TRANSFORMING WATER.
ENRICHING LIFE.

EVOQUA
WATER TECHNOLOGIES

2019
ANNUAL REPORT

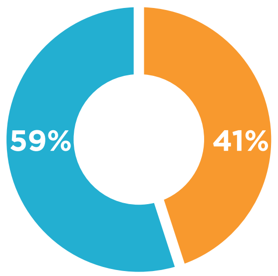
2019 HIGHLIGHTS

Year ended September 30

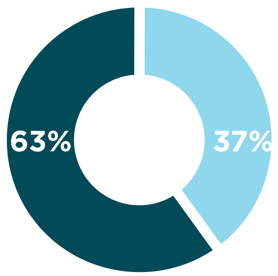
Dollars in millions except for EPS and percentages

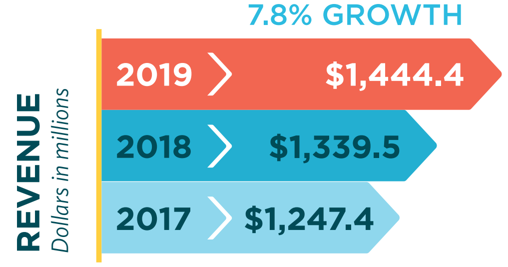
		2018		2019
Revenue	$	1,339.5	$	**1,444.4**
Gross profit	$	404.7	$	**426.0**
Total operating expenses as % of revenue	$	25.8%	$	**25.7%**
Adjusted EBITDA	$	216.9	$	**235.0**
Net income (loss)	$	7.9	$	**(8.5)**
Earnings (loss) per share (diluted)	$	0.05	$	**(0.08)**

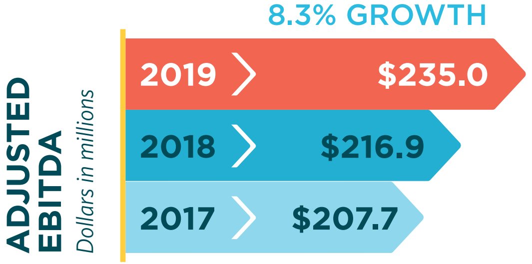
REVENUE BY TYPE



REVENUE BY SEGMENT







Fellow Shareholders,

Five years ago, I became the CEO of Evoqua Water Technologies, and as I look back on what our more than 4,100 employees have achieved, I am grateful and humbled. By all accounts, 2019 was an outstanding year as we continue to live out our purpose – Transforming Water. Enriching Life. We have executed on our strategy, allowing us to achieve our committed financial targets and preparing us for sustainable growth opportunities. Today, I remain extremely optimistic about the future that lies ahead.

Last year, we announced our three-year strategy to drive sustainable growth and achieve a series of ambitious goals. To realize these, we underwent a shift in our organizational structure and invested heavily in business processes to better align to our customers as we drove margin improvement. This change was significant, and I am proud that our efforts are paying dividends.

We reorganized our business from a three-segment structure to a two-segment structure designed to better serve the needs of our customers worldwide. Our new structure created a customer-facing project and service organization, called Integrated Solutions and Services ("ISS") and a product technology group, Applied Product Technologies ("APT"), focused primarily on sales through indirect channels. This change created a significant impact through our more focused and efficient sales organization and customers responded favorably to our realigned business structure.

"We reorganized our business from a three-segment structure to a two-segment structure designed to better serve the needs of our customers worldwide. Our new structure created a customer-facing project and service organization, called Integrated Solutions and Services ("ISS") and a product technology group, Applied Product Technologies ("APT"), focused primarily on sales through indirect channels."

The ISS segment provides fully-integrated systems and service solutions that selectively utilize our comprehensive portfolio of water treatment technologies to satisfy our customers' unique water needs. The ISS segment includes our unmatched service organization that provides quantity and quality of treated water to our customers directly, creating connected, recurring and predictable revenue.

The APT segment sells water treatment equipment from our broad technology portfolio, which is used as stand-alone systems or components in integrated solutions specified by our ISS segment, water treatment designers, original equipment manufacturers, engineering firms, and integrators around the world. This year we were excited to welcome Hervé Fages to the team as EVP and President of APT. Hervé has done an exceptional job leading the team through the realignment and positioning the segment for continued growth.

The restructuring and focus of our business yielded strong results as you will see in reviewing our materials. At a high level, for the full year ended September 30, 2019, revenues increased approximately 8% to $1.44 billion versus the prior year. We continue to focus on stable and recurring revenues, and we were pleased that service revenues grew over 10% with products growing by 6%. Organic revenues were up approximately 5% over the prior year, and both segments delivered double digit order growth for the year.

Digitally-Enabled, Service-Based Business Model

A key area of growth is the expansion of our digitally-enabled offerings, such as our Water One® platform. Integrating established water treatment solutions with a digital interface allows Evoqua to take the concerns of water quality and quantity out of our customers hands and enhances our recurring-revenue service business.

Our Water One service platform enables customers to outsource their water treatment systems to Evoqua so they can efficiently deliver on their core business. Through our Water One platform, we provide system optimization, predictive and proactive service, and simplified billing and pricing. The Water One platform enables us to transition our customers to pricing models based on usage, which would not have been possible without technological advancements. Our initial focus was in the life sciences markets in limited geographies. Based on the reception of this service, we are expanding the offering to additional vertical markets and geographies in 2020.

Global Expertise, Local Impact

We believe our strong brands, leading position in highly fragmented markets, scalable offerings and extensive installed base provide a unique ability to deliver proven treatment solutions globally. Our footprint and global reach position us to capture a larger share of our existing customers' water treatment spend while expanding with new customers into adjacent end markets. We will do this by investing in our sales force and selling complete Evoqua solutions.

This growth initiative includes expanding our presence in our core North American market, replicating our strategies into underpenetrated global regions, and partnering with international integrators and service providers through our third-party channel network.

Accretive Tuck-In Acquisitions

As a complement to our organic growth initiatives, we will continue to pursue accretive tuck-in acquisitions to add new technologies, attractive geographic regions and further penetrate targeted end markets. Acquiring and integrating acquisitions that can utilize our unique and broad channels to market enables a key element of our overall growth.

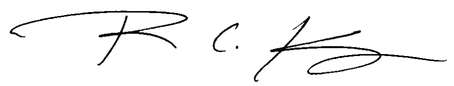
Our ability to rapidly commercialize technologies provides a strong platform to accelerate growth in the businesses we acquire. For example, in 2019 we completed the acquisition of UK-based ATG-UV Technology Limited, a leading manufacturer of ultraviolet light disinfection systems used in municipal, aquatics and industrial applications. ATG-UV was our key supplier of UV disinfection technology and is an important investment as we grow internationally and expand our sustainable offering of chemical-free disinfection solutions. ATG-UV marked our thirteenth tuck-in acquisition since April of 2016.

Committed to Sustainability

As the world moves toward a more circular and sustainable economy, we believe we are well positioned as an excellent partner for customers who desire recycle and reuse solutions. We, as a company, have committed and at our recent FY20 Leadership Meeting, we added Sustainable as our fourth Corporate Value joining - Integrity, Customers and Performance.

We will continue to implement our 3-year strategy and must remain flexible to meet market demands while delivering sustainable process solutions to the market and to our customers. We commit that sustainable will also join innovation, geographic expansion, and our pursuit of best-in-class technology as we define our future.

Sincerely,



RON C. KEATING

PRESIDENT, CHIEF EXECUTIVE OFFICER,
MEMBER OF THE BOARD OF DIRECTORS

Evoqua Water Technologies is a leading provider of mission critical water treatment solutions, offering services, systems and technologies to help our customers achieve their water supply and sustainability goals. With over 200,000 installations worldwide, we hold leading positions in the industrial, commercial and municipal water treatment markets in North America. We offer a comprehensive portfolio of differentiated, proprietary technology solutions sold under several market-leading and well-established brands to our global customer base. We have worked to protect water, the environment and our employees for over 100 years. As a result, we have earned a reputation for quality, safety and reliability and are sought out by our customers to solve the full range of their water treatment needs. Preserving this unique distinction and reputation is of utmost importance and critical to the success of our business.

Our sustainable solutions are designed to ensure that our customers have the quantity and quality of water that meets their unique specifications. We enable our customers to achieve lower costs through greater uptime, throughput and efficiency in their operations and support their regulatory compliance and environmental sustainability. We deliver and maintain these mission critical solutions through the largest service network in North America, assuring our customers continuous uptime with 97 branches as of September 30, 2019.

INTEGRATED SOLUTIONS AND SERVICES

2019 SEGMENT REVENUE

$910.8M

GROWTH YEAR-OVER-YEAR

9%

OVERVIEW

Our Integrated Solutions and Services segment provides application specific solutions and full lifecycle services for critical water applications. Industries are increasingly faced with ever-changing regulations and quality and quantity needs. Evoqua works with customers across numerous markets, including power, food and beverage, refining, petrochemical and healthcare, ensuring reliable water to keep operations at peak performance and production flowing. We strive to enable our customers to achieve lower costs, greater efficiency, regulatory compliance and environmental sustainability.

Today, we are proud to serve as a trusted partner to over 25,000 industrial customers, including a substantial majority of Fortune 500 industrial companies.

COMMITTED TO OUR CUSTOMERS

With our extensive service network, a certified Evoqua Service Technician is no more than a two hour drive from more than 90% of our North American customers' sites.

DIGITALLY-ENABLED WATER SERVICES

Evoqua's Water One® platform, our unique combination of water expertise, proactive service, proven solutions and "smart" technology, takes the hassle of water management off our customers' hands. Our remote monitoring capabilities enable us to optimize our routine service calls through predictive analytics allowing customers to maximize operational uptime. Our customized solutions leverage our technology portfolio, technical personnel and our extensive branch network. The result is a more predictable, cost-efficient water solution for customers.

EMERGING CONTAMINANTS

Emerging contaminants, such as PFAS, present an on-going concern to the quality and safety of our water supplies. Removal of these contaminants is a mission critical competency of Evoqua. Our service network, combined with our comprehensive water treatment portfolio and extensive mobile fleet, favorably positions Evoqua to help solve these water challenges.

Evoqua is a leader in PFAS treatment installations, including those for municipal drinking water, military bases and industrial sites.

APPLIED PRODUCT TECHNOLOGIES

2019 SEGMENT REVENUE

$533.6M

GROWTH YEAR-OVER-YEAR

6%

OVERVIEW

Our Applied Product Technologies segment provides differentiated water filtration, separation, disinfection and anode technologies to a diverse set of system specifiers, integrators and end users across the globe. Our industry established brands include Wallace & Tiernan®, IONPURE®, Envirex®, Neptune-Benson® and Magneto® product lines.

Our portfolio of technologies and products are sold either as discrete offerings or as components of broader solutions across industrial, municipal and commercial end markets. In addition to selling to our ISS segment, we have indirect sales channels through partners and distributors throughout North America, Europe and Asia Pacific to provide service and support to our customer base.

ENRICHING LIFE FOR MARINE ANIMALS

Georgia Aquarium, the largest aquarium in the Western Hemisphere, is committed to working on behalf of all marine life through education, preservation, exceptional animal care and research across the globe. With hundreds of exhibits and tens of thousands of animals across seven major galleries, Georgia Aquarium must maintain life support system (LSS) processes that ensure the water is clean and healthy.

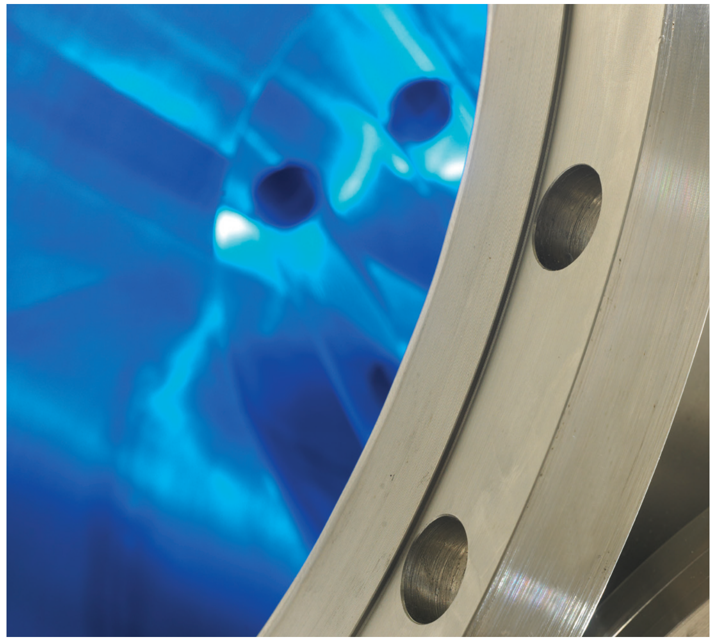
The LSS systems consist of a combination of sand filtration, protein skimming and ozone disinfection. The LSS team at Georgia Aquarium developed a process of denitrification using fiberglass-reinforced plastic vessels, custom-built by Evoqua's Neptune-Benson, that house beneficial bacteria in the aquarium's 6.3-million-gallon Ocean Voyager exhibit.

INVESTING IN INNOVATION

On May 25, 2019, Evoqua acquired ATG-UV Technology Limited (ATG-UV), a leading manufacturer of ultraviolet (UV) light disinfection systems used in a wide range of municipal, aquatics and industrial applications.

UV technology is a chemical-free disinfection technique widely accepted across the globe. The benefits of adopting UV disinfection over chemical alternatives include eliminating chemical management costs, minimizing safety risks and reducing system footprint. Combined, these benefits have made UV technology one of the fastest growing disinfection techniques across the global water market.

Based in Wigan, UK, ATG-UV is the exclusive disinfection supplier to Evoqua's ETS-UV™ product line in North America. The acquisition expands Evoqua's global reach and portfolio of sustainable innovations.



OUR COMMITMENT TO SUSTAINABILITY

OVERVIEW

As the world moves towards a more circular and sustainable economy, we are well positioned to help customers achieve their sustainability goals. Our offerings are aligned with the UN Sustainable Development Goals (UNSDGs), allowing us to help our customers create a more sustainable future.

ENERGY

Our anaerobic digestion technology has produced enough energy to meet the electricity needs of the equivalent of 5,000 American homes per day.

SMART WATER

Our Water One® platform provides customers with the quantity and quality of water needed through a digitally-enabled service model.

HEALTH AND WELLNESS

Disinfection and sanitization are a critical component of food processing operations. Evoqua's advanced disinfection technologies, such as ozone systems, offer reliable sanitization for products distributed worldwide.

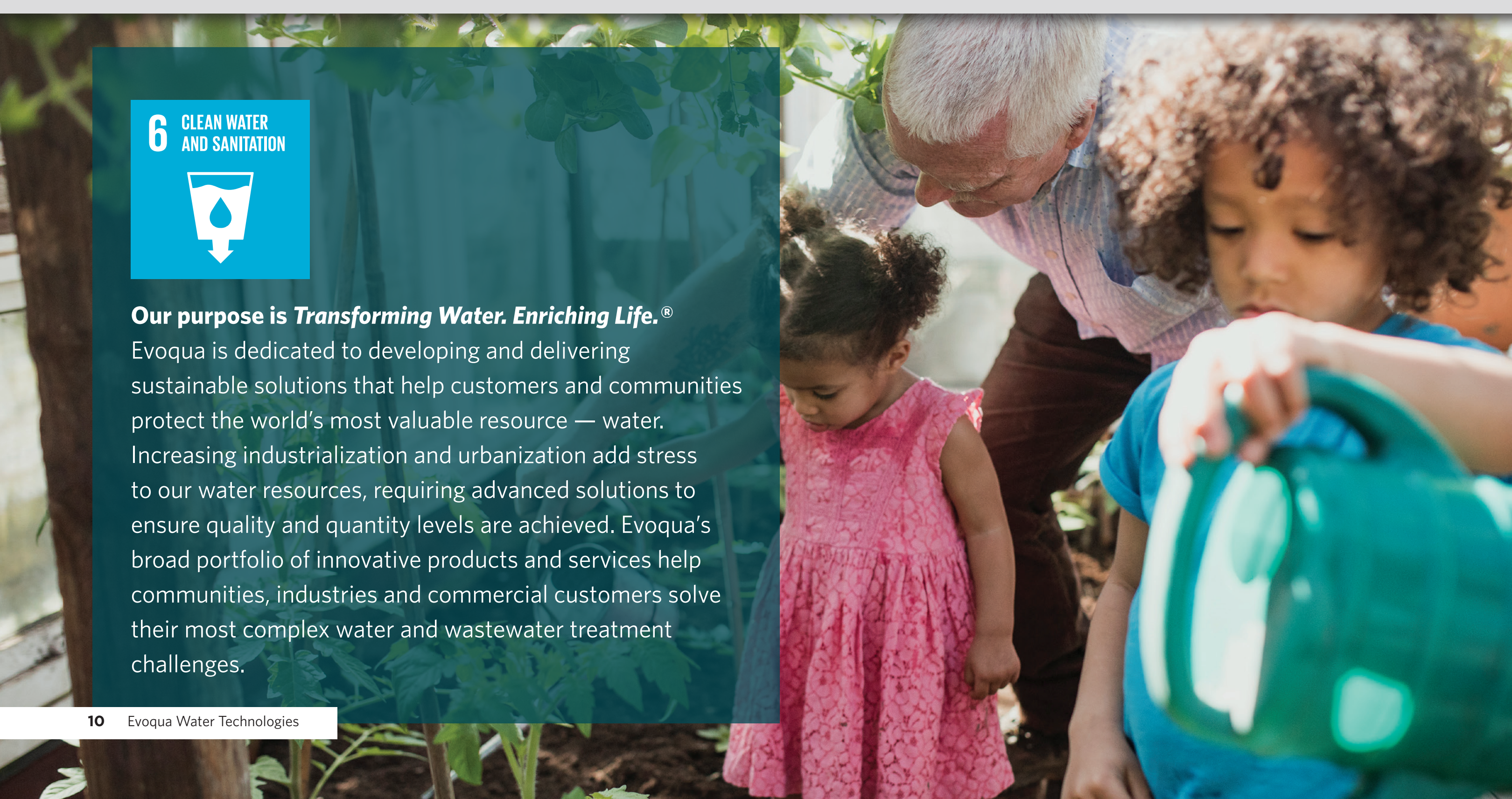
CIRCULAR ECONOMY

Water reuse and recycling technologies, such as UV disinfection systems, help to provide a safe alternative water supply and reduce dependence on fresh water resources.

CLIMATE CHANGE

Evoqua has one of the largest fleets of temporary and rapid response mobile units in North America, ready to provide clean water when and where it is needed most.

Sustainable processes are woven into the fabric of Evoqua, In November 2019, we announced the addition of *Sustainable* as our fourth Corporate Value joining - *Integrity*, *Customers* and *Performance*.



6 CLEAN WATER AND SANITATION

Our purpose is *Transforming Water. Enriching Life.*®
Evoqua is dedicated to developing and delivering sustainable solutions that help customers and communities protect the world's most valuable resource — water. Increasing industrialization and urbanization add stress to our water resources, requiring advanced solutions to ensure quality and quantity levels are achieved. Evoqua's broad portfolio of innovative products and services help communities, industries and commercial customers solve their most complex water and wastewater treatment challenges.

REDUCING OUR WATER USE

Since 2017, our major U.S. manufacturing facilities reduced their water usage by 26%.

EMPLOYEE IMPACT

Over 800 employees participated in our employee wellness program LIVE WELL. As part of the program, employees walked a combined 2,500 miles to raise funds for charity: water.

OUR PURPOSE

Transforming Water. Enriching Life.®

OUR VISION

The world's first choice for water solutions.

OUR VALUES

We have committed to add Sustainable as our fourth Corporate Value joining - Integrity, Customers and Performance.

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, 2019
or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 001-38272

EVOQUA WATER TECHNOLOGIES CORP.
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**46-4132761** *(I.R.S. Employer Identification No.)*
210 Sixth Avenue **Pittsburgh, Pennsylvania** *(Address of principal executive offices)*	**15222** *(Zip code)*

(724) 772-0044

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class:	Trading Symbol(s):	Name of each exchange on which registered:
Common Stock, par value $0.01 per share	AQUA	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐	Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the outstanding common stock, par value $0.01 per share, of the registrant other than shares held by persons who may be deemed affiliates of the registrant, as of March 31, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $665 million.

There were 114,400,103 shares of the registrant's common stock, par value $0.01 per share, outstanding as of October 31, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement (the "Proxy Statement") for its annual meeting of shareholders to be held in February 2020, are incorporated by reference into Part III of this Report. The Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

EVOQUA WATER TECHNOLOGIES CORP.
INDEX TO FORM 10-K
For the Year Ended September 30, 2019

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). You can generally identify forward-looking statements by our use of forward-looking terminology such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "potential," "predict," "projection," "seek," "should," "will" or "would" or the negative thereof or other variations thereon or comparable terminology. In particular, statements about the markets in which we operate, including growth of our various markets, our expectations, beliefs, plans, strategies, objectives, prospects, assumptions, or future events or performance and statements regarding our two segment restructuring actions and expected restructuring charges and cost savings for fiscal 2020 and beyond contained in this Annual Report on Form 10-K in Item 1A, "Risk Factors," Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 1, "Business" are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors, including those discussed in this Annual Report on Form 10-K in Item 1, "Business," Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements, or could affect our share price. Some of the factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include:

- general global economic and business conditions;
- our ability to compete successfully in our markets;
- our ability to continue to develop or acquire new products, services and solutions and adapt our business to meet the demands of our customers, comply with changes to government regulations and achieve market acceptance with acceptable margins;
- our ability to implement our growth strategy, including acquisitions, and our ability to identify suitable acquisition targets;
- our ability to operate or integrate any acquired businesses, assets or product lines profitably or otherwise successfully implement our growth strategy;
- our ability to achieve the expected benefits of our restructuring actions and restructuring our business into two segments;
- material and other cost inflation and our ability to mitigate the impact of inflation by increasing selling prices and improving our productivity efficiencies;
- our ability to execute projects in a timely manner, consistent with our customers' demands;
- our ability to accurately predict the timing of contract awards;
- delays in enactment or repeals of environmental laws and regulations;
- the potential for us to become subject to claims relating to handling, storage, release or disposal of hazardous materials;
- risks associated with product defects and unanticipated or improper use of our products;
- the potential for us to incur liabilities to customers as a result of warranty claims or failure to meet performance guarantees;

- our ability to meet our customers' safety standards or the potential for adverse publicity affecting our reputation as a result of incidents such as workplace accidents, mechanical failures, spills, uncontrolled discharges, damage to customer or third-party property or the transmission of contaminants or diseases;
- litigation, regulatory or enforcement actions and reputational risk as a result of the nature of our business or our participation in large-scale projects;
- seasonality of sales and weather conditions;
- risks related to government customers, including potential challenges to our government contracts or our eligibility to serve government customers;
- the potential for our contracts with federal, state and local governments to be terminated or adversely modified prior to completion;
- risks related to foreign, federal, state and local environmental, health and safety laws and regulations and the costs associated therewith;
- risks associated with international sales and operations, including our operations in China;
- our ability to adequately protect our intellectual property from third-party infringement;
- our increasing dependence on the continuous and reliable operation of our information technology systems;
- risks related to our substantial indebtedness;
- our need for a significant amount of cash, which depends on many factors beyond our control;
- risks related to AEA Investors LP's (along with certain of its affiliates, collectively, "AEA") ownership interest in us; and
- other risks and uncertainties, including those listed under Item 1A, "Risk Factors."

