address materiality in terms of qualitative factors that a reasonable investor would deem important in making an investment decision, including the potential impact of corporate activities upon a company's reputation and share value. Various state and municipal governments, universities, and other investors have proposed or adopted divestment or similar initiatives regarding investment in companies that do business with U.S.-designated state sponsors of terrorism. Your materiality analysis should address the potential impact of the investor sentiment evidenced by such actions directed toward companies that have operations associated with Syria, Sudan and Cuba.

Revenue recognition

The SEC staff continues to issue comment letters to the registrants that use the percentage-of-completion (POC) method of recognizing revenue, most common in the Aerospace & Defense and Engineering & Construction industries. The letters focus on the need for transparent disclosures regarding significant changes in the estimates of contract revenues and costs under ASC 605-35, *Revenue Recognition: Construction-Type and Production-Type Contracts*, S-K Item 303, and Financial Reporting Codification 501, notably 501.14 (Critical Accounting Estimates).

In order to apply POC accounting, a registrant must have the ability to make reasonably dependable estimates of contract revenues and costs and the progress toward completion. The application of POC accounting requires significant estimates. Changes in those estimates can have a material cumulative impact on reported financial results.

With respect to both financial statements and MD&A, the SEC staff has requested the following additional information:

- Disclosure of the aggregate net impact of changes in contract estimates on income and earnings per share for each period presented
- A description of the contract estimation process and how profit adjustments arise
- Expanded quantitative disclosure of the gross favorable and gross unfavorable profit adjustments for each period presented
- A description of any significant adjustments made to individual contract estimates
- Disclosure in regard to accruals for loss contingences

The SEC staff also expects a discussion of any trends (past and future) in the profit adjustments arising from revised contract estimates. The SEC staff has also indicated that disaggregation of these profit adjustments by segment may be appropriate.

Additionally, the SEC staff has issued various comments regarding the recognition of revenue in multiple-element arrangements. These include a request for expanded disclosures over recognition polices when there are several sources of revenues, and expanded disclosures around the accounting policies for recognizing revenue when a right for a return exists.

Sample comments

1. We note that for your long-term fixed price design and construction contracts, you apply the percentage of completion method of contract accounting and that the cost-to-cost method is used to measure progress toward completion. Please clarify for us and revise your notes to discuss how changes to your estimates, favorable or unfavorable, are recognized within your financial statements. We note your disclosure that no loss under the cost to cost method of accounting was recognized in any of the periods presented; however, it is unclear whether you had any material revisions of estimates to your long-term fixed-priced contracts during any of the periods presented in your financial statements. Please advise and if material, quantify the impact of the changes in estimates on your results of operations for each period presented. Refer to ASC 605-35-50-9.

2. In future filings, please disclose the amount of the accrual for anticipated losses on contracts as of each balance sheet date, along with the amount(s) included in each balance sheet line item. Please also quantify the estimated remaining costs to complete for loss contracts. If loss contracts have had an immaterial impact to your consolidated financial statements, please disclose this fact. Refer to ASC 605-35-45-2.

Revenue Recognition

3. Please tell us how you have evaluated the deliverables in your arrangements, such as the individual products and services outlined in your agreements with customers, to determine whether the deliverables represent separate units of accounting, and the timing of such evaluation(s). Refer to ASC Topic 605-25-25-5. In your assessment, address whether the delivered item or items have value to the customer on a standalone basis. Further, for all your arrangements, please provide to us your proposed disclosure addressing the criteria specified in ASC Topic 605-25-50.

4. Please tell us your consideration of the guidance in ASC 605-15-25-1 through 4 regarding your product return rights. Please tell us and expand your disclosure regarding the terms of the limited return rights. For each period presented, please tell us your actual returns and your provision for the estimated amount of future returns.

Guarantor information

It is not uncommon for public debt issuers to have guarantees from either their parent or subsidiaries as credit enhancements in debt agreements. S-X Rule 3-10(a) of Regulation S-X sets forth the general principle that (i) every issuer of a registered security that is guaranteed, and (ii) every guarantor of a registered security, must file the financial statements required for a registrant by Regulation S-X. However, Rule 3-10 includes a number of exceptions to this general principle. If specific conditions are satisfied, a reduced level of reporting and disclosure may be substituted for full financial statements of the subsidiary-issuer/guarantor(s).