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements contained in this Annual Report on Form 10-K are not guarantees of future performance and our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, may differ materially from the forward-looking statements contained in this Annual Report on Form 10-K. In addition, even if our results of operations, financial condition and liquidity, and events in the industry in which we operate, are consistent with the forward-looking statements contained in this Annual Report on Form 10-K, they may not be predictive of results or developments in future periods.

Any forward-looking statement that we make in this Annual Report on Form 10-K speaks only as of the date of such statement. Except as required by law, we do not undertake any obligation to update or revise, or to publicly announce any update or revision to, any of the forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Annual Report on Form 10-K.

Part I

Item 1. Business

History and Company Overview

Our History

Evoqua Water Technologies Corp. (referred to herein as "the Company," "Evoqua," "Evoqua Water Technologies Corp.," "EWT Holdings I Corp.," "we," "us," "our") was incorporated on October 7, 2013. On January 15, 2014, Evoqua Water Technologies Corp., acquired, through its wholly-owned entities, EWT Holdings II Corp. and EWT Holdings III Corp., all of the outstanding shares of Siemens Water Technologies, a group of legal entity businesses formerly owned by Siemens AG ("Siemens"). The stock purchase closed on January 15, 2014 and was effective January 16, 2014 (the "Acquisition"). The stock purchase price, net of cash received, was approximately $730.6 million.

On November 6, 2017, the Company completed its initial public offering ("IPO") of 27.8 million shares of common stock at a price of $18.00 per share, of which 8.3 million shares were sold by us and 19.4 million shares were sold by the selling shareholders, and on November 7, 2017, the selling shareholders sold an additional 4.2 million shares of common stock as a result of the exercise in full by the underwriters of an option to purchase additional shares. The Company's common stock began trading on the New York Stock Exchange (the "NYSE") on November 2, 2017 under the ticker symbol "AQUA." On March 19, 2018, the Company completed a secondary public offering, pursuant to which 17.5 million shares of common stock were sold by certain selling shareholders. On March 21, 2018, the selling shareholders sold an additional 2.6 million shares of common stock as a result of the exercise in full by the underwriters of an option to purchase additional shares.

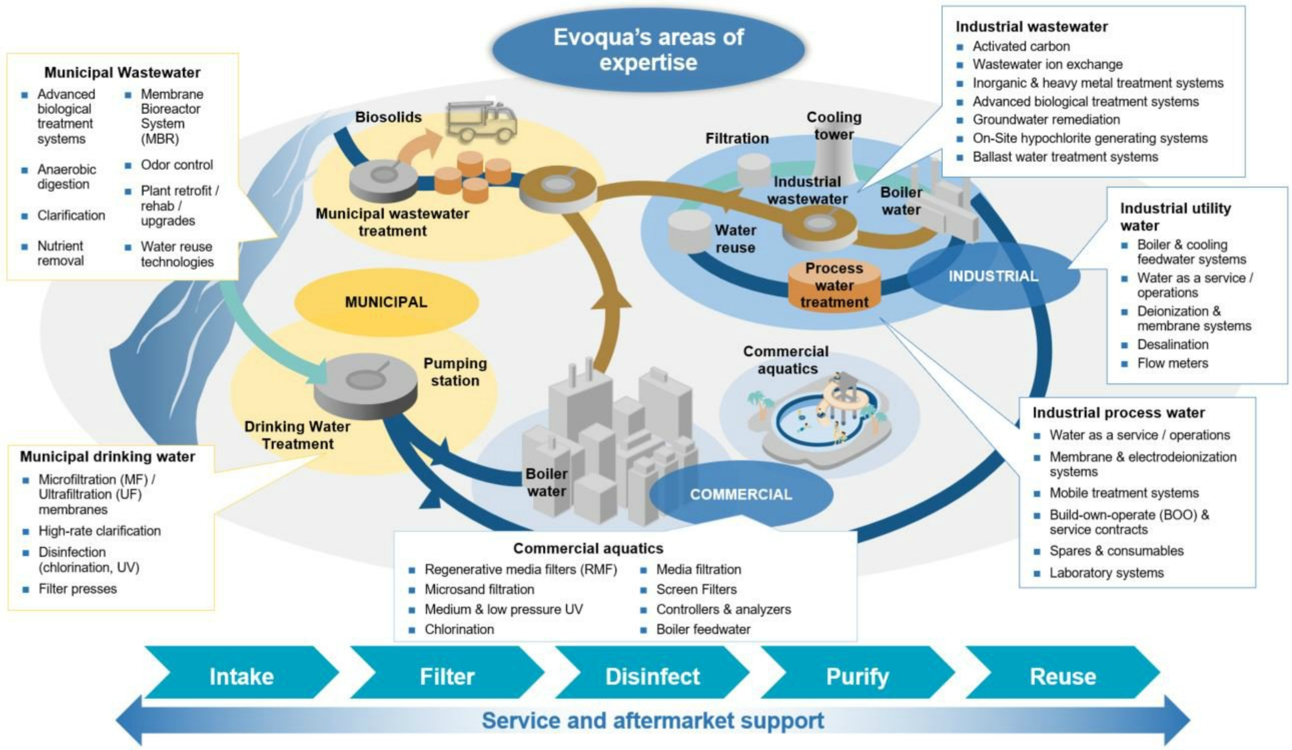
Our fiscal year ends on September 30 of each year and references in this Annual Report on Form 10-K to a year refer to our fiscal year. As such, references in this Annual Report on Form 10-K to: 2019 relate to the fiscal year ended September 30, 2019, 2018 relate to the fiscal year ended September 30, 2018 and 2017 relate to the fiscal year ended September 30, 2017.

Company Overview

Evoqua Water Technologies is a leading provider of mission critical water treatment solutions, offering services, systems and technologies to support our customers' full water lifecycle needs. With over 200,000 installations worldwide, we hold leading positions in the industrial, commercial and municipal water treatment markets in North America. We offer a comprehensive portfolio of differentiated, proprietary technology solutions sold under a number of market-leading and well-established brands to our global customer base. We have worked to protect water, the environment and our employees for over 100 years. As a result, we have earned a reputation for quality, safety and reliability and are sought out by our customers to solve the full range of their water treatment needs, and maintaining our reputation is critical to the success of our business.

Our solutions are designed to ensure that our customers have the quantity and quality of water that meets their unique specifications. We enable our customers to achieve lower costs through greater uptime, throughput and efficiency in their operations and support their regulatory compliance and environmental sustainability. We deliver and maintain these mission critical solutions through the largest service network in North America, assuring our customers continuous uptime with 97 branches as of September 30, 2019. We have an extensive service and support network, and as a result, a certified Evoqua Service Technician is no more than a two hour drive from more than 90% of our North American customers' sites.

We provide solutions across the entire water cycle. The water cycle begins with "influent" water, which is sourced from rivers, lakes, as well as other sources. We treat influent water for use in a wide variety of industrial, commercial and municipal applications. In industrial applications, treated influent water, after it is treated, is used as process water for applications, including microelectronic production, ingredient water in the production of food, beverage and other goods, power utility applications including boiler feed water, cooling water and steam condensate. Commercial applications for influent water include laboratory testing and aquatic activities, while municipal applications for influent water include treatment to produce safe drinking water. After the water is used it is considered "effluent water," and we enable its treatment through the removal of impurities so that it can be discharged safely back into the environment or reused for industrial, commercial or municipal applications.



We have developed a broad set of well established, unique relationships across a highly diverse customer base. In the industrial market we serve over 25,000 customers, including a substantial majority of the industrial companies within the Fortune 500. We partner with our industrial customers through our direct sales and service team, which is organized geographically and by specific end market. Our deep institutional relationships with independent sales representatives across North America, who serve as the primary channel for new municipal water treatment projects, and upon whom we depend to successfully market and sell our products, services and solutions provide us significant access to new projects up for bid and for servicing our installed base.

For the year ended September 30, 2019, we generated 85% of our revenues in North America with a strong and growing international presence, and we currently employ approximately 4,150 individuals. For the year ended September 30, 2019, we generated revenue, net loss and Adjusted EBITDA of $1.44 billion, $8.5 million and $235.0 million, respectively. For the year ended September 30, 2018, we generated revenue, net income and Adjusted EBITDA of $1.34 billion, $7.9 million and $216.9 million, respectively. For more information on Adjusted EBITDA, including a reconciliation to the most directly comparable GAAP financial measure, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-How We Assess the Performance of Our Business-Adjusted EBITDA."

As depicted in the table below, we target attractive global end-markets that utilize water as a critical part of their operations or production processes including pharmaceuticals and health sciences, microelectronics, food and beverage, hydrocarbon and chemical processing, power, general manufacturing, municipal drinking water and wastewater, marine and aquatics end markets. While a decline in general global and economic conditions could adversely affect us, our business is highly diversified across our key attractive and growing end markets presented below, and we believe that no single end market drives the overall results of our business.

Our Industry

We estimate the global water and wastewater market to represent more than $600 billion in total revenue and includes both capital and operating expenditures for the treatment of water by industrial, municipal, commercial and residential end users. Within the global water and wastewater market, we estimate our addressable market, comprised of equipment, consumables, aftermarket parts and operations-related and maintenance-related services for the treatment of water for industrial, commercial and municipal end users, to represent over $85 billion in total revenue.

Our estimated addressable market is further refined to include our served market, which we estimate to be approximately $8.5 billion in the North American region and approximately $7.5 billion across Europe and the Asia Pacific region, totaling approximately $16 billion in total revenue. As compared to our larger addressable market, our served market excludes sectors that would require meaningful growth investment on our part to capture new customers or market opportunities.

While a decline in general global economic and business conditions may adversely affect demand for our products, services and solutions, we believe the global water market will continue to experience growth, supported by a variety of anticipated secular trends that will drive the demand for water across a multitude of industrial, commercial and municipal applications. These secular trends include global population growth, urbanization, industrialization and overall economic growth. In addition, the supply of clean water could be adversely impacted by factors including an aging water infrastructure within North America and increased levels of water stress from seasonal rainfall, inadequate water storage options or treatment technologies. More specific to our business, water is a critical component and byproduct of many processes, including in manufacturing and product development. As such, as global consumption patterns evolve and water shortages persist, demand for solutions and services will continue to increase. Additionally, a decrease in the supply of clean water, as well as a heightened focus on environmental sustainability across various end markets, may increase the demand for closed-loop solutions that allow recycling and reuse of effluent for certain applications. We believe our business is well positioned to serve this demand.

We hold leading positions in our North American market verticals that have been cultivated by our suite of differentiated solutions and our comprehensive service network. However, despite our leading position in many individual market verticals where we participate, these markets remain very fragmented, and we estimate that our market share was less than 25% in most market verticals in which we participated during 2019. Evoqua selectively participates in Europe, Middle East and Asia (EMEA) and Asia Pacific with differentiated product technologies.

Our Growth Strategy

The key elements of our strategy include:

Grow and further penetrate our existing customer base. We believe our strong brands, leading position in highly fragmented markets, scalable and global offerings, leading installed base and unique ability to provide complete treatment solutions will enable us to capture a larger share of our existing customers' water treatment spend while expanding with existing and new customers into adjacent end-markets and underpenetrated regions, including by investing in our sales force and cross-selling to existing customers. Our growth initiatives include both expanding our presence in our core North American market as well as replicating our leading position and strategies into underpenetrated global regions.

Through direct and indirect sales efforts, outreach and education, we plan to continue to enhance our relationships and enable further adoption of our products, technologies and solutions by end customers and key influencers, including municipal representatives, engineering firms, designers and other system specifiers. Our performance depends, in part, on our ability to attract, incentivize and retain third party sales representatives that will be able to market and support our products effectively, and competing for sales personnel with established customer relationships.

Continued transition of our customers to a higher value-add service-based business model. Our goal is to provide reliable water treatment solutions by combining our products and technologies with extensive service and distribution capabilities. We selectively target high value projects with opportunities for recurring business through service, parts and other aftermarket opportunities over the lifecycle of the process or capital equipment. In particular, we have developed internet-connected monitoring technologies through the deployment of our WaterOne® service platform, which enables customers to outsource their water treatment systems and focus on their core business, offering customers system optimization, predictive and proactive service, and simplified billing and pricing. Our WaterOne® platform also enables us to transition our customers to pricing models based on usage, which otherwise would not have been possible without technological advancement. Our future growth depends, in part, on our ability to develop or acquire new products, services and solutions, identify emerging technological trends in our target end markets and maintain the integrity of our information technology systems.

Drive margin expansion and cash flow improvements through continued focus on operational excellence and execution. Effective October 1, 2018, we restructured our business into two reportable operating segments, which we expect to result in cost savings in the range of $15 million to $20 million on an annualized basis once fully implemented. We have separately identified and are pursuing a number of discrete initiatives which, if successful, we expect could result in additional cost savings over the next two years. These initiatives include our supply chain improvement program to consolidate and manage global spending, our improved logistics and transportation management program, capturing benefits of our WaterOne® platform and further optimizing our engineering cost structure, our global shared services organization and our sales, inventory and operations planning. Furthermore, as a result of significant investments we have made in our footprint and facilities, we believe we have capacity to support our planned growth without commensurate increases in fixed costs.

Commercialize and drive adoption of nascent and newly acquired technologies by leveraging our sales channels and application expertise. We offer a full range of services, systems and technologies that we continually develop to meet our customers' evolving water lifecycle needs. We develop our technologies through in-house research, development and engineering and targeted tuck-in, vertical market and geography-expanding, technology-enhancing acquisitions. Since April 2016, we have successfully completed thirteen acquisitions that expand our vertical markets and geographic reach and enhance our technologies, strengthening our existing capabilities and adding new capabilities and cross selling opportunities in areas such as mobile wastewater treatment, soil and air treatment, regenerative media filtration, anodes, UV and ozone disinfection, aerobic and anaerobic biological treatment technologies and electrochemical and electrochlorination cells. We must continue to develop and acquire new products, services and solutions to successfully compete in our markets.

We believe a key differentiator for our technology development program is our strong record of incorporating new technologies into the comprehensive solutions we provide to our customers across our platform. We are able to rapidly scale new technologies using our leading direct and third-party sales channels and our relationships with key influencers, including municipal representatives, engineering firms, designers and other system specifiers. Through our service network, we have a direct view of our customers' water needs which allows us to focus on developing and acquiring the most relevant and sought-after solutions.

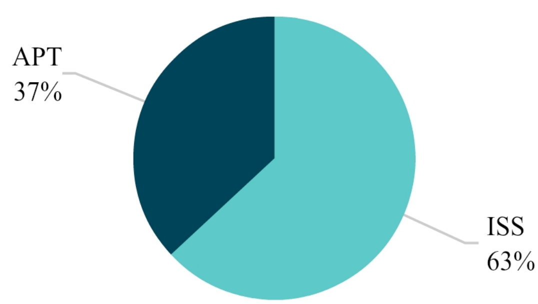
We believe our continued investment in driving penetration of our existing technologies and new capabilities through our channels to market will allow us to continue to address our customer needs across the water lifecycle.

Continue to evaluate and pursue accretive tuck-in acquisitions to add new technologies, attractive geographic regions and end-markets. As a complement to our organic growth initiatives, we view tuck-in acquisitions as a key element of our overall growth strategy which will enable us to accelerate our growth in our current addressable market, new geographies and new end market verticals. Our existing customer relationships, channels to market and ability to rapidly commercialize technologies provide a strong platform to drive growth in the businesses we acquire. To capitalize on these opportunities we have built an experienced team dedicated to mergers and acquisitions that has, since April 2016, successfully completed thirteen acquisitions that expand our vertical markets and geographic reach and enhance our technologies, which we have typically financed through borrowings under our revolving credit facility and cash on hand. In 2019, we completed one acquisition: ATG UV Technology Limited, a leading manufacturer of ultraviolet light disinfection systems used in municipal, aquatics and industrial applications. Although we may not continue to identify suitable acquisition targets and implement our growth strategy, we currently have a robust pipeline of potential targets, which has been developed proactively by our team as well as informed by our customer base.

Our Business Segments

Effective October 1, 2018, we reorganized our business from a three-segment structure to a two-segment structure designed to better serve the needs of our customers worldwide. Our new structure created a customer-facing service organization, called Integrated Solutions and Services ("ISS") and a product technology group, Applied Product Technologies ("APT") focused on sales primarily through indirect channels.

Our ISS segment provides fully-integrated systems and service solutions that selectively utilize our comprehensive portfolio of water treatment technologies to satisfy our customers' unique water needs. Our APT segment sells equipment, based on our broad technology portfolio, which is used as components in integrated solutions specified by water treatment designers and offered by original equipment manufacturers ("OEMs"), engineering firms, integrators and our own Integrated Solutions and Services segment. The chart below reflects revenue by segment for the year ended September 30, 2019:



For additional financial information regarding our reportable segments, see Note 23, "Business Segments," of Part II, Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

The table below provides an overview of our two segments, including their sales channels and a summary of their key offerings as of September 30, 2019.

Integrated Solutions and Services	***Overview***	Tailored services and solutions in collaboration with our customers backed by life cycle services including on-demand water, outsourced water, recycle / reuse and emergency response service alternatives to improve operational reliability, performance and environmental compliance
	Channel	Direct sales with market vertical focus
	Key offerings	Full lifecycle service and solutions for and process water and wastewater, including on-demand water, outsourced water, recycle / reuse and emergency response services Equipment systems for industrial needs: influent water, boiler feed water, ultrahigh purity, process water, wastewater treatment and recycle / reuse Municipal services, including odor and corrosion control services Full-scale outsourcing of operations and maintenance, including WaterOne® platforms
Applied Product Technologies	***Overview***	Highly differentiated and scalable range of products and technologies specified by global water treatment designers, OEMs, engineering firms and integrators
	Channel	Primarily indirect sales through independent sales representatives, system integrators, distributors and aftermarket channels
	Key Offerings	Filtration and Separation: regenerative media and microsand; self-cleaning filters and intake screens; ultrafiltration for drinking water and other applications; electrodeionization Disinfection: low and medium pressure ultraviolet ("UV"); ozone; electrochlorination and gas chlorination Wastewater solutions: ultrafiltration membrane bioreactors; advanced biological treatment; clarifiers, aerators, screens and dewatering; ballasted clarification Anode and electrochlorination technology Aquatics technologies and solutions for the global recreational and commercial pool market

Integrated Solutions and Services segment

Our Integrated Solutions and Services segment provides application-specific solutions and full lifecycle services for critical water applications. We focus on treating industrial process water, utility water and wastewater and providing odor and corrosion control services for municipalities. Industrial process water requires specific purity standards, which are used in making goods in industries such as microelectronics, pharmaceuticals and health sciences and food and beverage, including ingredient water. Industrial utility water is used for critical industrial applications, including as boiler feed and cooling water. Industrial wastewater is effluent water discharged from plants or facilities which is treated before it is returned to the environment or recycled or reused within the water cycle. Our operations across the water cycle are complex and, if conducted improperly, may result in potential costs and liabilities, including as a result of environmental damage. Our comprehensive solutions are comprised of capital systems and related recurring aftermarket services, parts and consumables, along with long-term and short-term service contracts and emergency services. Our comprehensive capabilities range from discrete offerings to the provision of highly complex, fully integrated solutions. We are able to leverage our broad range of products and technologies to deliver a tailored solution that best addresses a specific customer's needs, including a growing portfolio of digital technologies encompassed in our WaterOne® platform. Key capital and related aftermarket service and product offerings include filtration, reverse osmosis, ion exchange and continuous deionization. As a result of our speed, capabilities and experience, we serve as a trusted partner to over 25,000 industrial customers, including a substantial majority of Fortune 500 industrial companies. As water is a critical component in many industrial production processes, unavailability of proper water purity, specification or quality can lead to significant constraints, downtime and increased operating costs.

The cost of an installation can range from a few thousand dollars to a few million dollars and typically provides an ongoing service and aftermarket revenue opportunity that itself reaches or exceeds the original project cost. The service and aftermarket sales component is supported by our broad application and process expertise and what we believe to be the largest integrated industrial service network in North America. Our network is comprised of certified technicians and the largest fleet of mobile reverse osmosis and deionization water treatment systems in North America, based on management's estimate, and enables us to provide a complete range of services spanning from regular maintenance and emergency support to our unique WaterOne® service platform. Our WaterOne® service platform is an enhanced model that uniquely combines our water expertise, proactive service, proven technology and data intelligence to continually improve customers' water operation management. Our remote monitoring capabilities enable us to optimize our routine service calls through predictive analytics and provide customers a more predictable, cost-efficient water solution. We offer services which include water on-demand, mobile solutions and smart water systems that leverage our extensive branch network, technical personnel and technology portfolio.