Under the reduced reporting and disclosure framework, the financial statements of the parent, together with condensed consolidating financial information may be presented instead of the separate financial statements of the subsidiary-issuer/guarantor(s).

We continue to see a number of comments related to the form and content of the condensed consolidating financial information. Common errors include the presentation of negative assets or liabilities in the condensed consolidated balance sheet and classification errors in the consolidating statement of cash flows.

In addition, the SEC staff may question whether a registrant has met the conditions to qualify for the reduced level of reporting, which include 100% ownership of a subsidiary and only specific, limited release provisions.

Common errors include the presentation of negative assets or liabilities in the condensed consolidated balance sheet and classification errors in the consolidating statement of cash flows.

Sample comments

1. We note positive operating cash flows recorded for either the Parent or Guarantor in each period presented. It is unclear how the Parent was able to generate substantial positive operating cash flows during fiscal years 2011 and 2010 given the absence of any revenue transactions in the fiscal years presented and the lack of dividends from subsidiaries during fiscal years 2011 and 2010. It is also unclear how the Guarantor subsidiary was able to generate substantial positive operating cash flows during fiscal year 2012 given the amount of other revenue transactions and the lack of dividends paid by the Non-Guarantor subsidiaries in each period presented. Please advise and provide us a reconciliation of operating cash flows from net income using the indirect method for the Parent, Guarantor subsidiary and the Non-Guarantor subsidiaries for each period presented. See Article 3-10(i)(8) and (9) of Regulation S-X. Please also address this situation for the March 30, 2013 and June 29, 2013 condensed consolidating cash flow statements of the March 30, 2013 Form 10-Q and June 29, 2013 Form 10-Q. We may have further comment.

2. Please provide us with an explanation of the intercompany transactions that result in your Non-Guarantor subsidiaries recognizing substantial intercompany accounts receivable for each period presented. Please also provide us with an explanation of the transactions that resulted in the Parent and Guarantor subsidiary recognizing substantial intercompany accounts payable for both dates presented. Please ensure your explanation includes quantified information to help us better understand the transactions described. In this regard, we note that the Parent and Guarantor subsidiary do not generate net sales.

3. You disclosed that the guarantor subsidiaries are 100% owned by your Parent and all guarantees are full and unconditional, subject to certain customary release provisions set forth in the applicable Indenture. Please provide us with a specific and comprehensive discussion regarding how you considered these release provisions in determining that the guarantees are full and unconditional and in your reliance on Rule 3-10 of Regulation S-X.

Compliance

Compliance with the instructions to Forms 10-K and 10-Q, continue to garner comments from the SEC staff. Specifically, there are often errors in the information required to be included as exhibits, which include management's certifications. Guidance on the form and content of exhibits can be found in Item 601 of Regulation S-K.

Comments received in this category often relate to:

- Improper dating of certifications
- Omission of signatures from appropriate officers
- Use of inappropriate language in certifications of the principle executive officer and principle financial officer
- Omission of required exhibits and appendices within the filing

While these comments do not typically require significant effort to address, the resolution of these comments may require a registrant to file an amendment.

Sample comments

1. The certification refers to the Annual Report on Form 10-K for the period ended May 31, 2013 rather than August 31, 2013. Please amend your Form 10-K to provide certifications which refer to the appropriate period. Please refile the Form 10-K in its entirety and ensure that the certifications are currently dated and refer to the Form 10-K/A. In a similar manner, please amend your Form 10-Q for the period ended November 30, 2013 as the certification provided in Exhibit 32.1 also appears to refer to the wrong period.

2. This report does not appear to have been signed by a majority of your directors. Refer to General Instruction D(2)(a) and (b) of Form 10-K. Please advise.

3. Please tell us why your previous CFO who departed on January 15, 2014, signed the certifications in your Form 10-Q filed on February 14, 2014. Refer to Question 161.04 of the SEC's Compliance and Disclosure Interpretations relating to Rule 13a-14. Also, we note references to the "interim chief financial officer" in Item 4 and the lists of exhibits, which would appear to be inconsistent.