We partner with our industrial customers through our direct sales and service team, which is organized geographically and by market vertical and is complemented by an inside sales force, field sales engineers and a growing e-commerce platform. We primarily target four broad categories of customers in our Integrated Solutions and Services segment, principally based on their end markets and primary applications: Light Industries, Heavy Industries, Proact Environmental Solutions and Municipal Services.

Light Industries

Our light industries offerings include our usage-based, WaterOne® deionized water service, preventative maintenance service contracts, integrated process and wastewater systems and aftermarket consumables and spare parts. We generally provide light industries services to general manufacturing, light industrial, pharmaceutical, food and beverage, microelectronics and health sciences customers. Light industry companies typically utilize treatment solution applications that handle influent water flows of up to several hundred gallons per minute.

Heavy Industries

Our heavy industries offerings include mobile, rapidly deployable services based on short-term operating contracts, outsourced water services and accompanying technological support, integrated process and wastewater systems and aftermarket consumables and spare parts. We generally provide heavy industries services to power generation, chemical processing, hydrocarbon processing and mining and pulp and paper customers. Heavy industry companies typically utilize treatment solution applications that handle influent water flows more than several hundred gallons per minute.

ProAct Environmental Solutions

Our ProAct environment solutions offerings include activated carbon, wastewater ion exchange, Hydrostatic Water testing, degassing services and groundwater remediation solutions. We generally provide environmental solutions to hydrocarbon processing, chemical processing, food and beverage and municipal water customers.

Municipal Services

Our municipal service offerings include odor and corrosion control and disinfection capabilities, including advanced remote-monitoring and automated control solutions and multi-product liquid and vapor phase product combinations for wastewater collection. We also provide municipal service solutions for drinking water treatment and distribution.

Applied Product Technologies segment

Our Applied Product Technologies segment sells differentiated technologies to a diverse set of water treatment system specifiers, integrators and end users globally. Our offerings are highlighted by our filtration and disinfection, electrodeionization and electrochlorination technologies, waste water treatment, separation technologies and anodes offerings. Our filtration and disinfection offerings include our Defender line of products, which is a regenerative media filtration leader in the commercial aquatics market, along with various UV and ozone disinfection products. Our IONPURE electrodeionization solutions allow customers to achieve ultrahigh purity water without the use of chemicals in the treatment process. Our electrochlorination products provide extensive water treatment solutions for the maritime, oil and gas and power markets. We also have extensive capabilities in anode technologies, cathodic protection, solid and liquid separation technologies and various aftermarket parts, consumables and accessories. Our portfolio of solutions includes ultrafiltration systems, advanced biological treatment, clarifiers, aerators, equipment for new municipal plant builds and retrofit, rehabilitation and aftermarket parts and services for our extensive installed base. All of our offerings are highly scalable and designed to meet current and future water treatment needs, with a focus on generating repeat business from our customers. We generally service the equipment we provide our customers; however, their failure to properly use, safeguard or maintain their equipment or product defects or unanticipated use of our products could result in liability to us.

Our portfolio of technologies and products are sold either as discrete offerings or as components of broader solutions through our Integrated Solutions and Services segment. Our Applied Product Technologies segment also sells externally to a customer base comprised of globally located OEMs, integrators, regional distributors and engineering firms and various other end users that we reach through multiple established sales and aftermarket channels. We target customers in our Applied Product Technologies segment principally based on their end markets and primary application: Advanced Filtration, Wastewater Treatment, Aquatics, Disinfection, Electrochlorination and Anodes.

We maintain a comprehensive municipal representative network that broadly covers the U.S., providing us with a differentiated ability to influence specifications and the basis of design for new treatment facilities. We have provided solutions across a large municipal installed base with capacities ranging from 25,000 gallons per day to over 100 million gallons per day. We maintain relationships with engineering firms, operators and other key influencers through our direct technical sales force to drive adoption of our offerings. We also have indirect and direct relationships in EMEA, Asia Pacific and Latin America to service the core applications and support our Applied Product Technologies portfolio.

Our portfolio of products and solution technologies, both acquired as well as those originally developed for municipal wastewater applications, has also experienced increased demand for industrial wastewater and recycle and reuse opportunities.

Advanced Filtration and Separation

Our products separate both dissolved and suspended solids from liquids in a variety of slurries, for either disposal or reuse. We generally provide separation technology products and solutions to power, mining, microelectronics, solar, heavy and light industrial and municipal customers. Our products include ultrafiltration, microelectronic processing technologies and desalination solutions. We generally provide these products to municipal, power, microelectronic processing, solar, hydrocarbon and chemical processing and pharmaceutical customers. Our electrodeionization technology has primary applications in high purity process water for use in pharmaceutical, laboratory and microelectronic processing plants and the removal of dissolved salts from seawater, brackish water and municipal wastewater.

Wastewater Treatment

Our wastewater treatment offerings include advanced biological treatment, clarification, filtration, nutrient removal, odor and corrosion control, biosolid and field-erected biological wastewater treatment plant solutions. We generally provide wastewater treatment solutions to both municipal and industrial wastewater treatment facilities. We provide aftermarket and retrofit solutions to our extensive installed base.

Aquatics

Our aquatics offerings include a wide range of filtration equipment (regenerative media filters, and high rate sand filters), analyzers, controllers and related accessories. We sell to commercial aquatics designers and end users worldwide through applications including filtration of municipal and recreational pools and leisure facilities, fountains and water features and recreational water and waterparks.

Disinfection

Our disinfection products include a wide range chemical and non-chemical disinfection technologies including onsite hypochlorite generation, UV, and ozone disinfection systems. We sell our portfolio to municipal drinking water, industrial and light manufacturing and commercial customers worldwide. Primary applications include disinfection of municipal and recreational pools and leisure facilities, and disinfection and water chemistry measurement and control for municipal drinking water, as well as pre-treatment and purification systems where ultrapure water polishing is required.

Electrochlorination and Materials

Our electrochlorination products are used with seawater for on-site sodium hypochlorite generating systems for maritime, oil and gas, power and military customers. Our maritime growth prevention systems are used on military and commercial ships and in offshore oil and gas applications. We produce custom-designed, state-of-the-art mixed-metal oxide anodes, provide recoating and repair services to our external customers and supply the anodes used across our own internal processing capabilities. We provide anode products and solutions to mining, chemical processing, light industrial and microelectronics customers for primary applications including biotechnology, water treatment, cathodic protection, seawater electrolysis, metal finishing and electroplating and swimming pool chlorination.

ATG UV Acquisition

On May 25, 2019, we acquired all of the issued and outstanding equity securities of ATG UV Technology Limited ("ATG UV"), a leading manufacturer of ultraviolet ("UV") light disinfection systems used in a wide range of municipal, aquatics and industrial application. ATG UV, based in Wigan, UK, is the exclusive technology supplier to Evoqua's ETS-UV™ product line in North America and the acquisition expands Evoqua's reach, allowing the Company to serve customers globally.

Memcor Disposition

On October 1, 2019, we entered into a Purchase and Sale Agreement with DuPont de Nemours, Inc. ("DuPont"), pursuant to which we will divest our Memcor low pressure membrane product line, including the product line's global workforce, its manufacturing site in Windsor, Australia, and associated operations and intellectual property (the "Memcor Disposition"). The transaction is expected to close in the first quarter of fiscal 2020, subject to customary closing conditions. Following closing, we will no longer service the large municipal install base of Memcor products, which consists primarily of municipal drinking water and wastewater treatment facilities, but we will continue to sell Memcor products, which we will purchase from DuPont, to our industrial customers through our ISS segment.

Customers

We serve three primary market sectors: (i) industrial, (ii) commercial and (iii) municipal. Industrial and commercial customers vary in size, scope and the complexity of their water treatment needs and include small manufacturing clients with a single facility, large commercial waterparks and multinational corporations with a significant global footprint. The municipal market consists of potable water and wastewater treatment solutions that are sold to municipalities and private companies operating under a concession agreement to own and operate a treatment facility on behalf of a municipality. We serve each market with a full range of solutions, services, technologies and aftermarket offerings.

The industrial market is comprised of direct end market distribution channels. The commercial market includes a variety of routes to market including direct and third-party channel relationships. The municipal market is comprised of a wide range of drinking and wastewater treatment facilities.

Our customers span a diverse range of industries and include many of the largest U.S. companies in each of the pharmaceutical, hydrocarbon processing, power, chemical and food and beverage industries as well as U.S. wastewater sites and global drinking water treatment sites. We also have customers in the health science, microelectronics, drinking water, wastewater, general manufacturing, commercial aquatics, maritime and other industries. We provide products, services and solutions to federal, state and local government customers both directly and indirectly as a supplier to general contractors. During the year ended September 30, 2019, no single customer accounted for more than 1.4% of our revenues, and our top ten customers accounted for approximately 10.4% of our revenues.

We provide products, services and solutions to federal, state and local government customers both directly and indirectly as a supplier to general contractors. Many of our government contracts contain a termination for convenience clause, regardless of whether we are the prime contractor or a subcontractor. Upon a termination for convenience, we are generally able to recover the purchase price for delivered items and reimbursement of allowable work in process costs. See also Item 1A, "Risk Factors."

Suppliers

We maintain a cost-effective and diversified procurement program through strong relationships with strategic suppliers across key commodities. The top materials in our supply chain include chemicals, membranes, resin, metal fabrications, carbon and electrical components. We seek to insource certain products that align with our existing manufacturing core competencies and that enable us to provide our customers with the highest level of value. Our diversified supply base across multiple suppliers and geographies enable us to maintain a cost effective and stable level of supply. See also Item 1A, "Risk Factors."

Seasonality

Our business may exhibit seasonality resulting from our customers' increasing demand for our products and services during the spring and summer months as compared to the fall and winter months. For example, we experience increased demand for our odor control product lines and services in the warmer months which, together with other factors, typically results in improved performance in the second half of our fiscal year. Inclement weather, such as hurricanes, droughts and floods, can also drive increased demand for our products and services. As a result, our results from operations may vary from period to period.

Sales and Marketing

Our sales and marketing organization is positioned across our vertical markets to drive top-line growth and increase market share for our Company. Our network includes internal general managers, sales directors, sales engineers, third-party representatives, third-party distributors, product managers, vertical market managers and other personnel who support our day-to-day sales and marketing operations.

Integrated Solutions and Services segment

We market our offerings through our direct sales and service team, which is organized geographically and by end market and is complemented by an inside sales force, field sales engineers and a growing e-commerce platform. Our Integrated Solutions and Services segment sales organization focuses on direct sales with a market-vertical focus across geographic, strategic and e-commerce channels to market. Our key market verticals served are Pharmaceutical, Food and Beverage, Power and Chemical Processing. As of September 30, 2019, our Integrated Solutions and Services segment services network included approximately 670 field service and 180 engineering employees.

Applied Product Technologies segment

Our Applied Product Technologies segment delivers a full suite of product technologies, primarily through indirect channels to serve the global market or through our Industrial Solutions and Services organization. The Applied Product Technologies segment includes:

- Advanced filtration and separation products, such as Memcor® membranes, Ionpure® technologies and Vortisand® systems;
- Wastewater treatment technologies, including the BioMag® system, clarification, odor control and sludge management solutions;
- Disinfection, covering a wide range of solutions from chlorine to ultraviolet (UV) light and ozone technologies;
- Electrocatalytic and materials, which combines our electro chlorination, cathodic protection and anodes product lines; and
- Aquatics, which will combine our highly-valued products, such as the Defender® regenerative media filter, with a complete set of solutions for our partners.

We maintain relationships with engineering firms, operators and other key influencers through our direct technical sales force to drive adoption of our offerings. We also maintain a comprehensive municipal representative network in the United States, providing us with a unique ability to influence specifications and the basis of design for new treatment facilities. As of September 30, 2019, we had active relationships with more than 200 OEM partnerships and managed over 250 channel partners.

Research, Development and Engineering

We utilize a disciplined, stage-gate process-consisting of development, field test, commercialization, supply chain and sourcing decisions-to identify and develop new technologies to commercialize, focus our efforts on and engage early with supply-chain management to promote profitability. We focus on tuck-in acquisitions as additional resources for new product innovation and development.

As of September 30, 2019, our global research, development and engineering footprint includes seven facilities located in the United States, the United Kingdom, the Netherlands, Germany, Singapore and Australia (which will be transferred to DuPont upon the closing of the Memcor Disposition), staffed with managers, scientists, researchers, engineers and technicians, along with partnerships spanning leading universities research centers and other outside agencies.

Information Technology

Our information technology systems consist of enterprise management, e-commerce, customer relationship and field service management, customer quoting and billing, environmental compliance, business and operational support, and procurement and sales force management systems. We continue to integrate our acquisitions onto our enterprise platform, focusing on standardizing global processes. In 2019, we enhanced our customer relationship and field service management platform with the objective of enabling our field sales team to better service our customers. The shift from our initial WaterOne® service platform to the next generation platform is complete, and we expect this will provide enhanced monitoring and visibility of customer installations. We have nearly completed our infrastructure standards deployment globally, and we continue to update our information technology infrastructure through investments focused on cost efficiencies, reliability, functionality and scalability.

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Intellectual Property

Our intellectual property and proprietary rights are important to our business. As of September 30, 2019, we have approximately 1,400 granted or pending patents (of which, approximately 300 will be transferred to DuPont upon the closing of the Memcor Disposition). We undertake to strategically and proactively develop our intellectual property portfolio by pursuing patent protection, obtaining copyrights and registering our trademarks in the United States and in foreign countries.

We currently rely primarily on patent, trademark, copyright and trade secret laws, and control access to our intellectual property through license agreements, confidentiality procedures, non-disclosure agreements with third parties, employment agreements and other contractual rights, to protect our intellectual property rights.

Competition

Our industry is highly fragmented and includes a number of regional and niche-offering focused competitors. Competition is largely based on product performance, reliability and innovativeness of products, services and solutions, application expertise and process knowledge, brand reputation, energy and water efficiency, product compliance with regulatory and environmental requirements, product lifecycle cost, scalability, timeliness of delivery, proximity of service centers to our customers, effectiveness of our distribution channels and price. Within each of our segments and the various businesses that comprise them, we compete with a fragmented range of companies, but do not have any individually key competitors.

Backlog

Backlog represents the expected future revenue for unfulfilled and remaining performance obligations for capital projects where neither Evoqua nor the customer can terminate the contract without penalty. As of September 30, 2019, our backlog was approximately $179.3 million.

Employees

As of September 30, 2019, we had approximately 4,150 employees. Of these employees, approximately 59% were full-time salaried level staff and the remaining employees consisted of a mix of full-time and part-time hourly workers. Approximately 78% of our employees work in our U.S. operations and approximately 22% work in foreign operations. None of our facilities in the United States or Canada are covered by collective bargaining agreements. As is common in Germany and the Netherlands, our employee populations there are represented by works councils. We are not involved in any material disputes with our employees and believe that relations with our employees and, to the extent applicable, with our works councils, are good.

Insurance

We maintain insurance policies to cover directors' and officers' liability, fiduciary, crime, special accident, cyber, property, business interruption, cargo, workers' compensation, automobile, general liability, environmental, umbrella and excess liability insurance.

All of our insurance policies are with third-party carriers and syndicates with financial ratings of an A or better. We and our global insurance broker regularly review our insurance policies and believe the premiums, deductibles, coverage limits and scope of coverage under such policies are reasonable and appropriate for our business. The continued availability of appropriate insurance policies on commercially reasonable terms is important to our ability to operate our business and to maintain our reputation. See Item 1A, "Risk Factors."

Government Regulation

We are subject to extensive and varied laws and regulations in the jurisdictions in which we operate, including those relating to anti-corruption and trade, data security and privacy, employment, workplace safety, public health and safety, product safety, intellectual property, transportation, zoning and fire codes. We operate our business in accordance with standards and procedures designed to comply with applicable laws and regulations.

In particular, our international operations subject us to laws and regulations related to anti-corruption and trade, including those related to export and import compliance, anti-trust, anti-bribery and money laundering. Our policies mandate compliance with these laws and regulations, and we have established policies and procedures designed to assist us and our personnel in compliance with applicable United States and international laws and regulations. However, any violation of such laws, regulations or policies could result in substantial fines, sanctions, civil and/or criminal penalties, imprisonment, disgorgement of profits, debarment from government contracts and curtailment of operations in certain jurisdictions, and might materially adversely affect our business, financial condition, results of operations or prospects. See Item 1A, "Risk Factors-Failure to comply with applicable anti-corruption and trade laws, regulations and policies, including the U.S. Foreign Corrupt Practices Act, could result in fines and criminal penalties, causing a material adverse effect on our business, financial condition, results of operations or prospects."

In certain countries where we operate, our employees are represented by a works council, as required by local law. In such countries, we are required to consult and seek the consent or advice of these works councils in connection with certain corporate decisions, such as a major restructuring, a change of control or changes to local management. Certain other decisions that directly involve employment matters applicable either to all employees or certain groups of employees may also require works council approval. Further, certain of our international operations offer employees defined benefit plans in compliance with applicable local legal provisions requiring payments of, among other things, mandatory pension payments or allocations for severance pay. None of our U.S. or Canadian employees are represented by unions or works councils, and our U.S. and Canadian operations do not maintain defined-benefit plans.

In addition, there are numerous U.S. federal, state and local laws and regulations and foreign laws and regulations regarding data security, privacy and the collection, sharing, use, processing, disclosure and protection of personal information and other user data, the scope of which is changing, subject to differing interpretations, and may be inconsistent among different jurisdictions. If our efforts to protect the security of information about our customers, suppliers and employees are unsuccessful, a significant data security breach may result in costly government enforcement actions, private litigation and negative publicity resulting in reputation or brand damage with customers, and our business, financial condition, results of operations or prospects could suffer. See Item 1A, "Risk Factors-If we experience a significant data security breach or fail to detect and appropriately respond to a significant data security breach, our business and reputation could suffer." Further, governments are continuing to focus on privacy and data security and it is possible that new privacy or data security laws will be passed or existing laws will be amended in a way that is material to our business.

Environmental Matters

The geographic breadth of our facilities and the nature of our operations subject us to extensive environmental, health and safety laws and regulations in jurisdictions throughout the world. Such laws and regulations relate to, among other things, emissions to air, the treatment and discharge of drinking water and wastewater, the discharge of hazardous materials into the environment, the handling, storage, use, transport, treatment and disposal of hazardous materials and solid, hazardous and other wastes, product safety and workplace health and safety. These laws and regulations impose a variety of requirements and restrictions on our operations and the products we distribute. The failure by us to comply with these laws and regulations could result in fines, penalties, enforcement actions, third-party claims, damage to property or natural resources and personal injury claims, requirements to investigate or cleanup property or to pay for the costs of investigation or cleanup or regulatory or judicial orders requiring corrective measures, including the installation of pollution control equipment, remedial actions or the pulling of products from the market, and could negatively impact our reputation with customers. We are not aware of any pending environmental compliance or remediation matters that, in the opinion of management, are reasonably likely to have a material effect on our business, financial condition, results of operations or prospects. However, environmental, health and safety laws and regulations applicable to our business, the products we distribute, the services we provide and the business of our customers, and the interpretation or enforcement of these laws and regulations, are constantly evolving and it is impossible to predict accurately the effect that changes in these laws and regulations, or their interpretation or enforcement, may have upon our business, financial condition, results of operations or prospects. Should environmental, health and safety laws and regulations, or their interpretation or enforcement, become more stringent, our costs could increase and significant capital expenditures or operational restrictions could be required, which may have an adverse effect on our business, financial condition, results of operations or prospects. However, such increased stringency could also increase demand for our products, services and solutions, which assist various industries and municipalities in meeting environmental and safety requirements for the treatment and discharge of drinking water and wastewater. In addition, increased public awareness of the presence and human health impacts of man-made chemicals and naturally occurring contaminants in drinking water may increase demand for our municipal service offerings. Correspondingly, if stringent laws or regulations are delayed or are not enacted, or repealed or amended to be less stringent, or enacted with prolonged phase-in periods, or not enforced, then demand for our products and services may also be reduced.

The nature of our operations, which involve the handling, storage, use, transport, treatment and disposal of hazardous materials and solid, hazardous and other wastes, exposes us to the risk of liability and claims associated with contamination at our current and former facilities or sites where we have disposed of or arranged for the disposal of waste, or with the impact of our products and services on human health and safety and the environment. Laws and regulations with respect to the investigation and remediation of contaminated sites can impose joint and several liability for releases or threatened releases of hazardous materials upon statutorily defined parties, including us, regardless of fault or the lawfulness of the original activity or disposal. We have been subject to claims and remediation obligations, including having been named as a potentially responsible party, in certain proceedings initiated pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, and similar state and foreign laws, regulations and statutes, and may be named a potentially responsible party in other similar proceedings in the future. Unforeseen expenditures or liabilities may arise in connection with such matters.

Available Information

We are subject to the informational requirements of the Exchange Act, and in accordance therewith, we file reports, proxy and information statements and other information with the U.S. Securities and Exchange Commission (the “SEC”). Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available through the “Investors” section of our website at www.evoqua.com. Reports are available free of charge as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K.

In addition to our website, you may read our reports, proxy and information statements, and other information that we file electronically with the SEC at www.sec.gov/edgar.

Item 1A. Risk Factors

The following risk factors may be important in understanding any statement in this Annual Report on Form 10-K or elsewhere. Our business, financial condition, results of operations or prospects could be materially and adversely affected by a number of factors, whether currently known or unknown, including but not limited to those described below. Any one or more of such factors could directly or indirectly cause our actual results of operations and financial condition to vary materially from past or anticipated future results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, results of operations or prospects.

Risks Relating to Our Business

General global economic and business conditions may materially adversely affect demand for our products, services and solutions.