4. There are a number of exhibits listed in your exhibit index for which it does not appear that you have included the document in the current filing or incorporated the document by reference to a previous filing. For example, we note the Plan of purchase, sale, reorganization, arrangement, liquidation or succession, the Code of Ethics, the Letter on change in accounting principles, etc. To the extent that an exhibit is not relevant to your company, please delete the reference in the exhibit index. Please revise accordingly.

Other trends

Non-GAAP measures

Companies often supplement their GAAP financial reporting with non-GAAP information that is intended to provide additional insight into the financial performance of the business. A non-GAAP financial measure is a numerical measure that adjusts the most directly comparable measure determined in accordance with GAAP. Such measures provide supplemental information regarding a company's historical or future financial position, performance, cash flows, or liquidity. They generally convey changes to the business that are organic separate from those that may be considered unusual, infrequent, or not representative of underlying trends. Common non-GAAP financial measures used by industrial products companies include earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted EBITDA, adjusted earnings or adjusted earnings per share, free cash flows, and net debt.

A company has flexibility in which non-GAAP financial measures it chooses to report, if any, and how it calculates such metrics, subject to certain prohibitions. Therefore, a limitation inherent in non-GAAP financial measures is that they are subjective and may not be comparable to similarly titled non-GAAP financial measures used by other companies, including peers.

When non-GAAP financial information is presented in periodic reports filed with the SEC, registrants are required by Item 10(e) of Regulation S-K to include:

- The reasons why management believes that the non-GAAP measure is relevant to investors
- The additional purposes, if any, for which management uses the non-GAAP measure
- the most directly comparable GAAP financial measure with equal or greater prominence to facilitate comparability among other registrants
- A reconciliation to the comparable GAAP measure

Regulation G requires a similar reconciliation between the non-GAAP measure and the most comparable financial measure calculated in accordance with GAAP, and is applicable to all public disclosures of non-GAAP measures.

Below are some of the circumstances that generated comment letters reviewed in our analysis:

- Use of terminology that implies a non-GAAP measure is a standard measure, e.g., a measure that includes adjustments to the standard definition of EBITDA should not be labeled "EBITDA"
- Inappropriate use of a non-GAAP measure that excludes normal cash expenses necessary to operate the business, e.g., advertising costs or salaries
- Presentation of non-GAAP liquidity measures that omit items which are cash-settled
- Giving greater prominence to non-GAAP results over GAAP results

When evaluating whether and how to disclose non-GAAP measures, registrants should ensure that they understand and adhere to the applicable rules.

Sample comments

1. We note from the press release furnished in your report on Form 8-K, that you have included a reconciliation of your actual net income to your adjusted net income, a non-GAAP measure, that is essentially in the form of a non-GAAP income statement. As outlined in Question 102.10 of the Compliance and Disclosure Interpretations regarding Non-GAAP measures maintained on the Commission's website, it is generally not appropriate to present a full non-GAAP income statement for purposes of reconciling a non-GAAP measure to most comparable GAAP measure as it may attach undue prominence to the non-GAAP information. Please confirm that you will revise to eliminate this presentation. Refer to the guidance outlined on the Commission's website at http://www.sec.gov/divisions/corpfin/guidance/nongaapinterp.htm.

2. We note that you use EBITDA and Adjusted-EBITDA as a reliable indicator of your ability to generate cash flow from operations, indicating that you are also using these measures as liquidity measures. Please revise future periodic filings to also reconcile EBITDA and Adjusted EBITDA to the most directly comparable GAAP measure, in this case, Cash

Flows from Operations. If you are not utilizing this measure as a liquidity measure, please remove your reference to cash flows from operations in future periodic filings.

3. We note that your discussion and analysis for your consolidated results of operations focuses on sales and adjusted operating profit and adjusted operating profit margin with no discussion and analysis of the U.S. GAAP operating profit and margin. In future filings, please provide a discussion and analysis of U.S. GAAP consolidated profit measures before providing an analysis of any non-GAAP profit measure. In this regard, we note that the adjusted operating profit margin showed an improving trend; whereas, the U.S. GAAP operating profit margin showed a declining trend that has not be explained. Please refer to Item 10(e)(1)(i)(a) of Regulation S-K for guidance.