We compete in various end markets and geographic regions around the world. Among these, the most significant are global industrial markets and municipal markets. In fiscal 2019, 85% and 15% of our revenue was generated in North America and the rest of world, respectively. We have experienced, and expect to continue to experience, fluctuations in revenues and operating results due to economic and business cycles. Important factors for our businesses and the businesses of our customers, both in the U.S. and abroad, include local and global macroeconomic conditions, commodity prices, energy prices, the timing of projects, the overall strength of and our customers’ confidence in the economy, industrial and governmental capital spending, governmental fiscal and trading policies, global environmental and regulatory policies, the strength of the residential and commercial real estate markets, unemployment rates, consumer spending, availability of financing, interest rates, tax rates, changes in tax laws and political conditions. The businesses of many of our industrial customers are, to varying degrees, cyclical, and have experienced periodic downturns. While we attempt to minimize our exposure to economic or market fluctuations by serving a balanced mix of end markets and geographic regions, any of the above factors, individually or in the aggregate, or a significant or sustained downturn in a specific end market or geographic region, could materially reduce demand for our products, services and solutions.

Levels of municipal spending may particularly impact our business, financial condition, results of operations or prospects. Reduced tax revenue in certain regions, or inability to access traditional sources of credit, may limit spending and new development by municipalities or local governmental agencies, which in turn may materially adversely affect the demand for our solutions and reduce our revenue.

Failure to compete successfully in our markets could materially adversely affect our business, financial condition, results of operations or prospects.

We offer our products, services and solutions in highly competitive markets. We believe the principal points of competition in our markets are product performance, reliability and innovation of our solutions, application expertise and process knowledge, brand reputation, energy and water efficiency, product compliance with environmental and regulatory requirements, product lifecycle cost, scalability, timeliness of delivery, proximity of service centers to our customers, effectiveness of our distribution channels and price. Maintaining and improving our competitive position will require successful management of these factors, including continued investment by us in research and development (including acquisition of technology through transactions), engineering, marketing, customer service and support and our distribution networks. Our future growth rate depends upon our ability to compete successfully, which is impacted by a number of factors, including our ability to (i) identify emerging technological trends in our target end markets, (ii) develop and maintain a wide range of competitive and appropriately priced products, services and solutions, (iii) enhance and differentiate our products from those of our competitors, (iv) develop and drive commercial acceptance of compelling new products quickly and cost-effectively, (v) ensure that our products, services and solutions remain cost-competitive, even when faced with rising commodity costs, (vi) attract, develop and retain individuals with the requisite technical expertise and understanding of customers' needs to develop and sell new technologies and products and (vii) execute projects in a cost-effective manner according to the schedules required by our customers.

We operate in markets that are characterized by customer demand that is often broad in scope but localized in delivery. We compete with companies that may be better positioned to capitalize on highly localized relationships and knowledge that are difficult for us to replicate. Our potential customers may prefer local suppliers, in some cases because of existing relationships and in other cases because of local legal restrictions or incentives that favor local businesses. Smaller regional suppliers may also have lower cost structures. As a result, efforts to expand or support our service network may not improve our ability to penetrate new local markets or expand our footprint in existing markets.

Further, many of our customers actively monitor and review our company-wide safety record, and apply rigorous safety standards to us and our competitors. Although we take precautions to prevent workplace accidents and mechanical failures, such incidents are difficult to predict and may be outside of our control. If we are unable to meet our customers' stringent workplace safety standards, or if our customers perceive us to have a poor safety record, it could materially impact our ability to retain their business or attract new business.

We may not be successful in maintaining our competitive position for a number of reasons. We may fail to identify optimal vertical or geographic markets, focus our attention in suboptimal vertical or geographic markets or fail to execute an appropriate business model in certain vertical or geographic markets. Our competitors may develop disruptive technologies or products that are superior to our products, develop more efficient or effective methods of providing products and services, operate with lower cost structures allowing them to price products and services more competitively or adapt more quickly than we do to new technologies or evolving customer requirements. The failure of our technologies or products to gain market acceptance due to more attractive offerings by our competitors could significantly reduce our revenues and materially adversely affect our competitive standing or prospects. Pricing pressures also could cause us to adjust the prices of certain products to stay competitive, which could materially adversely affect our margins and overall financial performance. Failure to continue competing successfully or to win business with our existing customers could materially adversely affect our business, financial condition, results of operations or prospects.

Our future growth is dependent upon our ability to continue to develop or acquire new products, services and solutions and adapt our businesses to meet the demands of our customers, comply with changes to government regulations and achieve market acceptance with acceptable margins.

Our future success depends upon a number of factors, including our ability to adapt our products, services and solutions to fit localities throughout our end markets, particularly in high growth emerging markets, such as China; identify emerging technological and other trends in our target end markets; and develop or acquire competitive products and services and bring them to market quickly and cost-effectively. If we are unable to continue to differentiate our products, services and solutions, or if we are forced to cut prices or hold prices in an otherwise inflationary market in order to remain competitive, our business, financial condition, results of operations or prospects could be materially and adversely affected.

We are also impacted by changing technology, competitively imposed process and safety standards and regulatory requirements, particularly under environmental regulations, each of which influences the demand for our products, services and solutions. Advances in technology and changes in industrial specifications or in legislative, regulatory and environmental requirements, including the availability of intellectual property protections in various jurisdictions, may render certain of our products, services and solutions obsolete.

In addition, our industrial and municipal customers have made considerable fixed-cost investments in the installation of their water and wastewater treatment products and systems, and our municipal customers are often subject to stringent appropriation requirements and extensive procurement processes. The replacement of our customers' installed products and systems with the new technologies that we develop could entail significant costs to such customers. Further, many of our potential customers engage and rely on engineering firms to recommend and select products and systems for their facilities, and many of our products are sold to OEMs as components of larger systems. Our inability to persuade our customers or other parties to adopt the technologies we develop could have an adverse effect on our business, financial condition, results of operations or prospects.

Our growth strategy includes growth through acquisitions, and we may not be able to identify suitable acquisition targets or otherwise successfully implement our growth strategy.

Acquisitions have historically been a significant part of our growth strategy, and we expect to continue to grow through acquisitions in the future. We expect to continue evaluating potential strategic acquisitions of businesses, assets and product lines. We may not be able to identify suitable candidates, negotiate appropriate or favorable acquisition terms, obtain financing that may be needed to consummate such transactions or complete proposed acquisitions. There is significant competition for acquisition and expansion opportunities in our businesses.

In addition, acquisitions involve numerous risks, including (i) incurring the time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in management's attention being diverted from the operation of our existing business; (ii) using inaccurate estimates and judgments to evaluate credit, operations, funding, liquidity, business, management and market risks with respect to the target institution or assets; (iii) litigation relating to an acquisition, particularly in the context of a publicly held acquisition target, that could require us to incur significant expenses, result in management's attention being diverted from the operation of our existing business or delay or enjoin the transaction; (iv) failing to properly identify an acquisition candidate's liabilities, potential liabilities or risks; (v) not receiving required regulatory approvals or such approvals being delayed or restrictively conditional; (vi) potentially insufficient internal controls over financial activities or financial reporting at an acquired entity that could impact our existing business on a combined basis; and (vii) an adverse impact on our existing business resulting from an acquired business that historically had a higher risk tolerance or whose personnel fail to comply with our existing policies. In connection with any acquisitions, we must comply with various antitrust requirements. It is possible that perceived or actual violations of these requirements could give rise to regulatory enforcement action or result in us not receiving the necessary approvals to complete a desired acquisition.

We routinely evaluate potential acquisition candidates and engage in discussions and negotiations regarding potential acquisitions; however, even if we execute a definitive agreement for an acquisition, there can be no assurance that we will consummate the transaction within the anticipated closing timeframe, or at all. Further, acquisitions typically involve the payment of a premium over book- and market-values and, therefore, some dilution of our tangible book value and earnings per common share may occur in connection with any future transaction.

We may have difficulty in operating or integrating any acquired businesses, assets or product lines profitably, or in successfully implementing our growth strategy.

The anticipated benefits from any potential acquisitions may not be achieved unless the operations of the acquired business assets or product lines are successfully integrated in an efficient, effective and timely manner. The integration of our acquisitions will require substantial attention from management and operating personnel to ensure that the acquisition does not disrupt any existing operations, or affect our customers' opinions and perceptions of our services, products or customer support.

In addition, the integration of any acquisition includes numerous risks, including an acquired business not performing to our expectations, our failure to integrate it appropriately, our failure to realize anticipated synergies and cost savings, our failure to preserve the customer relationships and retain key employees of an acquired business and difficulties, inefficiencies or cost overruns in integrating and assimilating the organizational cultures, operations, technologies, data, services and products of the acquired business with ours.

The process of integrating acquired businesses, assets and product lines could cause the interruption of, or delays in, the operation of our existing business, which could have a material adverse effect on our business, financial condition, results of operations or prospects. Acquisitions also place a burden on our information, financial and operating systems and our employees and management. Our ability to manage our growth effectively and integrate the operations of acquired businesses, assets or product lines, will require us to continue to attract, train, motivate, manage and retain key employees and to expand our information technology, operational and financial systems. If we are unable to manage our growth effectively, we may spend time and resources on such acquisitions that do not ultimately increase our profitability or that cause loss of, or harm to, relationships with employees and customers.

We may not achieve some or all of the expected benefits of our restructuring actions and restructuring our business into two segments may materially adversely affect us.

Effective October 1, 2018, we restructured our business into two reportable operating segments, the Integrated Solutions and Services segment and the Applied Product Technologies segment, in an effort to better serve the needs of our customers worldwide and position ourselves for improved long-term growth and profitability. We currently expect cost savings in the range of $15 million to $20 million on an annualized basis once fully implemented. However, achieving these cost savings are subject to significant economic, competitive and other uncertainties, some of which are beyond our control, and we may not be able to obtain the cost savings and benefits that we currently anticipate in connection with these restructuring actions. In order to achieve these cost savings, we currently expect to incur cash costs associated with the implementation of our two-segment structure in the range of $17 million to $22 million through fiscal 2020. However, this assumption may not be accurate and we may not be able to operate in accordance with our plans. In that case, we may determine that we must incur additional restructuring charges. These types of initiatives could yield unintended consequences such as distraction of our management and employees, business disruption, attrition beyond any planned reduction in workforce, inability to attract or retain key personnel and reduced employee productivity, which could materially adversely affect our business, financial condition and results of operations.

The successful implementation and execution of our restructuring actions are critical to achieving our expected cost savings as well as effectively competing in the marketplace and positioning us for future growth. If our restructuring actions are not executed successfully, it could have a material adverse effect on our business, financial condition and results of operations.

Our financial results depend on successful project execution and may be adversely affected by cost overruns, failure to meet customer schedules or other execution issues.

A significant portion of our revenue is derived from large projects that are technically complex and may occur over multiple years. These projects are subject to a number of significant risks, including project delays, cost overruns, changes in scope, unanticipated site conditions, design and engineering issues, incorrect cost assumptions, increases in the cost of materials and labor, safety hazards, third party performance issues, weather issues and changes in laws or permitting requirements. If we are unable to manage these risks, we may incur higher costs, liquidated damages and other liabilities to our customers, which may decrease our profitability and harm our reputation. Our continued growth will depend in part on executing a higher volume of large projects, which will require us to expand and retain our project management and execution personnel and resources.

Our business could be adversely affected by inflation and other manufacturing and operating cost increases and commodity availability constraints.

Our operating costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, energy and related utilities, freight and cost of labor. In order to remain competitive, we may not be able to recover all or a portion of these higher costs from our customers through product price increases. In addition, many of our contracts are long-term in nature, and our failure to accurately project operating costs or negotiate or enforce price escalation provisions in our long-term contracts could, in the event of an inflationary or otherwise cost-increasing environment, have a material adverse effect on our business, financial condition, results of operations or prospects. Further, in a declining price environment, our operating margins may contract because we account for inventory costs on the basis of an average or first-in, first-out method. Actions we take to mitigate volatility in manufacturing and operating costs may not be successful and, as a result, our business, financial condition, results of operations or prospects could be materially and adversely affected.

We have significant exposures to certain commodities, including, but not limited to, steel, caustic, carbon, calcium nitrate and iridium, and volatility in the market price and availability of these commodity input materials has a direct impact on our costs and our business. For example, the U.S. government has recently imposed greater restrictions on international trade, including tariffs and other trade restraints on certain imports. These restrictions have increased and could further increase the cost of our products and have restricted and could further restrict availability of certain commodities, which may result in delays in our execution of projects. If we are unable to manage commodity fluctuations through pricing actions, cost savings projects and sourcing decisions as well as through consistent productivity improvements, it may adversely impact our gross profit and gross margin.

Our financial results may fluctuate from period to period and can be difficult to predict.

Our financial results may be impacted by large projects, which often have lower margins and greater risk from both a timing and execution standpoint than standard product sales. The timing of these project awards is often unpredictable and outside of our control. If we fail to accurately estimate our operating costs to complete these projects or if we fail to execute these projects efficiently and timely, our margins on these projects will be further eroded. The timing of these project awards is often unpredictable and can change based upon customer requirements due to a number of factors affecting the project that are outside of our control, such as funding, readiness of the project and regulatory approvals. If any of these large projects get delayed or canceled, our results during the periods in which these projects were scheduled to occur could be adversely affected and the delay or failure could have a material adverse effect on our business, financial condition and results of operations or prospects. In addition, our contracts for large capital water treatment projects, systems and solutions for municipal and industrial applications are generally fixed-price contracts with milestone billings. Additionally, competitive-bid processes impose significant uncertainty with respect to our prospects for success, and our failure to properly predict our win rate could reduce our margins. Accordingly, our financial results for any given period may fluctuate and can be difficult to predict.

Further, our capital expenditures for any given fiscal year may exceed our initial forecasts and may vary substantially if we are required to undertake certain actions to comply with new regulatory requirements or compete with new technologies. We may not have the capital to undertake the capital investments. If we are unable to do so, we may not be able to effectively compete.

Delays in enactment or repeals of environmental laws and regulations may make our products, services and solutions less economically beneficial to our customers, thereby affecting demand for our products, services and solutions.

Certain of our products, services and solutions assist various industries and municipalities in meeting stringent environmental and safety requirements enacted for the purpose of making water cleaner and safer. Our future growth is dependent in part on the impact and timing of potential new water laws and regulations, as well as potential changes to existing laws and regulations. If stricter laws or regulations are delayed or are not enacted, or repealed or amended to be less strict, or enacted with prolonged phase-in periods, or not enforced, demand for our products and services may be reduced. For example, in response to Presidential Executive Order 13777, calling on each federal agency to establish a regulatory reform task force and evaluate existing rules and recommend repeal, replacement or modification to reduce regulatory burdens, the U.S. Environmental Protection Agency (the "U.S. EPA") established a task force and initiated reviews in several program areas. The U.S. EPA's Office of Water conducted such a review, soliciting public comments in the spring of 2017, including hosting a public listening session, seeking proposals for Office of Water rules that could be repealed, replaced or modified to make them less burdensome. In turn, in September 2017, the U.S. EPA issued a final rule stating that it intended to revise a 2015 rule limiting toxic metal levels in wastewater discharged by steam electric power plants and delayed associated compliance deadlines for two years. We are currently unable to predict whether changes to statutes and rules which occur will affect demand for our products and services. To the extent that such changes have a negative impact on us, including as a result of related uncertainty, these changes may materially and adversely impact our business, financial condition, results of operations or prospects.

If we become subject to claims relating to handling, storage, release or disposal of hazardous materials, we could incur significant cost and time to comply.

Our business activities, including our manufacturing processes and waste recycling and treatment processes, currently involve the use, treatment, storage, transfer, handling and/or disposal of hazardous materials, chemicals and wastes. These activities create a risk of significant environmental liabilities and reputational damage. Under applicable environmental laws and regulations, we could be strictly, jointly and severally liable for releases of regulated substances by us at our current or former properties or the properties of others or by other businesses that previously owned or used our current or former properties, including if such releases result in contamination of air, water or soil, or cause harm to individuals. We could also be liable or incur reputational damage if we merely generate hazardous materials or wastes, or arrange for their transportation, disposal or treatment, or we transport such materials, and they are subsequently released or cause harm, or if some other entity conducted such activities and by virtue of an acquisition, under applicable law we are a successor to that entity.

Our business activities also create a risk of contamination or injury to our employees, customers or third parties, from the use, treatment, storage, transfer, handling and/or disposal of these materials, and these activities could result in accidental contamination or injury to the general public, as end-users of our industrial and municipal customers' products and services.

In the event that our business activities result in environmental liabilities, such as those described above, we could incur significant costs or reputational damage in connection with the investigation and remediation of environmental contamination, and we could be liable for any resulting damages including natural resource damages. Such liabilities could exceed our available cash or any applicable insurance coverage we may have. Additionally, we are subject to, on an ongoing basis, federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with these laws and regulations may become significant and could have a material adverse effect on our business, financial condition, results of operations or prospects.

Further, we may incur costs to defend our position even if we are not liable for consequences arising out of a release of or exposure to a hazardous substance or waste, or other environmental damage. Our insurance policies may not be sufficient to cover the costs of such claims.

Failure to retain our existing senior management, skilled technical, engineering, sales and other key personnel or the inability to attract and retain new qualified personnel could materially adversely impact our ability to operate or grow our business.

Our success depends to a significant extent on our ability to retain or attract a significant number of employees in senior management, skilled technical, engineering, sales, project management and other key personnel. We have focused on creating a high performance culture, in which our employees are highly enabled, empowered and accountable. Our inability to continue to develop and maintain our culture by empowering our senior management, other leaders and employees and promoting an entrepreneurial spirit, could result in our loss of key leaders and employees and have a material adverse effect on our business, financial condition, results of operations or prospects. Additionally, our decision to restructure our business into two reportable operating segments could yield unintended consequences such as attrition beyond any planned reduction in workforce, inability to attract or retain key personnel, and reduced employee productivity which could negatively affect our business sales, financial condition and results of operations.

Our experienced sales team has also developed a number of meaningful customer relationships that would be difficult to replace. Therefore, competition for qualified technical personnel and for sales personnel with established customer relationships is intense, both in retaining our existing employees and in replacing or finding additional suitable employees. This is especially true when unemployment rates in the United States are low, as they currently are. There can be no assurance that the labor pool from which we hire our personnel will increase or remain stable, and any failure to retain our existing technical and sales personnel and other employees or to attract additional skilled personnel could have a material adverse effect our business, financial condition, results of operations or prospects.

In addition, the lockup agreement prohibiting our employees from selling shares of our stock that were acquired prior to our initial public offering expired on November 2, 2019, and a significant number of restricted stock units granted to certain senior employees at the time of our initial public offering vested on November 2, 2019. The liquidity available to employees who hold shares of our stock as a result of these two occurrences could create further challenges with respect to retention.

Product defects and unanticipated or improper use of our products could adversely affect our business, reputation and financial statements.

Manufacturing or design defects in (including in products or components that we source from third parties), unanticipated or improper use of, or inadequate disclosure of risks relating to the use of our products, services and solutions by our customers or third parties could create product safety, regulatory or other risks, including personal injury, death or property damage. These events could lead to recalls or safety alerts relating to our products, result in the removal of a product from the market and result in product liability claims being brought against us. Recalls, removals and product liability claims can result in significant costs, as well as negative publicity and damage to our reputation that could reduce demand for our products and have a material adverse effect on our business, financial condition, results of operations or prospects.

Further, it is generally our responsibility to service the equipment we provide our customers throughout the duration of our contract with such customers, and our customers may be required to maintain insurance covering loss, damage or injury caused by our equipment. However, we are not able to monitor our customers' use or maintenance of their water systems or their compliance with our contracts or usage instructions. Customers' failure to properly use, maintain or safeguard their equipment or customers' noncompliance with insurance requirements may reflect poorly on us as the provider of such equipment and, as a result, damage our reputation.

We may incur liabilities to customers as a result of warranty claims or failure to meet performance guarantees, which could reduce our profitability.

Our customers typically require product warranties as to the proper operation and conformance to specifications of the products we manufacture or install and performance guarantees as to any effluent produced by our equipment and services. Failure of our products to operate properly or to meet specifications of our customers or our failure to meet our performance guarantees may increase costs by requiring additional engineering resources and services, replacement of parts and equipment and frequent replacement of consumables or monetary reimbursement to a customer or could otherwise result in liability to our customers. We have in the past received warranty claims, and we expect to continue to receive them in the future. There are significant uncertainties and judgments involved in estimating warranty and performance guarantee obligations, including changing product designs, differences in customer installation processes and failure to identify or disclaim certain variables in a customer's influent. To the extent that we incur substantial warranty or performance guarantee claims in any period, our reputation, earnings and ability to obtain future business could be materially adversely affected.

We are increasingly dependent on the continuous and reliable operation of our information technology systems, and a disruption of these systems could materially adversely affect our business.

We rely on our information technology systems in connection with the operation of our business, including with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our installations. Many of our products, services and solutions depend on the integrity of our information technology systems, including our remote monitoring and data analytics features and our automated control solutions.

Our WaterOne® services are provided using remote monitoring technology that is connected to the "Internet of Things," which is inherently susceptible to cyber-attacks. A successful attack may result in inappropriate access to our or our customers' information or systems or cause our products to function improperly. Additionally, the systems through which we provide our WaterOne® services use electronic software embedded into a control board and water meter. This software or the control board could malfunction for a variety of reasons including, without limitation, exposure to software bugs, extreme heat or cold, corrosive water or simple wear and tear. A malfunction could result in our inability to operate the system effectively or to collect revenue for the services in a timely fashion.

In addition, we rely on our systems to manage maintenance and construction projects, materials and supplies and our human resource functions. A loss of these systems, major problems with the operation of these systems, the failure to properly implement these systems, including in customer installations, or the failure to identify market trends and continuously update our information technology systems could materially adversely affect our operations, sales and reputation and have a material adverse effect on our business, financial condition, results of operations or prospects.

Specifically, our information technology systems may be vulnerable to damage or interruption from, among other things:

- power loss, computer systems failures and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of data;
- computer viruses;
- intentional security breaches, hacking, denial of service actions, misappropriation of data and similar events; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

Such incidents may result in the loss or compromise of customer, financial or operational data, disruption of billing, collections or normal field service activities, disruption of data analytics and electronic monitoring and control of operational systems and delays in financial reporting and other normal management functions. Possible impacts associated with a cybersecurity incident may include loss of revenue, remediation costs related to lost, stolen, or compromised data, repairs to infrastructure, physical systems or data processing systems, increased cybersecurity protection costs, adverse effects on our compliance with regulatory and environmental laws and regulations, including standards for drinking water, litigation and reputational damage.

We, and some of our third party vendors, have experienced cybersecurity attacks in the past and may experience them in the future, potentially with more frequency. To date, most of these attacks have been unsuccessful, and none have resulted in any material adverse impact to our business or operations. We have adopted measures to mitigate potential risks associated with information technology disruptions and cybersecurity threats; however, given the unpredictability of the timing, nature and scope of such disruptions and the evolving nature of cybersecurity threats, which vary in technique and sources, we could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, other manipulation or improper use of our systems or networks, financial losses from remedial actions, loss of business or potential liability, regulatory enforcement actions and/or damage to our reputation, any of which could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition. We also have a concentration of operations on certain sites, such as production and shared services centers, where business interruptions could cause material damage and costs. Transport of goods from suppliers, and to customers, could also be hampered for the reasons stated above. Although we continue to assess these risks, implement controls and perform business continuity and disaster recovery planning, we cannot be sure that interruptions with material adverse effects will not occur.

If we experience a significant data security breach or fail to detect and appropriately respond to a significant data security breach, our business and reputation could suffer.

The nature of our business involves the receipt and storage of information about our customers, suppliers and employees. Further, we rely on various information technology systems to capture, process, store and report data in connection with the products, services and solutions that we provide to our customers, such as our WaterOne® services. We have procedures in place to detect and respond to data security incidents. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. We outsource administration of certain functions to vendors that could be targets of cyber attacks. Any theft, loss and/or fraudulent use of customer, employee or proprietary data as a result of a cyber attack targeting us or one of our third-party service providers could subject us to significant litigation, liability and costs, as well as adversely impact our reputation with customers and regulators, among others. Unauthorized parties may also attempt to gain access to our systems or facilities and to our proprietary business information. If our efforts to protect the security of information about our customers, suppliers and employees are unsuccessful, a significant data security breach may result in costly government enforcement actions, private litigation and negative publicity resulting in reputation or brand damage with customers, and our business, financial condition, results of operations or prospects could suffer. While we maintain insurance coverage that is designed to address certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise in the event we experience a cybersecurity incident, data breach or disruption, unauthorized access or failure of systems.

We are subject to laws, rules and regulations in the United States (such as the California Consumer Protection Act ("CCPA"), which will become effective on January 1, 2020), and other countries relating to the collection, use and security of employee and other data. Our ability to execute transactions and to possess and use personal information and data in conducting our business subjects us to legislative and regulatory burdens that may require us to notify regulators and customers, employees and other individuals of a data security breach, including in the European Union under the EU General Data Protection Regulation, or the GDPR. Evolving compliance and operational requirements under the GDPR, the CCPA, and the privacy laws of other jurisdictions in which we operate impose significant costs that are likely to increase over time.

We may be unable to bid on or enter into significant long-term agreements if we are not able to obtain letters of credit, bank guarantees or surety bonds, and our liquidity may be adversely affected by bonding requirements.

A portion of our business, including our water treatment projects and solutions, requires us to provide letters of credit, bank guarantees or surety bonds in support of our commitments and as part of the terms and conditions on water treatment projects. In addition, we are required to provide letters of credit or surety bonds to the department of environmental protection or equivalent in some states in order to maintain our licenses to handle hazardous waste at certain of our regeneration facilities. We have in the past been, and may in the future be, required to provide bid bonds or performance bonds to secure our performance under these construction-type customer arrangements or, in some cases, as a pre-requisite to submit a bid on a potential project.

Current or future market conditions, as well as changes in surety companies' assessment of our operating and financial risk, could cause our surety providers and lenders to decline to issue or renew, or substantially reduce the amount of, bid or performance bonds for our work, and could increase our costs associated with collateral. These actions could be taken on short notice. Our inability to obtain adequate bonding or letters of credit to meet bid requirements or enter into significant long-term agreements could have a material adverse effect on our business, financial condition, results of operations or prospects.

Further, surety companies may require that we collateralize a percentage of the bond with cash or another form of credit enhancement. Some of our customers also require collateral guarantees in the form of letters of credit to secure performance or to fund possible damages as the result of an event of default under our contracts with them. If we enter into significant long-term agreements that require the issuance of letters of credit, our liquidity could be negatively impacted.

Our inability to meet our customers' safety standards or adverse publicity affecting our reputation as a result of incidents such as workplace accidents, mechanical failures, spills, uncontrolled discharges, damage to customer or third-party property or the transmission of contaminants or diseases could have a material adverse effect on our sales and profitability.

Maintaining a strong and reliable reputation for safety is critical to our business. Many of our customers actively monitor and review our company-wide safety record. Further, reports and media coverage of incidents, such as those involving workplace accidents, mechanical failures, spills, uncontrolled discharges, damage to customer or third-party property, the transmission of contaminants or diseases and other adverse events can result in negative publicity, and considerable expansion in the use of social media over recent years has increased the ways in which our reputation can be impacted, and the speed with which such an impact can occur. Such incidents, or reports thereof, could lead to a negative perception among our customers, prospective customers and the general public regarding the safety or quality of our products, services and solutions, and anything that damages our reputation or our customers' perception of our safety record, whether or not justified, could have a materially adverse impact on demand for our products and services, result in additional costs to our business or the loss of customers, result in litigation against us or increase government or regulatory oversight over us.

Our products and facilities are subject to risks involving workplace accidents, mechanical failures spills, uncontrolled discharges and damage to customer or third-party property, including, among other things, personal injury or death caused by our products or occurring in our facilities, the destruction of customer or third-party property during the execution of a service arrangement or due to the malfunction of our products, delays in or suspension of service or the failure to timely deliver our products. A workplace accident, mechanical failure, spill, uncontrolled discharge or any problem involving any one or more of our products or facilities, or any perceived insufficiency in our response to any such deficiency or problem, could materially adversely affect our reputation. Although we take precautions to prevent workplace accidents and mechanical failures, such incidents are difficult to predict and may be outside of our control. If we are unable to meet our customers' stringent workplace safety standards or, if our customers perceive us to have a poor safety record, it could materially impact our ability to retain their business or attract new business.

Water may be subject to contaminants, including hazardous chemicals, or pathogens that cause a number of illnesses, including cholera, typhoid fever, giardiasis, cryptosporidiosis, amoebiasis and free living amoebic infections. Such contaminants or pathogens may be found in the environment, and, as a result, there is a risk that they could become present in water treated using our systems or products. In applications where treated water enters the human body, illness and death may result if such contaminants or pathogens are not eliminated during the treatment process. In particular, such contamination could result from failing to properly treat reusable products before they are distributed to our customers, or from actions taken by our customers or other third parties using our products, which could result in material liability. Further, any pandemic or other public health crisis, including those involving non-waterborne illnesses, might adversely impact our business by diminishing the public trust in water and wastewater treatment facilities or by causing customers to seek sources of water other than those processed using our systems or products. The potential impact of a contamination of water treated using our products, services or solutions is difficult to predict and could lead to an increased risk of exposure to product liability claims, increased scrutiny by federal and state regulatory agencies and negative publicity. Further, an outbreak of disease in any one of the municipal markets we serve could result in a widespread loss of customers across other such markets.

Our operations are subject to various hazards that may cause personal injury or property damage and increase our operating costs, and which may exceed the coverage of our insurance or for which we are not insured.

There are inherent risks to our operations. We are exposed to risks posed by severe weather and other natural disasters, such as hurricanes and earthquakes. In addition to natural risks, hazards (such as fire, explosion, collapse or machinery failure) are inherent risks in our operations which may occur as a result of inadequate internal processes, technological flaws, human error or certain events beyond our control. We further utilize approximately 740 vehicles in connection with our offsite services and distribution operations and, from time to time, these drivers are involved in accidents which may cause injuries, spills or uncontrolled discharges and in which goods carried by these drivers may be lost or damaged. The hazards described above can cause significant personal injury or loss of life, severe damage to or destruction of property, plants and equipment, including customer or third-party property, contamination of, or damage to, the environment and suspension of operations. The occurrence of any of these events may result in our being subject to investigation, required to perform remediation or named as a defendant in lawsuits asserting claims for substantial damages, environmental cleanup costs, personal injury, natural resource damages and fines or penalties. As a result, we may from time to time become exposed to significant liabilities for which we may not have adequate insurance coverage. We may also become exposed to certain claims that are excluded from our insurance coverage, such as claims of fraud or for punitive damages. Although we have liability insurance, we cannot be certain that this insurance coverage will continue to be available to us at a reasonable cost or will be adequate to cover any product liability claims. In addition, such events may affect the availability of personnel, proper functioning of our information technology infrastructure and availability of third parties on whom we rely, any of which consequences could have a material adverse effect on our business, financial condition, results of operations or prospects.

Significant or prolonged disruptions in the supply of goods or services from third parties could materially adversely affect our business, financial condition, results of operations or prospects.

We are dependent on a continuing flow of goods and services from suppliers to provide our products, services and solutions to our customers. A disruption or prolonged delays in obtaining supplies or services, including, for example, chemicals, electricity or other materials, could materially adversely affect our ability to provide our products, services and solutions to our customers, and our ability to operate in compliance with all regulatory requirements, which could have a material adverse effect on our business, financial condition, results of operations or prospects. In certain circumstances, we rely on third parties to provide certain important services and a disruption in these services could materially adversely affect our business, financial condition, results of operations or prospects. Some possible reasons for a delay or disruption in the supply of important goods and services include:

- our suppliers may not provide materials that meet our specifications in sufficient quantities;
- our suppliers may face production delays due to natural disasters, strikes, lock-outs or other such events;
- one or more suppliers could make strategic changes in the lines of products and services they offer; and
- some of our suppliers, such as small companies, may be more likely to experience financial and operational difficulties than larger, well-established companies, because of their limited financial and other resources.

As a result of any of these, or other, factors, we may be required to find alternative suppliers for the materials and services on which we rely. Accordingly, we may experience delays in obtaining appropriate materials and services on a timely basis and in sufficient quantities from such alternative suppliers at a reasonable price, which could interrupt services to our customers and materially adversely affect our business, financial condition, results of operations or prospects.

The loss of, or disruption in, our ability to efficiently operate our distribution network could have a material adverse impact on our business.

We rely on the orderly operation of our receiving and distribution process, which depends on our distribution system, adherence to shipping schedules and effective management of our distribution network. If complications arise with our distribution system or if our shipping or storage facilities (or a significant portion of inventory located there) is severely damaged or destroyed, our ability to receive and deliver our products on a timely basis will be significantly impaired. There can be no assurance that disruptions in operations due to natural or man-made disasters, fire, flooding, terrorism or other catastrophic events, system failure, labor disagreements or shipping problems will not result in delays in the delivery of our products to our customers. Such delays could materially adversely impact our business, financial condition, results of operations or prospects. In addition, we could incur significantly higher costs and longer lead times associated with distributing our products to our customers during the time it takes for us to reopen or replace our facilities. Moreover, our business interruption insurance may not be adequate to cover or compensate us for any losses that may occur.

We rely upon various means of transportation through third parties, including shipments by air, sea, rail and truck, to deliver products to our facilities from vendors and from our facilities to our customers, as well as for direct shipments from vendors to customers. Labor shortages or capacity constraints in the transportation industry, disruptions to the national and international transportation infrastructure, fuel shortages or transportation cost increases (such as increases in fuel costs or port fees) could materially adversely affect our business and operating results.

We rely, in part, on third-party sales representatives to assist in selling our products, services and solutions and the failure of these representatives to perform as expected could reduce our future sales.

Sales of our products, services and solutions to some of our customers are accomplished, in part, through the efforts of third-party sales representatives. We are unable to predict the extent to which these third-party sales representatives will be successful in marketing and selling our products. Moreover, many of these third-party sales representatives also market and sell competing products and may more aggressively pursue sales of our competitors' products. Our third-party sales representatives may terminate their relationships with us at any time on short or no notice. Our future performance may also depend, in part, on our ability to attract, incentivize and retain additional third-party sales representatives that will be able to market and support our products effectively, especially in markets in which we have not previously sold our products. If we cannot retain our current third-party sales representatives or recruit additional or replacement third-party sales representatives or if these sales representatives are not effective, it could have a material adverse effect on our business, financial condition, results of operations or prospects.

Our products, services and solutions, or our participation in large-scale projects, could expose us to litigation, regulatory or enforcement actions and reputational risk.

We are subject to various laws, ordinances, regulations and other requirements of government authorities in foreign countries and in the U.S., any violation of which could potentially create substantial liability for us. Changes in laws, ordinances, regulations or other government policies, the nature, timing and effect of which are uncertain, may significantly increase our expenses and liabilities.

From time to time, we are involved in lawsuits that arise from our business. Litigation may, for example, relate to product liability claims, personal injury, property damage, accidents, regulatory issues, contract disputes or employment matters. We may face claims that are broader than the scope of our involvement on a project, including claims that seek to impose liability on us for an entire solution or system for which we provided only limited components.

The occurrence of any of these matters could also create possible damage to our reputation. The defense and ultimate outcome of lawsuits against us may result in higher operating expenses. Higher operating expenses or reputational damage could have a material adverse effect on our business, financial condition, results of operations or prospects.

It is not possible to predict with certainty the outcome of claims, investigations and lawsuits, and we could in the future incur judgments, fines or penalties or enter into settlements of lawsuits and claims that could have a material adverse effect on our business, financial condition, results of operations or prospects in any particular period. Additionally, we may be required to change or cease operations at one or more facilities if a regulatory agency determines that we have failed to comply with laws, regulations or orders applicable to our business.

A number of factors may prevent or delay us in building new plants, expanding our existing plants or installing equipment at our customers' facilities, including our dependence on third-party suppliers and construction companies.

A number of factors may prevent or delay construction, expansion or use of our facilities or installation of our equipment at our customers' facilities, including our dependence on third-party suppliers of equipment and materials, our dependence on third-party construction companies and the timing of equipment purchases.

Further, we enter into contracts with customers regarding long-term engineering, procurement and construction projects. If a construction company we have commissioned to build a new project defaults or fails to fulfill its contractual obligations, we could face significant delays and cost overruns. Any construction delays could have a material adverse impact on us.

The timing of equipment purchases can pose financial risks to us. We attempt to make purchases of equipment and/or material as needed. However, from time to time, there may be excess demand for certain types of equipment with substantial delays between the time we place orders and receive delivery. In those instances, to avoid construction delays, service disruptions or liquidated damages associated with the inability to own and place such equipment or materials into service when needed, we may place orders well in advance of deployment or when actual damage to the equipment or materials occurs. Thus, there is a risk that at the time of delivery of such equipment or materials, there may not yet be a need to use them; however, we are still required to accept delivery and make payment. In addition, due to the customization of some of our equipment or materials, there may be a limited market for resale of such equipment or material. This can result in our incurrence of material equipment and/or material costs, with no use for or ability to resell such equipment.

Seasonality of sales and weather conditions may adversely affect, or cause volatility in, our financial results.

We experience seasonal demand in a number of our markets, as demand for infrastructure and municipal products and projects follows warm weather trends. Seasonal effects may vary from year to year and are impacted by weather patterns, particularly by temperatures, heavy flooding and droughts.

Additionally, our operating results and financial condition could be materially and adversely affected by severe weather, natural disasters, environmental factors, terrorist or other deliberate attacks or hazards (such as fire, explosion or mechanical failure) resulting from inadequate internal processes, technical flaws, human error or other circumstances. Repercussions of these catastrophic events may include shutting down operations, a need to obtain additional equipment or supplies on an emergency basis, evacuation of or injury to personnel, damage to equipment or property, loss of productivity and harm to our reputation, any of which may result in a decrease in our revenue or decreased profitability.

Government customers involve unique policy-, contract- and performance-related risks, and we may face challenges to our government contracts or our eligibility to serve government customers, any of which could materially adversely impact our business, financial condition, results of operations or prospects.

We derive, and expect to continue to derive in the future, a substantial portion of our revenues from government customers, including municipalities. Sales to governments and related entities present risks in addition to those involved in sales to industrial and other customers, including policy-related risks such as potential disruption due to appropriation and spending patterns, delays in the adoption of new technologies due to political, fiscal or bureaucratic processes, delays in approving budgets and the government's right to cancel contracts and purchase orders for its convenience. General political and economic conditions, which we cannot accurately predict, also directly and indirectly affect policies relating to the quantity and allocation of expenditures by government customers. In addition, government contracts may involve long purchase and payment cycles, competitive bidding requirements, qualification requirements, delays or changes in agreed-to funding, budgetary constraints, political agendas, extensive specification development and price negotiations, milestone requirements and the potential unenforceability of limitations on liability or other contractual provisions, any of which may create price pressure and reduce our margins. Because our water treatment projects and solutions for municipal customers often include fixed-price contracts with milestone billings and liquidated damages for our delay, our performance under such contracts involves risks such as not receiving payments, not receiving payments in a timely manner or incurring significant damages if certain milestones are not met or not met on schedule. As a result, we could experience a material adverse effect on our business, financial condition, results of operations or prospects.

Each government entity also maintains its own rules and regulations with which we must comply and which can vary significantly among customers. We face risks associated with the failure to comply with such rules and regulations. These risks include bid protests, in which our competitors could challenge the contracts we have obtained, or suspension, debarment or similar ineligibility from serving government customers. Challenges to our current or future government contracts or to our eligibility to serve government customers could result in a loss of government sales and have a material adverse effect on our business, financial condition, results of operations or prospects.

Our contracts with federal, state and local governments may be terminated or adversely modified prior to completion, which could adversely affect our business.

Government contracts generally contain provisions, and are subject to laws and regulations, that give the government rights and remedies not typically found in commercial contracts, including provisions permitting the government to terminate our existing contracts, reduce scope and potential future revenues, modify certain terms and conditions of existing contracts, suspend performance or our ability to do business with the government, impose fines or penalties, subject us to criminal prosecution or debarment, subject awarded contracts to protests or challenges by competitors or claim rights in technologies developed by us.

The government may terminate a contract with us either for convenience (for instance, due to a change in its perceived needs or its desire to consolidate work under another contract) or if we default by failing to perform under the contract. Upon a termination for convenience, we are generally able to recover the purchase price for delivered items and reimbursement of allowable work-in-process costs. If the government terminates a contract with us based upon our default, we generally would be denied any recovery for undelivered work, and instead may be liable for excess costs incurred by the government in procuring undelivered items from an alternative source and other damages as authorized by law. We may in the future receive show-cause or cure notices under contracts that, if not addressed to the government's satisfaction, could give the government the right to terminate those contracts for default or to cease procuring our services under those contracts.

The cost of complying with complex governmental regulations applicable to our business, sanctions resulting from non-compliance or reduced demand resulting from certain changes in regulations could increase our operating costs and reduce our profit.

Our operations are subject to various licensing, permitting, approval and reporting requirements imposed by federal, state, local and foreign laws. Our operations are subject to inspection and regulation by various governmental agencies, including the U.S. EPA, the Occupational Safety and Health Administration and equivalent state and local agencies, as well as their counterparts in various states and foreign countries. A major risk inherent in our operations is the need to obtain and renew permits from federal, state and local authorities. Delays in obtaining permits, the failure to obtain a permit or a renewal permit for a project, challenges to our permits by local communities, citizen groups, landowners or others opposed to their issuance or the issuance of a permit with unreasonable conditions or costs could limit our ability to effectively provide our services. We are also required to secure and maintain licenses required by several states which can take a significant amount of time and result in our inability or delays in our ability to bid on and execute certain projects. If we fail to secure or maintain any such licenses or if states place burdensome restrictions or limitations on our ability to obtain or maintain such licenses, we may not be able to operate in such states and our business, financial condition, results of operations or prospects may be materially adversely affected as a result.

Our business may be further impacted by changes in federal, state and local requirements that set forth air and wastewater discharge parameters, constrain water availability and set quality and treatment standards. Our failure or inability to comply with the stringent standards set forth by regulating entities or to provide cost-effective and compliant design and construction solutions could result in fines or other penalties, and could have a material adverse effect on our business, financial condition, results of operations or prospects.

Foreign, federal, state and local environmental, health and safety laws and regulations impose substantial compliance requirements on our operations. Our operating costs could be significantly increased in order to comply with new or stricter regulatory standards imposed by foreign, federal and state environmental agencies.

Our operations, products and services are governed by various foreign, federal, state and local environmental protection and health and safety laws and regulations, including, without limitation, the federal Safe Drinking Water Act, the Clean Water Act, the Clean Air Act, the Resource Conservation and Recovery Act, the Occupational Safety and Health Act, the Toxic Substances Control Act and the Federal Insecticide, Fungicide, and Rodenticide Act in the U.S., the Registration, Evaluation and Authorization of Chemicals, or REACH, directive in Europe, and similar foreign, federal, state and local laws and regulations and permits issued under these laws by the foreign, federal, state and local environmental and health and safety regulatory agencies. These laws and regulations establish, among other things, criteria and standards for drinking water and for discharges into the waters of the U.S. and its states, for the proper management of hazardous and non-hazardous solid waste and for protection of public and worker health and safety. Pursuant to these laws, we are required to obtain various environmental permits from environmental regulatory agencies for our operations. We cannot provide any assurance that our operations, products or services will be at all times in total compliance with these laws, regulations and permits or that we will be able to obtain or renew all required permits. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators and be subject to lawsuits, civil or criminal, seeking enforcement and/or injunctive relief. We may also be subject to civil claims by citizens groups seeking to enforce environmental laws. In the event of an accident or if we otherwise fail to comply with applicable regulations, we could lose our permits or approvals and/or be held liable for damages and monetary penalties.

Environmental laws and regulations are complex and change frequently. These laws, and the enforcement thereof, have tended to become more stringent over time. It is possible that new standards could be imposed, either stricter or more lenient, that could result in the obsolescence of our products or lead to an interruption or suspension of our operations and have a material adverse effect on the productivity and profitability of a particular manufacturing facility, service or product or on us as a whole.

Wastewater operations entail significant risks that may impose significant costs.