Risk factors

A registrant is required to discuss risk factors specific to the company and explain how the related risk affects them. As discussed in Item 503 of Regulation S-K, risk factors may include, among other things, the following:

- Lack of operating history
- Lack of profitable operations in recent past
- Financial position
- Business or proposed business
- Lack of a market for common equity securities or securities convertible into or exercisable for common equity securities

The SEC staff will often provide comments requesting expanded discussions of the risk factors, in particular when such risk factors appear to be generic or applicable to any company. Further, a registrant should use plain English in discussing their risk factors.

Sample comments

1. Your risk factor disclosure should provide sufficient qualitative and quantitative disclosure to enable a reader to assess the impact that these risks may have on your results of operations. In this regard, we note the following: Your risk factor "Our business could be adversely affected by incidents..." does not provide sufficient qualitative disclosure for one to understand which aspects of your business operations may expose you to these risks nor does it identify the actual risks or provide examples of past system failures or accidents; your risk factor "Due to the nature of our work we could potentially be exposed to legal actions..." is broadly worded and discusses risks that may apply to many issuers and or businesses; and your risk factor "Technology security risks and environmental and pollution risks could potentially impact our financial results" does not specify to what "certain information and technology security risks" you may be exposed. In future filings please enhance your disclosures to enable readers to associate the disclosed risks with specific aspects of your business operations.

2. In future filings, please avoid generic risk factors that appear to discuss risks that could apply to any company and ensure that your risk factors elaborate on the material risk currently impacting your business.

Controls and procedures

While we have not seen a large volume of comments in the past year, we have heard various members of the SEC staff signal that internal control over financial reporting (ICFR) is an area of increasing interest. At the 2013 AICPA National Conference on Current SEC and PCAOB Developments, several presenters noted that as part of the comment letter process, the SEC staff is looking for potential indicators of material weaknesses, such as corrections of an error or disclosures regarding material changes in internal controls. Presenters also commented that the SEC staff may be interested in a registrant's conclusions regarding ICFR in instances where they do not agree with a registrant's conclusion

on an accounting matter. This focus on ICFR has continued to be mentioned in the months since the conference, and we expect it to be discussed again at the 2014 conference. Registrants should continue to carefully evaluate the ICFR and disclosure controls and procedures (DC&P) implications in responses to the SEC staff and the sufficiency of their disclosures, assessments and certifications. The SEC staff's comments have increasingly challenged registrants' conclusions regarding the existence or severity of internal control deficiencies.

While the SEC staff is likely to question why a restatement did not result in the reporting of a material weakness, we have also seen comments about the existence of material weaknesses when errors are corrected by means of revision of comparative financial statements.

Companies sometimes assess control deficiencies with a priority focus on the Control Activities component of COSO. It is important to evaluate the implications of control deficiencies on all COSO components. The SEC staff has asked for additional information about the company's consideration of specific components within the COSO framework.

The SEC staff has also questioned registrants when there is no explicit conclusion about the effectiveness of DC&P or when management has concluded that ICFR is ineffective but DC&P is effective. Under Rule 13a-15(b) of the Exchange Act, the registrant's management must evaluate the effectiveness of DC&P as of the end of each fiscal quarter. This evaluation includes assessing the controls and other procedures designed to ensure that information required to be disclosed by the registrant in its filings is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Although separately assessed, it is important to remember that there is substantial overlap between the processes considered DC&P and those considered part of IFCR. Nearly all of ICFR falls within the scope of DC&P, whereas there are aspects of DC&P that extend beyond what is considered part of ICFR. As such, it is rare that a material weakness in ICFR would not also result in DC&P being considered ineffective.

Item 308 of Regulation S-K requires registrants to disclose any change in the company's ICFR that has materially affected, or is reasonably likely to materially affect, the registrant's ICFR each quarter. Changes requiring disclosure include changes in internal control made in the process of remediating previously identified material weaknesses, as a result of the integration of significant acquisitions, or due to the implementation of new information technology systems. The SEC staff often looks to information contained in companies' current reports, on their websites, and in other sources to identify potential changes in ICFR. SEC staff comments in this area have focused on the timeliness and completeness of the disclosures in periodic filings.

If a registrant has identified one or more material weaknesses in its internal control over financial reporting, the SEC staff may ask that the registrant include a risk factor (in accordance with Item 503(c) of Regulation S-K) to explain the potential adverse effects resulting from these circumstances and how it could impact the company's financial reporting, results of operations and market value.

Sample comments

1. It appears that your control structure failed, in either design or execution, to prevent an error from being detected before resulting in a material restatement. It remains unclear whether there were no controls in place that would have prevented such an error, or if the controls in place failed. Please clarify. Further, because the control failure resulted in a material restatement, it is unclear why you believe the related weakness is not material. Please explain.

2. We continue to question your evaluation of the deficiencies in ICFR and your determination that it was not reasonably possible that a material misstatement of your financial statements would not be prevented or detected on a timely basis as a result of certain control deficiencies.

3. Tell us why the severity is limited to the specific, individual process-level errors you describe in your response and how you determined that the reasonably possible potential error for each is limited to the various errors identified. For example, how was it determined that the significant deficiency is limited to only being manifested through an immaterial error in a specific type of revenue transaction?

4. Please describe in greater detail how you considered the numerous deficiencies in evaluating the monitoring and risk assessment components of COSO. Specifically, we continue

to question whether one or more deficiencies exist in the risk assessment or monitoring component and whether one or more such unidentified deficiencies represent a material weakness.

5. In light of the ineffectiveness of your internal controls over financial reporting at June 30, 2013, it is unclear to us how you determined that your disclosure controls and procedures were effective. Please explain.

6. Exchange Act Rule 13a-15(b) or 15d-15(b) requires that management evaluate, with the participation of the principal executive and principal financial officers, the effectiveness of disclosure controls and procedure as of the end of each fiscal quarter. Please revise to disclose that your principal executive and financial officer participated in the evaluation. Item 308(a) of Regulation S-K.

7. We see you assessed your disclosure controls and procedures as of December 31, 2012 as "not effective" due to the material weakness that resulted in the restatement of your financial statements. Subsequently, you conclude that as of March 31, 2013, disclosures controls and procedures are effective and state that there have been no changes in internal control over financial reporting in the fiscal quarter ended March 31, 2013. Please tell us how disclosure controls and procedures are now effective at March 31, 2013 without any changes in internal control over financial reporting. Please also reconcile the statement that there were no changes in internal control over financial reporting in the quarter ended March 31, 2013 with the disclosure of the remediation efforts to address the material weakness subsequent to year-end on page 64 of your Form 10-K.

8. In light of the disclosure regarding disclosure controls and procedures in your quarterly reports, please revise this section to provide a risk factor to alert investors to your ineffective controls and procedures. The risk factor should disclose all material risks resulting from these circumstances. In this regard, consider addressing the risk to the Company if it is unable to adequately correct any material weaknesses in its internal controls and procedures. Alternatively, if you have determined that a risk factor is unnecessary, tell us the basis for your conclusion.

About PwC's Industrial Products Industry

PwC's Industrial Products practice provides financial, operational, and strategic services to global organizations across the Aerospace & Defense; Business Services; Chemicals; Engineering & Construction; Forest, Paper, & Packaging; Industrial Manufacturing; Metals; and Transportation & Logistics industries.

PwC U.S. helps organizations and individuals create the value they're looking for. We're a member of the PwC network of firms in 158 countries with more than 180,000 people. We're committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com/US. Gain customized access to our insights by downloading our thought leadership app: *PwC's 365™ Advancing business thinking every day.*

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Appendix

SEC Comment Letter Process

The SEC's Division of Corporate Finance (CorpFin) has a long history of reviewing selected filings made under the Securities Act of 1933 and the Securities Exchange Act of 1934. The intent of the review is to monitor and enhance compliance with applicable disclosure and accounting requirements.

Until Sarbanes-Oxley, these reviews were periodic and not subject to specific intervals. Section 408 of the Sarbanes-Oxley Act requires the SEC to review those who issue Exchange Act reports no less frequently than once every three years. A significant number of companies are selected more frequently.

CorpFin does not publicly disclose the criteria it uses to select companies and filings for review, but Section 408 asks the SEC to consider the following selection criteria:

- Issuers with material restatements of financial results
- Issuers that experience significant volatility in their stock price as compared to other issuers
- Issuers with the largest market capitalization
- Emerging companies with disparities in price to earning ratios
- Issuers whose operations significantly affect any material sector of the economy
- Any other factors that the SEC may consider relevant

Once a company or filing is selected, the extent of the review may be (1) a full cover-to-cover review, (2) a review of the financial statements and related disclosures (e.g., MD&A), or (3) a targeted review of one or more specific items of disclosure. The identified reviewer concentrates on critical disclosures that appear to conflict with SEC rules or the applicable accounting standards and on disclosure that appears to be materially deficient in explanation or clarity. They evaluate the disclosure from a potential investor's perspective and ask questions that an investor might ask when reading the document.