Wastewater treatment involves various unique risks. If our treatment systems fail or do not operate properly, or if there is a spill, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing various damages and injuries, including environmental damage. These risks are most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damages and injuries could materially adversely affect our business, financial condition, results of operations or prospects.

These risks could be increased by the potential physical impacts of climate change on our operations. The physical impacts of climate change are highly uncertain and would vary depending on geographical location, but could include changing temperatures, water shortages, changes in weather and rainfall patterns and changing storm patterns and intensities. Many climate change predictions, if true, present several potential challenges to water and wastewater service providers, such as increased precipitation and flooding, potential degradation of water quality and changes in demand for water services.

Failure to comply with applicable anti-corruption and trade laws, regulations and policies, including the U.S. Foreign Corrupt Practices Act, could result in fines and criminal penalties, causing a material adverse effect on our business, financial condition, results of operations or prospects.

Due to our global operations, we are subject to regulation under a wide variety of U.S. federal and state and non-U.S. laws, regulations and policies related to anti-corruption and trade, including those related to export and import compliance, anti-trust and money laundering. The U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act of 2010 and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials or other persons for the purpose of obtaining or retaining business. We operate in parts of the world that are recognized as high-risk regions for corruption. Our operations in these regions include sales to government and non-government customers and may include the use of third-party intermediaries. In certain circumstances, strict compliance with anti-bribery and trade laws, regulations and policies may conflict with local customs and practices in these regions.

The International Traffic in Arms Regulations generally require export licenses from the U.S. Department of State for goods, technical data and services sent outside the U.S. that have military or strategic applications. The Export Administration Regulations regulate the export of certain "dual use" goods, software and technologies, and in some cases requires export licenses from the U.S. Department of Commerce. Office of Foreign Asset Control regulations implement various sanctions programs that include prohibitions of restrictions on dealings with certain sanctioned countries, governments, entities and individuals. Our policies mandate compliance with these trade laws, regulations and policies, and we have established procedures designed to assist us and our personnel in compliance with applicable U.S. and international laws and regulations. However, we cannot provide any assurance that our internal control policies and procedures will always protect us from improper conduct of our employees or business partners.

In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable laws, including anti-corruption and trade laws, regulations and policies, we may be required to investigate or engage outside counsel to investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, imprisonment, disgorgement of profits, debarment from government contracts and curtailment of operations in certain jurisdictions, and might materially adversely affect our business, financial condition, results of operations or prospects. In addition, actual or alleged violations could damage our reputation and diminish our ability to do business. Furthermore, detecting, investigating and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

Our business, results of operations and financial condition may be materially adversely affected by risks associated with international sales and operations.

Our international sales and operations are subject, in varying degrees, to risks inherent to doing business outside the U.S. These risks include the following:

- changes in trade protection measures, including tariff and trade barriers and import and export licensing requirements;
- potential negative consequences from changes to taxation policies;
- unanticipated changes in other laws, governmental policies and regulations, or in how such provisions are interpreted or administered;
- risks associated with the withdrawal of the United Kingdom from the European Union, commonly known as "Brexit," including volatility in worldwide and European financial markets, potential restrictions on the free movement of goods and labor between the United Kingdom and the European Union and other impediments to our ability to transact within and between each of the United Kingdom and the European Union;
- potential disruptions in our global supply chain;
- possibility of unfavorable circumstances arising from host country laws or regulations;
- restrictions on, or taxation of, dividends on repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which our subsidiaries operate;
- currency exchange rate fluctuations and restrictions on currency repatriation;
- labor disturbances;

- safety and security considerations;
- increased costs and risks of developing and managing global operations, including our potential failure to implement global best practices, experiences of employee dissatisfaction and the improper allocation of resources, as a result of distance as well as language and cultural differences; and
- political instability insurrection, armed conflict, terrorism or war.

In addition to the general risks that we face outside the U.S., our operations in emerging markets could involve additional uncertainties for us, including risks that governments may impose limitations on our ability to repatriate funds; governments may impose withholding or other taxes on remittances and other payments to us, or the amount of any such taxes may increase; an outbreak or escalation of any insurrection or armed conflict may occur; governments may seek to nationalize our assets; or governments may impose or increase investment barriers or other restrictions affecting our business. The emerging markets in which we are active, including China, pose other uncertainties, including the difficulty of enforcing agreements, collecting receivables, protecting of our intellectual property and other assets and pricing of our products appropriately, as well as higher business conduct risks, less qualified talent and risks of political instability. We cannot predict the impact such events might have on our business, financial condition, results of operations or prospects.

Our operations in China expose us to risks inherent in doing business there.

We currently have operations and source and manufacture certain of our materials and products for global distribution from third-party suppliers and manufacturers in China. The political, legal and economic climate in China, both nationally and regionally, is fluid and unpredictable, and operating in China exposes us to political, legal and economic risks. Our ability to operate in China may be adversely affected by changes in U.S. and Chinese laws and regulations such as those related to, among other things, taxation, import and export tariffs, environmental regulations, land use rights, intellectual property, currency controls, network security, employee benefits and other matters, and we may not obtain or retain the requisite legal permits to continue to operate in China or we may become subject to costs or operational limitations imposed in connection with obtaining and complying with such permits. In addition, Chinese trade regulations are in a state of flux, and we may become subject to other forms of taxation, tariffs and duties in China. We may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. and international standards. We may also experience difficulty in managing relations with our employees, distributors, suppliers or customers, with whom disagreements or conflicts of interest could materially adversely affect our operations or our ability to source and manufacture certain of our materials and products in China. Further, the third parties we rely on in China may disclose our confidential information or intellectual property to competitors or third parties, which could result in the illegal distribution and sale of counterfeit versions of our products. Any of these factors could have a material adverse effect on our business, financial condition, results of operations or prospects.

Additionally, the rapid development of the Chinese economy has led to increased labor costs, and the cost of labor in China may continue to increase in the future. Our results of operations will be materially and adversely affected if our labor costs, or the labor costs of our suppliers and manufacturers, increase significantly. We and our manufacturers and suppliers may be unable to find a sufficient number of qualified workers due to the intensely competitive and fluid market for skilled labor in China. Furthermore, pursuant to Chinese labor laws, employers in China are subject to various requirements when signing labor contracts, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. These labor laws and related regulations impose liabilities on employers and may significantly increase the costs of workforce reductions. If we decide to change or reduce our workforce, these labor laws could limit or restrict our ability to make such changes in a timely, favorable and effective manner. Any of these events could have a material adverse effect our business, financial condition, results of operations or prospects.

If we do not or cannot adequately protect our intellectual property, if third parties infringe our intellectual property rights, or if third parties claim that we are infringing or misappropriating their intellectual property rights, we may suffer competitive injury, expend significant resources enforcing our rights or defending against such claims, or be prevented from selling products or services.

We own numerous patents, trademarks, service marks, copyrights, trade secrets and other intellectual property and hold licenses to intellectual property owned by others, which in aggregate are important to our business. The intellectual property rights that we have and may obtain, however, may not provide our products and services with a significant competitive advantage because our rights may not be sufficiently broad or may be challenged, invalidated, or subject to government march-in or sovereign rights or compulsory licensing, sunshine laws, or be subject to freedom of information requests, or court-ordered public disclosure, or be subject to open-source software licensing, or be circumvented, independently developed or designed-around, misappropriated, disparaged, diluted, or stolen, particularly in countries where intellectual property rights laws are not highly developed, protected or enforced. Our failure to obtain or maintain intellectual property rights that convey competitive advantage, adequately protect our intellectual property or detect or prevent circumvention or unauthorized use of such property and the cost of enforcing our intellectual property rights could materially adversely impact our business, financial condition, results of operations or prospects.

From time to time, we, or on occasion our suppliers, contractors or indemnified parties in our supply chain including end-users, receive notices from third parties alleging or warning of potential intellectual property infringement or misappropriation. Any dispute or litigation regarding intellectual property could be costly and time-consuming due to the complexity and the uncertainty of intellectual property litigation. Our intellectual property portfolio may not be useful in asserting a counterclaim, or negotiating a license, in response to a claim of infringement or misappropriation. We may incur significant costs and diversion of management attention and resources as a result of such claims of infringement or misappropriation, and we or our suppliers or sub-contractors could lose rights to critical technology, be unable to license critical technology, provide or sell critical products or services, or be required to pay substantial damages or license fees with respect to the infringed rights or be required to redesign, rework, re-program, or replace our or our customers' products, sub-components, software, or systems, or re-cast our valuable brands at substantial cost, any of which could materially adversely impact our competitive position, financial condition and results of operations even if we successfully defend against such claims of infringement or misappropriation.

Changes to U.S. tax laws may have a material adverse impact on our business.

On December 22, 2017, President Trump signed into law new legislation that significantly revises the Internal Revenue Code of 1986, as amended (the "IRC"). The newly enacted federal income tax law, among other things, contains significant changes to corporate taxation, including the reduction of the corporate income tax rate from 35% to 21%, a one-time transition tax on foreign earnings at a reduced tax rate regardless of whether the earnings are repatriated, the elimination of the U.S. tax on future foreign earnings (subject to certain existing exceptions for inclusions under Subpart F of the IRC and newly enacted provisions under Subpart F regarding global intangible low-taxed income, or "GILTI"), limits on the deduction of interest, a new minimum tax related to certain payments to foreign subsidiaries and affiliates, immediate deductions for certain new investments and the modification of many business deductions and credits. In particular, the legislation limits the deduction for interest expense available to U.S. corporations as compared to the total debt burden on the international group, and limits interest deductions to 30% of EBITDA determined by applying U.S. tax principles. Tax reform also introduced "GILTI" which, in general, will subject U.S. corporations to tax on the earnings of certain foreign subsidiaries that are in excess of 10% of the foreign subsidiaries U.S. tax basis in tangible assets. Finally, it is uncertain whether, and to what extent, various states will conform to the new tax law and foreign countries will react by enacting tax legislation or take other actions. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain and could have a material adverse impact on our business, financial condition, cash flows and results of operations.

Our ability to use our net operating loss carryforwards may be limited.

As of September 30, 2019, we had approximately $291.2 million of U.S. federal and state net operating loss carryforwards ("NOLs"). Our federal NOLs begin to expire in 2034 while certain state NOLs begin to expire in 2019. Utilization of these NOLs depends on many factors, including our future income, which cannot be assured. We have a full valuation allowance against the NOLs. In addition, U.S. tax reform imposes certain limitations on a corporation's ability to offset its future income with its NOLs. The legislation reduces the U.S. corporate tax rate, which would result in a reduction of the expected cash tax benefit that would arise from any future utilization of our NOLs. Finally, Section 382 of the IRC ("Section 382"), generally imposes an annual limitation on the amount of taxable income that may be offset by NOLs when a corporation has undergone an "ownership change" (as determined under Section 382). Generally, a corporation experiences such an ownership change if the percentage of its stock owned by its "5-percent stockholders," as defined in Section 382, increases by more than 50 percentage points (by value) over a three-year period. Any unused annual limitation may, subject to certain limitations, be carried over to later years. We may undergo an ownership change in the future, including an ownership change as a result of the combined effect of our initial public offering and future equity offerings, which could result in an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate as defined in Section 382, increased under certain circumstances as a result of recognizing built-in gains in our assets existing at the time of the ownership change. The limitations arising from any ownership change may prevent utilization of our NOLs prior to their expiration. Future ownership changes or regulatory changes could further limit our ability to utilize our NOLs. To the extent we are not able to offset our future income with our NOLs, this could adversely affect our operating results and cash flows if we attain profitability.

Changes in our effective tax rates may adversely affect our financial results.

We offer our products, services and solutions in more than 100 countries and 20.5% of our revenue was generated outside the U.S. in fiscal 2019. Given the global nature of our business, a number of factors may increase our future effective tax rates, including:

- the jurisdictions in which profits are determined to be earned and taxed;
- sustainability of historical income tax rates in the jurisdictions in which we conduct business;
- the resolution of issues arising from tax audits with various tax authorities; and
- changes in the valuation of our deferred tax assets and liabilities, and changes in deferred tax valuation allowances.

Any significant increase in our future effective tax rates could reduce net income for future periods.

We are a holding company with no operations of our own, and we depend on our subsidiaries for cash.

We are a holding company and do not have any material assets or operations other than ownership of equity interests of our subsidiaries. Our operations are conducted almost entirely through our subsidiaries, and our ability to generate cash to meet our obligations or to pay dividends, if any, is highly dependent on the earnings of, and receipt of funds from, our subsidiaries through dividends or intercompany loans. The ability of our subsidiaries to generate sufficient cash flow from operations to allow us and them to make scheduled payments on our debt obligations will depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. We cannot provide any assurance that the cash flow and earnings of our operating subsidiaries will be adequate for our subsidiaries to service their debt obligations. Additionally, under the terms of the agreement governing our senior secured credit facilities, our operating subsidiaries are currently limited in their ability to pay cash dividends to us, and we expect these limitations to continue in the future under the terms of any future credit agreement or any future debt or preferred equity securities of ours or of our subsidiaries. If our subsidiaries do not generate sufficient cash flow from operations to satisfy corporate obligations, we may have to undertake alternative financing plans (such as refinancing), restructure debt, sell assets, reduce or delay capital investments or seek to raise additional capital. We cannot provide any assurance that any such alternative refinancing would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realized from those sales, that additional financing could be obtained on acceptable terms, if at all, or that additional financing would be permitted under the terms of our various debt instruments then in effect. Our inability to generate sufficient cash flow to satisfy our obligations, or to refinance our obligations on commercially reasonable terms, could have a material adverse effect on our business, financial condition, results of operations or prospects.

Furthermore, we and our subsidiaries may incur substantial additional indebtedness in the future that may severely restrict or prohibit our subsidiaries from making distributions, paying dividends, if any, or making loans to us.

We may incur impairment charges for our goodwill and other indefinite-lived intangible assets which would negatively impact our operating results.

We have a significant amount of goodwill and purchased intangible assets on our balance sheet as a result of the Acquisition in 2014 and subsequent acquisitions we have completed. As of September 30, 2019, the net carrying value of our goodwill and other indefinite-lived intangible assets totaled approximately $427.1 million. The carrying value of goodwill represents the fair value of an acquired business in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of indefinite-lived intangible assets represents the federal hazardous waste treatment management permits obtained for locations operated by the Company. We do not amortize goodwill and indefinite-lived intangible assets that we expect to contribute indefinitely to our cash flows, but instead we evaluate these assets for impairment at least annually, or more frequently if changes in circumstances indicate that a potential impairment could exist. Significant negative industry or economic trends, disruptions to our business, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may impair our goodwill and other indefinite-lived intangible assets. Any charges relating to such impairments could materially adversely affect our financial condition and results of operations.

Our substantial indebtedness could adversely affect our financial condition and limit our ability to raise additional capital to fund our operations.

We have a significant amount of indebtedness. As of September 30, 2019, we had total indebtedness of $977.2 million, including $928.8 million of borrowings under our term loan facility, no borrowings under our revolving credit facility, and $46.8 million in borrowings related to equipment financing and $1.6 million in borrowings related to financing our purchase of our facility in Schiedam, Netherlands. We also had $13.0 million of letters of credit issued under our $125.0 million revolving credit facility and an additional $204 thousand of letters of credit issued under a separate uncommitted facility as of September 30, 2019.

Our high level of indebtedness could have important consequences to us, including:

- making it more difficult for us to satisfy our obligations with respect to our debt;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, investments or acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments and/or debt repayment instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, investments or acquisitions or other general corporate purposes;
- increasing our vulnerability to adverse changes in general economic, industry and competitive conditions;
- exposing us to the risk of increased interest rates as borrowings under our senior secured credit facilities (to the extent not hedged) bear interest at variable rates, which could further adversely impact our cash flows;
- limiting our flexibility in planning for and reacting to changes in our business and the industry in which we compete;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- impairing our ability to obtain additional financing in the future;
- placing us at a disadvantage compared to other, less leveraged competitors; and

- increasing our cost of borrowing.

Any one of these limitations could have a material effect on our business, financial condition, results of operations, prospects and our ability to satisfy our obligations in respect of our outstanding debt.

Despite our current debt levels, we may incur substantially more indebtedness, which could further exacerbate the risks associated with our substantial leverage.

We and our subsidiaries may be able to incur additional indebtedness in the future, which may be secured. While the agreement governing our senior secured credit facilities limits our ability and the ability of our subsidiaries to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and thus, notwithstanding these restrictions, we may still be able to incur substantially more debt. In addition, provided that no default or event of default (as defined in the agreement governing our senior secured credit facilities) has occurred and is continuing, we have the option to add one or more incremental term loan or revolving credit facilities or increase commitments under our revolving credit facility by an aggregate amount which does not cause our total first lien net leverage ratio, on a pro forma basis (in each case, as defined in the agreement governing our senior secured credit facilities), to exceed 4.50 to 1.00, plus up to an additional $100.0 million (excluding incremental revolving credit facilities or increases under our revolving credit facility in an aggregate principal amount not to exceed $30.0 million) (all of which remains available as of September 30, 2019). To the extent that we incur additional indebtedness, the risks that we now face related to our substantial indebtedness could increase.

To service our indebtedness, we require a significant amount of cash, which depends on many factors beyond our control.

We cannot provide any assurance that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our senior secured credit facilities in amounts sufficient to enable us to fund our liquidity needs. If we do not generate sufficient cash flow from operations to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets or seeking to raise additional capital. We cannot provide any assurance that we would be able to enter into these alternative financing plans on commercially reasonable terms or at all. Moreover, any alternative financing plans that we may be required to undertake would still not guarantee that we would be able to meet our debt obligations. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to obtain alternative financing, could materially adversely affect our business, financial condition, results of operations or prospects. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.”

We will need to repay or refinance borrowings under our senior secured credit facilities.

Our revolving credit facility and term loan facility are scheduled to mature in December 2022 and December 2024, respectively. We will need to repay, refinance, replace or otherwise extend the maturity of our senior secured credit facilities. Our ability to repay, refinance, replace or extend these facilities by their maturity dates will be dependent on, among other things, business conditions, our financial performance and the general condition of the financial markets. If a financial disruption were to occur at the time that we are required to repay indebtedness outstanding under our senior secured credit facilities, we could be forced to undertake alternate financings, including a sale of additional common stock, negotiate for an extension of the maturity of our senior secured credit facilities or sell assets and delay capital expenditures in order to generate proceeds that could be used to repay indebtedness under our senior secured credit facilities. We cannot provide any assurance that we will be able to consummate any such transaction on terms that are commercially reasonable, on terms acceptable to us or at all.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our senior secured credit facilities are at variable rates of interest and expose us to interest rate risk. Interest rates are still near historically low levels and are projected to rise in the future. If interest rates rise, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed may remain the same, and our net income and cash flows will correspondingly decrease. Assuming no prepayments of the term loan facility (which had $928.8 million outstanding as of September 30, 2019) and that our revolving credit facility was fully drawn, each 0.125% change in interest rates would result in an approximate change of $1.2 million in annual interest expense on the indebtedness under our senior secured credit facilities. The Company entered into an interest rate cap to mitigate the risks associated with variable rate debt effective November 28, 2018. The LIBOR interest rate cap has a notional value of $600 million, is effective for a period of three years and has strike price of 3.5%.

The covenants in our senior secured credit facilities impose restrictions that may limit our operating and financial flexibility.

Our senior secured credit facilities contain a number of significant restrictions and covenants that limit our ability, among other things, to:

- incur additional indebtedness;
- pay dividends or distributions on our capital stock or repurchase or redeem our capital stock;
- prepay, redeem or repurchase specified indebtedness;
- create certain liens;
- sell, transfer or otherwise convey certain assets;
- make certain investments;
- create dividend or other payment restrictions affecting subsidiaries;
- engage in transactions with affiliates;
- create unrestricted subsidiaries;
- consolidate, merge or transfer all or substantially all of our assets or the assets of our subsidiaries;
- enter into agreements containing certain prohibitions affecting us or our subsidiaries; and
- enter into new lines of business.

In addition, our senior secured credit facilities contain a financial covenant requiring us to comply with a 5.55 to 1.00 first lien net leverage ratio test. This financial covenant is solely for the benefit of the lenders under our revolving credit facility and is tested as of the last day of a quarter on which the aggregate amount of revolving loans and letters of credit outstanding under the revolving credit facility (net of cash collateralized letters of credit and undrawn outstanding letters of credit in an amount of up to 50% of the revolving credit facility) exceeds 25% of the total commitments thereunder.

These covenants could materially adversely affect our ability to finance our future operations or capital needs. Furthermore, they may restrict our ability to expand and pursue our business strategies and otherwise conduct our business. Our ability to comply with these covenants may be affected by circumstances and events beyond our control, such as prevailing economic conditions and changes in regulations, and we cannot provide any assurance that we will be able to comply with such covenants. These restrictions also limit our ability to obtain future financings to withstand a future downturn in our business or the economy in general. In addition, complying with these covenants may also cause us to take actions that may make it more difficult for us to successfully execute our business strategy and compete against companies that are not subject to such restrictions.

A breach of any covenant in our senior secured credit facilities or the agreements and indentures governing any other indebtedness that we may have outstanding from time to time would result in a default under that agreement or indenture after any applicable grace periods. A default, if not waived, could result in acceleration of the debt outstanding under the agreement and in a default with respect to, and an acceleration of, the debt outstanding under other debt agreements. If that occurs, we may not be able to make all of the required payments or borrow sufficient funds to refinance such debt. Even if new financing were available at that time, it may not be on terms that are acceptable to us or terms as favorable as our current agreements. If our debt is in default for any reason, our business, results of operations and financial condition could be materially and adversely affected.

Risks Relating to Ownership of our Common Stock

The market price of our common stock may be highly volatile, and our shareholders may not be able to resell their shares at or above the price they paid for them.

The trading price of our common stock could be volatile, and our shareholders could lose all or part of their investment. We cannot provide any assurance that an active public market for our common stock will be sustained. Volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, many of whom have been granted stock incentive awards. The following factors, in addition to other factors described in this "Risk Factors" section and elsewhere in this Annual Report on Form 10-K, may have a significant impact on the market price of our common stock:

- negative trends in global economic conditions or activity levels in our industry;
- changes in our relationship with our customers or in customer needs, expectations or trends;
- announcements concerning our competitors or our industry in general;
- our ability to implement our business strategy;
- our ability to complete and integrate acquisitions;
- actual or anticipated fluctuations in our quarterly or annual operating results;
- trading volume of our common stock;
- the failure of securities analysts to cover the Company or changes in analysts' financial estimates;
- severe weather, natural disasters, acts of war or terrorism or other external events;
- economic, legal and regulatory factors unrelated to our performance;
- changes in accounting principles;
- the loss of any of our management or key personnel;
- sales of our common stock by us, our executive officers and directors or our shareholders (including certain affiliates of AEA) in the future; and
- general economic and market conditions and overall fluctuations in the U.S. equity markets.

In addition, broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance, and factors beyond our control may cause our stock price to decline rapidly and unexpectedly.

Because AEA holds a significant percentage of our common stock, it may influence major corporate decisions, and the interests of AEA and its affiliates, including certain of our directors, may conflict with the interests of owners of our common stock and those of the Company.

AEA currently owns approximately 30.6% of our common stock. As a result, although we are no longer a controlled company, AEA will continue to be able to influence matters requiring approval by our shareholders and/or our board of directors, including the election of directors and the approval of business combinations or dispositions and other extraordinary transactions. See Item 13, "Certain Relationships and Related Party Transactions."

AEA may have interests that are different from our other shareholders and may vote in a way with which our other shareholders disagree and which may be adverse to our other shareholders' interests. Further, AEA's concentration of ownership could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which could cause the market price of our common stock to decline or prevent our shareholders from realizing a premium over the market price for their common stock. Additionally, AEA and its affiliates are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us or supply us with goods and services. Shareholders should consider that the interests of AEA may differ from their interests in material respects.

Two of our nine directors are currently affiliated with AEA. These persons have fiduciary duties to both us and AEA. As a result, they may have real or apparent conflicts of interest on matters affecting both us and AEA, which in some circumstances may have interests adverse to ours. In addition, our amended and restated certificate of incorporation provides that the doctrine of "corporate opportunity" will not apply with respect to us, to AEA or certain related parties or any of our directors who are employees of AEA or its affiliates in a manner that would prohibit them from investing in competing businesses or doing business with our customers. AEA or its affiliates may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. To the extent they invest in such other businesses, AEA and its affiliates, including affiliates of AEA who serve on our board of directors, may have interests that differ from those of our other shareholders.

Sales, or the potential for sales, of a substantial number of shares of our common stock in the public market by us or our existing shareholders could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. Additionally, future exercises and the vesting of equity awards may result in dilution of the value of our common stock and could also depress the market price of our common stock. Sales of stock by these shareholders could have a material adverse effect on the trading price of our common stock.

Holders of an aggregate of approximately 56,620,498 shares of our common stock have rights, subject to certain conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other shareholders. Registration of these shares under the Securities Act, would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares held by our affiliates as defined in Rule 144 under the Securities Act. Any sales of securities by these shareholders could have a material adverse effect on the trading price of our common stock.

We are exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are required to comply with the management certification requirement of Section 404 of the Sarbanes Oxley Act of 2002 (the "Sarbanes Oxley Act"). As we perform the system and process evaluation and testing, we may identify control deficiencies of varying degrees of severity under applicable SEC and Public Company Accounting Oversight Board ("PCAOB") rules and regulations that remain unremediated. As a public company, we are required to report, among other things, control deficiencies that constitute a "material weakness" or changes in internal controls that, or that are reasonably likely to, materially affect internal controls over financial reporting. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

If we fail to comply with the requirements of Section 404, regulatory authorities such as the SEC or the PCAOB might subject us to sanctions or investigation. If we do not implement improvements to our disclosure controls and procedures or to our internal controls in a timely manner, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal controls over financial reporting pursuant to an audit of our controls. This may subject us to adverse regulatory consequences or a loss of confidence in the reliability of our financial statements. We could also suffer a loss of confidence in the reliability of our financial statements if our independent registered public accounting firm reports a material weakness in our internal controls, if we do not develop and maintain effective controls and procedures or if we are otherwise unable to deliver timely and reliable financial information.

Additionally, effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Inadequate internal controls could also cause investors to lose confidence in our reported financial information. Any loss of confidence in the reliability of our financial statements or other negative reaction to our failure to develop timely or adequate disclosure controls and procedures or internal controls could result in a decline in the price of our common stock. In addition, if we fail to remedy any material weakness, our financial statements may be inaccurate, we may face restricted access to the capital markets and our stock price may be adversely affected.

If securities or industry analysts cease publishing research or reports about us, our business or our markets, or if they adversely change their recommendations or publish negative reports regarding our business or our stock, our stock price and trading volume could materially decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts may publish about us, our business, our markets or our competitors. We do not have any control over these analysts and we cannot provide any assurance that analysts will cover us or provide favorable coverage. If any of the analysts who may cover us adversely change their recommendation regarding our stock, or provide more favorable relative recommendations about our competitors, our stock price could materially decline. If any analyst who may cover us were to cease coverage of our Company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to materially decline.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our shareholders, and may prevent attempts by our shareholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation and our amended and restated bylaws, as well as provisions of the Delaware General Corporation Law (the "DGCL"), could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our shareholders, including transactions in which shareholders might otherwise receive a premium for their shares. These provisions include:

- establishing a classified board of directors such that not all members of the board of directors are elected at one time;
- allowing the authorized number of our directors to be determined exclusively by resolution of our board of directors and granting to our board of directors the sole power to fill any vacancy on the board of directors;
- limiting the ability of shareholders to remove directors without cause;
- providing that our board of directors is expressly authorized to adopt, or to alter or repeal, our amended and restated bylaws;
- authorizing the issuance of "blank check" preferred stock by our board of directors, without further shareholders approval, to thwart a takeover attempt;

- prohibiting shareholders action by written consent (and, thus, requiring that all shareholder actions be taken at a meeting of our shareholders);
- eliminating the ability of shareholders to call a special meeting of shareholders;
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at annual shareholder meetings; and
- requiring the approval of the holders of at least two-thirds of the voting power of all outstanding stock entitled to vote thereon, voting together as a single class, to amend or repeal our amended and restated certificate of incorporation or amended and restated bylaws.

In addition, while we have opted out of Section 203 of the DGCL, our amended and restated certificate of incorporation contains similar provisions providing that we may not engage in certain "business combinations" with any "interested shareholder" for a three-year period following the time that the shareholder became an interested shareholder, unless:

- prior to such time, our board of directors approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder;
- upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding certain shares; or
- at or subsequent to that time, the business combination is approved by our board of directors and by the affirmative vote of holders of at least two-thirds of our outstanding voting stock that is not owned by the interested shareholder.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our Company. These provisions could also discourage proxy contests and make it more difficult for shareholders to elect directors of their choosing and cause us to take corporate actions other than those that certain shareholders desire.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our shareholders by any of our directors, officers, employees or agents, (iii) any action asserting a claim against us arising under the DGCL or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine. Shareholders in our Company will be deemed to have notice of and have consented to the provisions of our amended and restated certificate of incorporation related to choice of forum. The choice of forum provision in our amended and restated certificate of incorporation may limit our shareholders' ability to obtain a favorable judicial forum for disputes with us.

We do not currently expect to pay any cash dividends.

We currently anticipate that we will retain future earnings for the development, operation and expansion of our business, and the continued operation and expansion of our business will require substantial funding. Accordingly, we do not currently anticipate declaring or paying any cash dividends on shares of our common stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors that our board of directors deems relevant. We are a holding company, and substantially all of our operations are carried out by our operating subsidiaries. Under our senior secured credit facilities, our operating subsidiaries are currently limited in their ability to pay cash dividends, and we expect these limitations to continue in the future. Our ability to pay dividends may also be limited by the terms of any future credit agreement or any future debt or preferred equity securities of ours or of our subsidiaries. Accordingly, realization of a gain on any investment in shares of our common stock will depend on the appreciation of the price of our common stock, which may never occur.

The requirements of being a public company, including compliance with the reporting requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act and the NYSE, may strain our resources, increase our costs and divert management's attention, and we may be unable to comply with these requirements in a timely or cost-effective manner.

As a public company, we are subject to the reporting requirements of the Exchange Act, and the corporate governance standards of the Sarbanes-Oxley Act and the NYSE. These requirements place a strain on our management, systems and resources and we will continue to incur significant legal, accounting, insurance and other expenses. The Exchange Act, requires us to file annual, quarterly and current reports with respect to our business and financial condition within specified time periods and to prepare a proxy statement with respect to our annual meeting of shareholders. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. The NYSE requires that we comply with various corporate governance requirements. To maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting and comply with the Exchange Act and NYSE requirements, significant resources and management oversight will be required. This may divert management's attention from other business concerns and lead to significant costs associated with compliance, which could have a material adverse effect on us and the price of our common stock. Furthermore, as we grow our business both organically and through acquisitions, our disclosure controls and procedures and internal control over financial reporting will become more complex, and we may require significantly more resources to ensure that these controls and procedures remain effective.

These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or its committees or as our executive officers. Advocacy efforts by shareholders and third parties may also prompt even more changes in governance and reporting requirements. We cannot predict or estimate the amount of additional costs we may incur or the timing of these costs. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

We may be subject to securities litigation, which is expensive and could divert management attention.

Our share price has been volatile and, in the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Litigation of this type could result in substantial costs and diversion of management's attention and resources, which could have a material adverse effect on our business, financial condition, results of operations or prospects. Any adverse determination in litigation could also subject us to significant liabilities. See Item 3, "Legal Proceedings" for a discussion of the status of certain securities litigation related to our share price volatility.

As a result of the expiration of certain voting proxies, we are no longer a "controlled company" within the meaning of the corporate governance standards of the NYSE. However, we continue to qualify for, and may rely on, exemptions from certain corporate governance requirements that would otherwise provide protection to our shareholders during a one-year transition period.

Because AEA no longer controls the votes of a majority of our common stock, we are no longer a "controlled company" within the meaning of the corporate governance standards of the NYSE. However, we continue to qualify for, and may rely on, exemptions from certain corporate governance standards that would otherwise provide protection to our shareholders during a one-year transition period that ends November 2, 2020. The NYSE rules require that we (i) have at least one independent director on each of our compensation committee and nominating and corporate governance committee by the date we ceased to qualify as a "controlled company," (ii) have a majority of independent directors on each of our compensation committee and nominating and corporate governance committee within 90 days of the date we ceased to qualify as a "controlled company," and (iii) have a fully independent compensation committee and nominating and corporate governance committee within one year of the date we ceased to qualify as a "controlled company." We are also required to have a majority independent board of directors within one year of the date we ceased to qualify as a "controlled company" and to perform an annual performance evaluation of our compensation committee and nominating and corporate governance committee. Our board of directors has determined that two of the four members of our compensation committee, two of the four members of our nominating and corporate governance committee, all of the members of our audit committee and six of the nine members of our board of directors are independent for purposes of the NYSE corporate governance standards.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of September 30, 2019, we operate 163 locations located in the United States, Canada, the United Kingdom, the Netherlands, Germany, Australia, China, Singapore, India and Korea, including 19 manufacturing facilities, seven research and development facilities and 97 service branches. Of our facilities, we own 21 properties and lease 142 properties. Our North American presence includes 11 resin regeneration plants, three carbon reactivation plants and one wastewater ion exchange facility. As of September 30, 2019, the covered square footage of our facilities is equal to an aggregate of approximately 3.6 million square feet.

Item 3. Legal Proceedings

From time to time, we are subject to various claims, charges and litigation matters that arise in the ordinary course of business. We believe these actions are a normal incident of the nature and kind of business in which we are engaged. While it is not feasible to predict the outcome of these matters with certainty, we do not believe that any asserted or unasserted legal claims or proceedings, individually or in the aggregate, will have a material adverse effect on our business, financial condition, results of operations or prospects.

On or around November 6, 2018, a purported shareholder of the Company filed a class action lawsuit in the U.S. District Court for the Southern District of New York alleging that the Company and senior management violated federal securities laws by issuing false, misleading, and/or omissive disclosures in the period leading up to the Company's October 30, 2018 announcement of, among other things, (a) preliminary results for the full-year fiscal 2018 that were below previous expectations and (b) a transition from a three-segment structure to a two-segment operating model. The action is captioned *McWilliams v. Evoqua Water Technologies Corp., et al.*, Case No. 1:18-CV-10320 and names as defendants the Company and the Company's CEO and CFO. In January 2019, the court appointed lead plaintiffs and lead counsel and re-captioned the action as *In re Evoqua Water Technologies Corp. Securities Litigation*. In March 2019, lead plaintiffs filed an amended complaint, which asserts claims pursuant to the Securities Exchange Act of 1934 and the Securities Act against the Company, members of the Company's board of directors, senior management, a former executive, AEA, and the underwriters of the Company's IPO and secondary public offering. The amended complaint alleges that the defendants violated federal securities laws by issuing false, misleading, and/or omissive disclosures concerning the Company's integration of acquired companies, the Company's reduction-in-force, and the Company's accounting practices. The lawsuit seeks compensatory damages in an unspecified amount to be proved at trial, an award of reasonable costs and expenses to the plaintiff and class counsel, and such other relief as the court may deem just and proper. In June 2019, the defendants filed motions to dismiss the amended complaint, and briefing of those motions was completed in October 2019. The Company believes that this lawsuit is without merit and intends to vigorously defend itself against the allegations.

In April 2019, another purported shareholder of the Company filed a derivative lawsuit in the United States District Court for the Western District of Pennsylvania, captioned *Dallas Torgersen v. Ronald C. Keating*, No. 2:19-CV-410. The complaint names as defendants the Company's CEO & CFO, as well as members of the Company's board of directors, and it names the Company as a nominal defendant. The complaint alleges, among other things, that the individual defendants violated federal securities laws by issuing false, misleading, and/or omissive disclosures in the period leading up to the Company's October 30, 2018 disclosures, and that they breached their fiduciary duties to the Company. The lawsuit seeks compensatory damages in an unspecified amount, an award of reasonable costs and expenses, restitution from the individual defendants, and an order directing the Company and the individual defendants to take all necessary actions to reform and improve the Company's corporate governance and internal procedures. In June 2019, the Court entered an order staying the lawsuit pending resolution of the *In re Evoqua Water Technologies Corp. Securities Litigation* lawsuit described above.

Item 4. Mine Safety Disclosures

None.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The Company's common stock began trading on the NYSE under the symbol "AQUA" on November 2, 2017. Before then, there was no public market for the Company's common stock.

After underwriting discounts and commissions and expenses, we received net proceeds from our initial public offering of approximately $137.6 million. We used a portion of the net proceeds from our initial public offering to repay approximately $104.9 million of indebtedness (including accrued and unpaid interest) under our senior secured first lien term loan facility and we used the remainder for general corporate purposes.

As of October 31, 2019, there were 325 holders of record of the Company's common stock, which does not reflect those shares held beneficially or those shares held in "street" name. Accordingly, the number of beneficial owners of our common stock exceeds this number.

Dividend Policy

No dividends were paid to shareholders during the years ended September 30, 2019, 2018 or 2017. The Company currently intends to retain all of its future earnings, if any, to finance operations, development and growth of its business and repay indebtedness. Most of the Company's indebtedness contains restrictions on the Company's activities, including paying dividends on its capital stock. See Note 11, "Debt" in Part II, Item 8 of this Annual Report on Form 10-K. Any future determination relating to our dividend policy will be made at the discretion of the Company's board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that the board of directors may deem relevant.

Unregistered Sales of Equity Securities and Use of Proceeds

In the year ended September 30, 2019, we issued 352,727 shares of our common stock to certain employees upon the exercise of stock options pursuant to the Stock Option Plan, which amount gives effect to the net exercise by certain of such employees of a portion of their vested options to cover exercise price and applicable tax withholding obligations.These issuances were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(a)(2) of the Securities Act and/or Rule 701 promulgated thereunder. The securities were issued directly by the registrant and did not involve a public offering or general solicitation.

Stock Performance Graph

The following graph shows a comparison of cumulative total return to holders of shares of Evoqua's common stock against the cumulative total return of S&P Small Cap 600 Index and S&P Small Cap 600 / Utilities Index from market close on November 2, 2017 (the first day of trading of our common stock) through September 30, 2019. The comparison of the cumulative total returns for each investment assumes that $100 was invested in Evoqua common stock and the respective indices on November 2, 2017 through September 30, 2019, including reinvestment of any dividends (although no dividends have been declared on our common stock to date). Historical share price performance should not be relied upon as an indication of future share price performance, and we do not make or endorse any predications as to future shareholder returns.

This performance graph and related information shall not be deemed "soliciting material"or to be "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any future filing under the Securities Act or Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

	11/2/2017	9/30/2018	12/31/2018	3/31/2019	6/30/2019	9/30/2019
AQUA.	$ 100	$ 85	$ 46	$ 60	$ 68	$ 82
S&P Small Cap 600	$ 100	$ 117	$ 93	$ 104	$ 105	$ 105
S&P Small Cap 600 / Utilities . .	$ 100	$ 100	$ 94	$ 102	$ 107	$ 113

Item 6. Selected Financial Data

Our selected historical Consolidated Balance Sheet data presented below as of September 30, 2019 and 2018 and our selected historical Consolidated Statements of Operations and cash flow data presented below for each of the years ended September 30, 2019, 2018, 2017, 2016 and 2015 has been derived from our audited Consolidated Financial Statements. Our selected historical Consolidated Balance Sheet data presented below as of September 30, 2015, 2016 and 2017 has been derived from our audited Consolidated Financial Statements not included in this Annual Report on Form 10-K.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The selected historical consolidated financial data presented below should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our Consolidated Financial Statements and related notes thereto contained in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

(In millions, except per share amounts)	Year Ended September 30,				
	2019	2018	2017	2016	2015
Statement of Operations Data:					
Revenue from product sales and services	$ 1,444.4	$ 1,339.5	$ 1,247.4	$ 1,137.2	$ 1,061.0
Gross profit	426.0	404.7	399.7	333.1	292.4
Total operating expenses	(371.3)	(345.7)	(332.0)	(302.9)	(298.0)
Net (loss) income	(8.5)	7.9	6.4	13.0	(86.0)
Net (loss) income attributable to the Company	$ (9.5)	$ 6.1	$ 2.2	$ 11.6	$ (86.0)
(Loss) income per share					
Basic	$ (0.08)	$ 0.05	$ 0.02	$ 0.11	$ (0.85)
Diluted	$ (0.08)	$ 0.05	$ 0.02	$ 0.11	$ (0.85)
Cash Flow Data:					
Net cash provided by operating activities	$ 125.2	$ 81.0	$ 28.5	$ 31.9	$ 41.9
Net cash used in investing activities	$ (94.5)	$ (207.0)	$ (134.9)	$ (344.6)	$ (46.9)
Net cash provided by (used in) financing activities	$ 5.7	$ 150.6	$ 114.5	$ 191.4	$ (6.3)
Balance Sheet Data (as of end of period):					
Cash and cash equivalents	$ 109.9	$ 82.4	$ 59.3	$ 50.4	$ 169.0
Total assets	$ 1,737.8	$ 1,663.6	$ 1,473.3	$ 1,296.2	$ 1,039.9
Total debt (including current portion)	$ 965.0	$ 939.6	$ 889.8	$ 758.2	$ 552.1

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

The following discussion and analysis of our financial condition and results of our operations should be read in conjunction with Item 6, "Selected Financial and Operating Data" and Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from such forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those identified below and those discussed in the section titled "Cautionary Note Regarding Forward-Looking Statements" and in Item 1A, "Risk Factors" in this Annual Report on Form 10-K. Unless otherwise indicated or the context otherwise requires, all references to the "Company," "Evoqua," "Evoqua Water Technologies Corp.," "EWT Holdings I Corp," "we," "us," "our" and similar terms refer to Evoqua Water Technologies Corp., together with its consolidated subsidiaries. Unless otherwise specified, all dollar amounts in this section are referred to in millions. Our fiscal year ends on September 30 of each year and references in this section to a year refer to our fiscal year. As such, references to: 2019 relates to the fiscal year ended September 30, 2019, 2018 relates to the fiscal year ended September 30, 2018 and 2017 relates to the fiscal year ended September 30, 2017.

Overview and Background

We are a leading provider of mission critical water treatment solutions, offering services, systems and technologies to support our customers' full water lifecycle needs. With over 200,000 installations worldwide, we hold leading positions in the industrial, commercial and municipal water treatment markets in North America. We offer a comprehensive portfolio of differentiated, proprietary technology solutions sold under a number of market-leading and well-established brands to our global customer base. We have worked to protect water, the environment and our employees for over 100 years. As a result, we have earned a reputation for quality, safety and reliability and are sought out by our customers to solve the full range of their water treatment needs, and maintaining our reputation is critical to the success of our business.

Our solutions are designed to ensure that our customers have the quantity and quality of water that meets their unique specifications. We enable our customers to achieve lower costs through greater uptime, throughput and efficiency in their operations and support their regulatory compliance and environmental sustainability. We deliver and maintain these mission critical solutions through the largest service network in North America, assuring our customers continuous uptime with 97 branches as of September 30, 2019. We have an extensive service and support network, and as a result, a certified Evoqua Service Technician is no more than a two hour drive from more than 90% of our North American customers' sites.

Our vision "to be the world's first choice for water solutions" and our values of "integrity, customers and performance" foster a corporate culture that is focused on establishing a workforce that is enabled, empowered and accountable, which creates a highly entrepreneurial and dynamic work environment. Our purpose is "Transforming water. Enriching life." We draw from a long legacy of water treatment innovations and industry firsts, supported by more than 1,400 granted or pending patents, which in aggregate are imperative to our business. Our core technologies are primarily focused on removing impurities from water, rather than neutralizing them through the addition of chemicals, and we are able to achieve purification levels which are 1,000 times greater than typical drinking water.