CorpFin performs its reviews through 12 Assistant Director (AD) offices organized based on specialized industry, accounting, and disclosure expertise. An issuers AD assignment is shown in EDGAR following the basic company information that precedes the company's filing history. This organizational structure can sometimes explain why multiple companies in the same industry receive very similar comments around the same time.

Responding to SEC Comment Letters

The SEC staff's comments are based primarily on a company's disclosure and other public information, such as information on the company's website, in press releases, discussed on analysts calls, etc. (nonpublic information, such as whistleblower tips and PCAOB inspection reports, can also be a source of comments). SEC staff comments reflect its understanding of the applicable facts and circumstances. In comments, the SEC staff may request that a company provide additional supplemental information so the staff can better understand the company's disclosure, or may ask that the company provide additional or different disclosure in a future filing, or change the accounting and/or revise the disclosure by filing an amendment.

When responding to the SEC staff, keep these best practices in mind:

- *Own the process*—Companies should leverage the knowledge and experience of their auditors and SEC counsel, but it's important to maintain ownership. As with any project, there should be a clear owner and project manager coordinating the input from various sources and developing a response.
- *Don't rush*—Companies should evaluate how long they believe it will take to respond. Although the letter from the SEC staff will request a response in 10 business days, it is acceptable for management (usually through counsel's call to the SEC staff) to request more time if 10 days is not sufficient. A thoughtful and complete response is better than a quick reply.
- *Think about future filings*—Companies should discuss letters received shortly before it is planning to file a registration statement with its auditors and counsel to determine if there are any implications on the content and timing of the registration statement. Questions about timing can also be discussed with the SEC staff as well as the possibility of an expedited review of the company's response.
- *Ask the SEC staff*—Companies can call the SEC staff if they do not understand the comment. The objective should not be for the

company to explain their position, but to gain clarification when a comment or aspects of the comment is unclear.

- *Remember that comments become public*—Comments become part of the public domain once submitted and resolved. Comments and the related responses are posted to the SEC's website no earlier than 20 days after the review is completed or the registration statement is declared effective. Even those comment letters related to Emerging Growth Companies that have filed confidentially eventually are made public. CorpFin will redact any information subject to a Rule 83 confidential treatment request without evaluating the substance of that request.
- *Don't rely solely on precedent*—The use of previous comments and responses of other companies may be helpful in responding but should not be the primary basis of the response. Each comment is based on specific facts and circumstances and may involve different levels of materiality. Accordingly, the reason the staff accepted a response for one company may not be applicable in another situation. Make sure the response is appropriate based on the company's specific facts and applicable accounting literature.
- *Address the intent of the question*—Consider, if possible, the objective of the SEC staff comment. Sometimes providing a complete answer that addresses the intent of the question can stave off future comments.
- *Provide planned disclosures*—Many comments will request additional disclosure in future filings. To ensure there is a meeting of the minds, provide the SEC staff with a draft of the applicable disclosure, even if the data used is from a prior period. This will allow the SEC staff to assess whether the narrative sufficiently addresses their comment and may prevent future comments on the same disclosure.

The company or its representatives should feel free to involve the SEC's Office of the Chief Accountant (OCA) (distinct from CorpFin's Office of Chief Accountant) at any stage in this process. Generally, OCA addresses questions concerning the application of GAAP while CorpFin resolves matters concerning the age, form, and content of financial statements required to be included in a filing.

Closing a Filing Review

When a company has resolved all SEC staff comments on an Exchange Act registration statement, a periodic or current report, or a preliminary proxy statement, CorpFin provides the company with a letter to confirm that its review of the filing is complete.

When a company has resolved all SEC staff comments on a Securities Act registration statement, the company may request that the SEC declare the registration statement effective so that it can proceed with the transaction.

A more detailed discussion of the filing review process used by the Division of Corporate Finance can be found on the SEC's website as http://www.sec.gov/divisions/corpfin/cffilingreview.htm