Business Segments

For the year ended September 30, 2019, we served our customers through two segments: Integrated Solutions and Services, a group entirely focused on engaging directly with end users, and Applied Product Technologies, a group focused on developing product platforms to be sold primarily through third party channels. Our segments draw from the same reservoir of leading technologies, shared manufacturing infrastructure, common business processes and corporate philosophies. The key factors used to identify our reportable segments are the organization and alignment of our internal operations, the nature of the products and services and customer type.

- Within the Integrated Solutions and Services segment, we primarily provide tailored solutions in collaboration with our customers backed by life-cycle services including on-demand water, outsourced water (formerly known as build-own-operated), recycle and reuse and emergency response service alternatives to improve operational reliability, performance and environmental compliance.

- Within the Applied Product Technologies segment, we provide a highly differentiated and scalable range of products and technologies specified by global water treatment designers, OEMs, engineering firms and integrators.

We evaluate our business segments' operating results based on income from operations and net income (loss) before interest expense, income tax benefit (expense) and depreciation and amortization ("EBITDA") on a segment basis. Corporate activities include general corporate expenses, elimination of intersegment transactions, interest income and expense and other unallocated charges, which have not been allocated to business segments. As such, the segment results provided herein may not be comparable to other companies. In addition, our chief operating decision maker uses Adjusted EBITDA of each reportable segment to evaluate the operating performance of such segments. Adjusted EBITDA of the reportable segments does not include certain unallocated charges that are presented within Corporate activities. These unallocated charges include certain restructuring and other business transformation charges that have been incurred to align and reposition the Company to the current reporting structure, acquisition related costs (including transaction costs, integration costs and recognition of backlog intangible assets recorded in purchase accounting) and share-based compensation charges.

For the years ended September 30, 2019, 2018 and 2017, our segments accounted for the following percentage of our revenues:

	2019	2018	2017
Integrated Solutions and Services segment	63.1%	62.4%	59.7%
Applied Product Technologies segment	36.9%	37.6%	40.3%

Organic Growth Drivers

Market Growth

We maintain a leading position among customers in growing industries that utilize water as a critical part of their operations or production processes, including pharmaceuticals and health sciences, microelectronics, food and beverage, hydrocarbon and chemical processing, power, general manufacturing, municipal drinking and wastewater, marine and aquatics. Water treatment is an essential, non-discretionary market that is growing in importance as access to clean water has become an international priority. Underpinning this growth are a number of global, long-term trends that have resulted in increasingly stringent effluent regulations, along with a growing demand for cleaner and sustainable waste streams for reuse. These trends include the growing global population, increasing levels of urbanization and continued global economic growth, and we have seen these trends manifest themselves within our various end markets creating multiple avenues of growth. For example, within the industrial market, water is an integral and meaningful component in the production of a wide-range of goods spanning from consumer electronics to automobiles.

Our Existing Customer Base

We believe our strong brands, leading position in highly fragmented markets, scalable and global offerings, leading installed base and unique ability to provide complete treatment solutions will enable us to capture a larger share of our existing customers' water treatment spend while expanding with existing and new customers into adjacent end-markets and underpenetrated regions, including by investing in our sales force and cross-selling to existing customers. We believe we are uniquely positioned to further penetrate our core markets, with over 200,000 installations across over 38,000 global customers. We maintain a customer-intimate business model with strong brand value and provide solutions-focused offerings capable of serving a customer's full lifecycle water treatment needs, both in current and new geographic regions.

Our Service Model

We selectively target high value projects with opportunities for recurring business through service, parts and other aftermarket opportunities over the lifecycle of the process or capital equipment. In particular, we have developed internet-connected monitoring technologies through the deployment of our WaterOne® service platform, which enables customers to outsource their water treatment systems and focus on their core business, offering customers system optimization, predictive and proactive service, and simplified billing and pricing. Our WaterOne® platform also enables us to transition our customers to pricing models based on usage, which otherwise would not have been possible without technological advancement. Our technology solutions provide customers with increased stability and predictability in water-related costs, while enabling us to optimize our service route network and on demand offerings through predictive analytics, which we believe will result in market share gains, improved service levels, increased barriers to entry and reduced costs.

Product and Technology Development

We develop our technologies through in-house research, development and engineering and targeted tuck-in, vertical market and geography-expanding, technology-enhancing acquistions. We have a reservoir of recently launched technologies and a strong pipeline of new offerings designed to provide customers with innovative, value-enhancing solutions. Furthermore, since April 2016, we have successfully completed thirteen acquisitions that expand our vertical markets and geographic reach and enhance our technologies, strengthening our existing capabilities and adding new capabilities and cross selling opportunities in areas such as mobile wastewater treatment, soil and air treatment, regenerative media filtration, anodes, UV and ozone disinfection, aerobic and anaerobic biological treatment technologies and electrochemical and electrochlorination cells. We are able to rapidly scale new technologies using our leading direct and third-party sales channels and our relationships with key influencers, including municipal representatives, engineering firms, designers and other system specifiers. We believe our continued investment in driving penetration of our recently launched technologies, robust pipeline of new capabilities and best-in-class channels to market will allow us to continue to address our customer needs across the water lifecycle.

Operational Excellence

We believe that continuous improvement of our operations, processes and organizational structure is a key driver of our earnings growth. Effective October 1, 2018, we restructured our business into two reportable operating segments, which we expect to result in cost savings in the range of $15 million to $20 million on an annualized basis once fully implemented. We have separately identified and are pursuing a number of discrete initiatives which, if successful, we expect could result in additional cost savings over the next two years. These initiatives include our supply chain improvement program to consolidate and manage global spending, our improved logistics and transportation management program, capturing benefits of our WaterOne® platform and further optimizing our engineering cost structure, our global shared services organization and our sales, inventory and operations planning. These improvements focus on creating value for customers through reduced leadtimes, improved quality and superior customer support, while also creating value for shareholders through enhanced earnings growth. Furthermore, as a result of significant investments we have made in our footprint and facilities, we believe we have capacity to support our planned growth without commensurate increase in fixed costs.

Acquisitions

We believe that capex-like, tuck-in acquisitions present a key opportunity within our overall growth strategy, which we will continue to evaluate strategically. These strategic acquisitions will enable us to accelerate our growth by extending the critical mass in existing markets as well as expand in new geographies and new end market verticals. Our existing customer relationships, best-in-class channels to market and ability to rapidly commercialize technologies provide a strong platform to drive rapid growth in the businesses we acquire. To capitalize on these opportunities, we have built an experienced team dedicated to mergers and acquisitions that has, since April 2016, successfully completed thirteen acquisitions that expand our vertical markets and geographic reach and enhance our technologies, with purchase prices ranging from approximately $2.0 million to approximately $283.7 million, and pre-acquisition revenues ranging from approximately $3.1 million to approximately $55.7 million.

During the year ended September 30, 2019, we acquired all of the issued and outstanding equity securities of ATG UV Technology Limited (“ATG UV”). See Note 3, “Acquisitions and Divestitures,” in Item 8 in this Annual Report on Form 10-K for a complete discussion of this acquisition. During the year ended September 30, 2018, we acquired substantially all of the assets of Le Groupe IsH20Top Inc. (“Isotope”) and Pure Water Solutions, LLC (“Pure Water”) and all of the issued and outstanding equity securities of ProAct Services Corporation (“ProAct”) and Pacific Ozone Technology, Inc. (“Pacific Ozone”). During the year ended September 30, 2017, we acquired all of the issued and outstanding equity securities of Olson Irrigation Systems (“Olson”) and ADI Systems North America Inc., Geomembrane Technologies Inc. and Lange Containment Systems, Inc. (collectively, “ADI”) from ADI Group Inc., and substantially all of the assets of Noble Water Technologies, Inc. (“Noble”) and Environmental Treatment Systems Inc. (“ETS”).

We will continue to actively evaluate acquisition opportunities that are consistent with our business strategy. We maintain a robust pipeline of potential acquisition targets, developed by our management team as well as various outside industry experts and consultants.

Key Factors and Trends Affecting Our Business and Financial Statements

Various trends and other factors affect or have affected our operating results, including:

Overall economic trends. The overall economic environment and related changes in industrial, commercial and municipal spending impact our business. In general, positive conditions in the broader economy promote industrial, commercial and municipal customer spending, while economic weakness results in a reduction of new industrial, commercial and municipal project activity. Macroeconomic factors that can affect customer spending patterns, and thereby our results of operations, include population growth, total water consumption, municipal budgets, employment rates, business conditions, the availability of credit or capital, interest rates, tax rates, imposition of tariffs and regulatory changes. Since the businesses of our customers vary in cyclicality, periodic downturns in any specific sector typically have modest impacts on our overall business.

Changes in costs and availability. We have significant exposures to certain commodities, including steel, caustic, carbon, calcium nitrate and iridium, and volatility in the market price and availability of these commodity input materials has a direct impact on our costs and our business. For example, the U.S. government and other governments have recently imposed greater restrictions on international trade, including tariffs and/or other trade restraints on certain materials. These restrictions, particularly those related to China, have increased and could further increase the cost of our products and have restricted and could further restrict availability of certain commodities, which may result in delays in our execution of projects. Although we have offset a portion of these cost increases through price increases, there can be no assurance that we will be able to continue to recuperate additional cost increases from our customers through further product price increases. If we are unable to manage commodity fluctuations through pricing actions, cost savings projects and sourcing decisions as well as through consistent productivity improvements, it may adversely impact our gross profit and gross margin. Further, additional potential acquisitions and international expansion will place increased demands on our operational, managerial, administrative and other resources. Managing our growth effectively will require us to continue to enhance our management systems, financial and management controls and information systems. We will also be required to hire, train and retain operational and sales personnel, which affects our operating margins.

Inflation and deflation trends. Our financial results can be expected to be directly impacted by substantial increases in costs due to commodity cost increases or general inflation which could lead to a reduction in our revenues as well as greater margin pressure as increased costs may not be able to be passed on to customers.

Fluctuation in quarterly results. Our quarterly results have historically varied depending upon a variety of factors, including funding, readiness of projects, regulatory approvals and significant weather events. In addition, our contracts for large capital water treatment projects, systems and solutions for industrial, commercial and municipal applications are generally fixed-price contracts with milestone billings. As a result of these factors, our working capital requirements and demands on our distribution and delivery network may fluctuate during the year.

New products and technologies. Our ability to maintain our appeal to existing customers and attract new customers depends on our ability to originate, develop and offer a compelling array of products, services and solutions responsive to evolving customer innovations, preferences and specifications. We expect that increased use of water in industrial and commercial processes will drive increased customer demand in the future, and our ability to grow will depend in part on effectively responding to innovation in our customers' processes and systems. Further, our ability to provide products that comply with evolving government regulations will also be a driver of the appeal of our products, services and solutions to industrial and commercial customers.

Government policies. Decaying water systems in the United States ("U.S.") will require critical drinking water and wastewater repairs, often led by municipal governments. Further, as U.S. states increase regulation on existing and emerging contaminants, we expect that our customers will increasingly require sustainable solutions to their water-related needs. In general, increased infrastructure investment and more stringent municipal, state and federal regulations promote increased spending on our products, services and solutions, while a slowdown in investment in public infrastructure or the elimination of key environmental regulations could result in lower industrial and municipal spending on water systems and products.

Availability of water. In general, we expect demand for our products and services to increase as the availability of clean water from public sources decreases. Secular trends that will drive demand for water across a multitude of industrial, commercial and municipal applications include global population growth, urbanization, industrialization and overall economic growth. In addition, the supply of clean water could be adversely impacted by factors including an aging water infrastructure within North America and increased levels of water stress from seasonal rainfall, inadequate water storage options or treatment technologies. Because water is a critical component and byproduct of many processes, including in manufacturing and product development, we expect that, as global consumption patterns evolve and water shortages persist, demand for our equipment and services will continue to increase.

Operational investment. Our historical operating results reflect the impact of our ongoing investments to support our growth. We have made significant investments in our business that we believe have laid the foundation for continued profitable growth. Activities related to operational investments include employee training and development, integrating acquired businesses, implementing enhanced information systems, research, development and engineering investments and other activities to enable us to support our operating model.

Our ability to source and distribute products effectively. Our revenues are affected by our ability to purchase our inputs in sufficient quantities at competitive prices. While we believe our suppliers have adequate capacity to meet our current and anticipated demand, our level of revenues could be adversely affected in the event of constraints in our supply chain, including the inability of our suppliers to produce sufficient quantities of raw materials in a manner that is able to match demand from our customers.

Contractual relationships with customers. Due to our large installed base and the nature of our contractual relationships with our customers, we have high visibility into a large portion of our revenue. The one- to twenty-year terms of many of our service contracts and the regular delivery and replacement of many of our products help to insulate us from the negative impact of any economic decline.

Exchange rates. The reporting currency for our Consolidated Financial Statements is the U.S. dollar. We operate in numerous countries around the world and therefore, certain of our assets, liabilities, revenues and expenses are denominated in functional currencies other than the U.S. dollar, primarily in the euro, U.K. sterling, Chinese renminbi, Canadian dollar, Australian dollar and Singapore dollar. To prepare our Consolidated Financial Statements we must translate those assets, liabilities, revenues and expenses into U.S. dollars at the applicable exchange rate. As a result, increases or decreases in the value of the U.S. dollar against these other currencies will affect the amount of these items recorded in our Consolidated Financial Statements, even if their value has not changed in the functional currency. While we believe we are not susceptible to any material impact on our results of operations caused by fluctuations in exchange rates because our operations are primarily conducted in the U.S., if we expand our foreign operations in the future, substantial increases or decreases in the value of the U.S. dollar relative to these other currencies could have a significant impact on our results of operations.

Public company costs. As a result of our initial public offering ("IPO"), we now incur additional legal, accounting and other expenses that we did not previously incur, including costs associated with SEC reporting and corporate governance requirements. These requirements include compliance with the Sarbanes-Oxley Act as well as other rules implemented by the SEC and the NYSE. Our financial statements following our IPO reflect the impact of these expenses. In addition, the one-time grant of stock-settled restricted stock unit awards made in connection with the IPO to certain members of management resulted in increased non-cash share-based compensation expense, which will be incremental to our ongoing stock-based compensation expense. This stock-based compensation was expensed beginning in the first fiscal quarter of fiscal 2018 and continued over the following eight fiscal quarters.

Debt refinancings. On December 20, 2017, certain subsidiaries of the Company entered into Amendment No. 5 (the "Fifth Amendment"), among EWT III, as the borrower, certain other subsidiaries of the Company, and Credit Suisse AG, as administrative agent and collateral agent, relating to the First Lien Credit Agreement. Proceeds of the Fifth Amendment were used to refinance approximately $796.6 million of the then-existing term loans.

In connection with the closing of the ProAct acquisition on July 26, 2018, EWT III entered into Amendment No. 6 (the "Sixth Amendment") to the First Lien Credit Agreement. Pursuant to the Sixth Amendment, among other things, EWT III borrowed an additional $150.0 million in incremental term loans, and all of the revolving credit lenders whose revolving credit loans were scheduled to mature on January 15, 2019 agreed to convert 100% of their commitments into revolving credit loans that will mature on December 20, 2022. Principal and interest under the term loans outstanding under the First Lien Credit Agreement are payable in quarterly installments, with quarterly principal repayments of $2.4 million, and the balance due at maturity on December 20, 2024. The other terms of the First Lien Credit Agreement, including rates, remain generally the same. See "Liquidity and Capital Resources" below.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. The key indicators of the financial condition and operating performance of our business are revenue, gross profit, gross margin, operating expenses, net income (loss) and Adjusted EBITDA.

Revenue

Our sales are a function of sales volumes and selling prices, each of which is a function of the mix of product and service sales, and consist primarily of:

- sales of tailored light industry technologies, heavy industry technologies and environmental products, services and solutions in collaboration with our industrial customers, backed by lifecycle services including emergency response services and outsourced water alternatives, to a broad group of industrial customers in our U.S., Canada and Singapore markets;
- sales of products, services and solutions to engineering firms and municipalities to purify drinking water and treat wastewater globally; and
- sales of a wide variety of differentiated products and technologies, to an array of OEM, distributor, end-user, engineering firm and integrator customers in all of our geographic markets and aftermarket channels.

Cost of Sales, Gross Profit and Gross Margin

Gross profit is determined by subtracting cost of product sales and cost of services from our product and services revenue. Gross margin measures gross profit as a percentage of our combined product and services revenue.

Cost of product sales consists of all manufacturing costs required to bring a product to a ready for sale condition, including direct and indirect materials, direct and indirect labor costs including benefits, freight, depreciation, information technology, rental and insurance, repair and maintenance, utilities, other manufacturing costs, warranties and third party commissions.

Cost of services primarily consists of the cost of personnel and travel for our field service, supply chain and technicians, depreciation of equipment and field service vehicles and freight costs.

Operating Expenses

Operating expenses consist primarily of the following:

General and Administrative. General and administrative expenses ("G&A expense") consist of fixed overhead personnel expenses associated with our corporate functions and our service organization (including district and branch managers, customer service, contract renewals and regeneration plant management). We expect our general and administrative expenses to increase due to the anticipated growth of our business and related infrastructure as well as legal, accounting, insurance, investor relations and other costs associated with being a public company.

Sales and Marketing. Sales and marketing expenses ("S&M expense") consist primarily of advertising and marketing promotions of our products, services and solutions and related personnel expenses (including all Evoqua sales and application employees' base compensation and incentives), as well as sponsorship costs, consulting and contractor expenses, travel, display expenses and related amortization. We expect our sales and marketing expenses to increase as we continue to actively promote our products, services and solutions.

Research and Development. Research and development expenses ("R&D expense") consist primarily of personnel expenses related to research and development, patents, sustaining engineering, consulting and contractor expenses, tooling and prototype materials and overhead costs allocated to such expenses. Substantially all of our research and development expenses are related to developing new products and services and improving our existing products and services. To date, research and development expenses have been expensed as incurred, because the period between achieving technological feasibility and the release of products and services for sale has been short and development costs qualifying for capitalization have been insignificant.

R&D expense can fluctuate depending on our determination to invest in developing new products, services and solutions and enhancing our existing products, services and solutions versus adding these capabilities through a mergers and acquisitions strategy. R&D expenditures are concentrated in our products businesses.

Net Income (Loss)

Net income (loss) is determined by subtracting operating expenses and interest expense from, and adding other operating income (expense), equity income from our partnership interest in Treated Water Outsourcing and income tax benefit (expense) to gross profit. For more information on how we determine gross profit, see "-Gross Profit."

Adjusted EBITDA

Adjusted EBITDA is one of the metrics used by management to evaluate the financial performance of our business. Adjusted EBITDA is defined as net income (loss) before interest expense, income tax benefit (expense) and depreciation and amortization, adjusted for the impact of certain other items, including restructuring and related business transformation costs, purchase accounting adjustment costs, non-cash share-based compensation, sponsor fees, transaction costs and other gains, losses and expenses. We present Adjusted EBITDA, which is not a recognized financial measure under accounting principles generally accepted in the United States ("GAAP"), because we believe it is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. Further, we believe it is helpful in highlighting trends in our operating results, because it excludes the results of decisions that are outside the control of management, while other measures can differ significantly depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which we operate and capital investments. Management uses Adjusted EBITDA to supplement GAAP measures of performance as follows:

- to assist investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance;
- in our management incentive compensation which is based in part on components of Adjusted EBITDA;
- in certain calculations under our senior secured credit facilities, which use components of Adjusted EBITDA.
- to evaluate the effectiveness of our business strategies;
- to make budgeting decisions; and
- to compare our performance against that of other peer companies using similar measures.

In addition to the above, our chief operating decision maker uses EBITDA and Adjusted EBITDA of each reportable segment to evaluate the operating performance of such segments. EBITDA and Adjusted EBITDA of the reportable segments does not include certain unallocated charges that are presented within Corporate activities. These unallocated charges include certain restructuring and other business transformation charges that have been incurred to align and reposition the Company to the current reporting structure, acquisition related costs (including transaction costs, integration costs and recognition of backlog intangible assets recorded in purchase accounting) and share-based compensation charges.

You are encouraged to evaluate each adjustment and the reasons we consider it appropriate for supplemental analysis. In addition, in evaluating Adjusted EBITDA, you should be aware that in the future, we may incur expenses similar to the adjustments in the presentation of Adjusted EBITDA. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. In addition, Adjusted EBITDA may not be comparable to similarly titled measures used by other companies in our industry or across different industries.

The following is a reconciliation of our Net (loss) income to Adjusted EBITDA:

	Year Ended September 30,		
(In millions)	**2019**	**2018**	**2017**
Net (loss) income	$ (8.5)	$ 7.9	$ 6.4
Income tax expense	9.6	1.4	7.4
Interest expense	58.6	57.5	55.4
Operating profit	59.7	66.8	69.2
Depreciation and amortization	98.2	85.9	77.9
EBITDA	157.9	152.7	147.1
Restructuring and related business transformation costs (a)	24.2	34.4	51.3
Purchase accounting adjustment costs (b)	—	—	0.2
Share-based compensation (c)	20.0	15.8	2.3
Sponsor fees (d)	—	0.3	4.2
Transaction costs (e)	11.6	7.6	7.3
Other (gains) losses and expenses (f)	21.3	6.1	(4.7)
Adjusted EBITDA	$ 235.0	$ 216.9	$ 207.7

(a) ***Restructuring and related business transformation costs***

Adjusted EBITDA is calculated prior to considering certain restructuring or business transformation events. These events may occur over extended periods of time and in some cases it is reasonably possible that they could reoccur in future periods based on reorganizations of the business, cost reduction or productivity improvement needs, or in response to economic conditions. For the periods presented such events include the following:

(i) Certain costs and expenses in connection with various restructuring initiatives, including severance costs, relocation costs, recruiting expenses, and third-party consultant costs to assist with these initiatives. This includes:

(A) costs related to our voluntary separation plan pursuant to which approximately 220 employees accepted separation packages;

(B) amounts related to various other initiatives implemented to restructure and reorganize our business with the appropriate management team and cost structure; and

(C) amounts related to the Company's transition from a three-segment structure to a two-segment operating model designed to better serve the needs of customers worldwide;

	Year Ended September 30,		
	2019	2018	2017
Voluntary separation plan[1]	$ —	$ 0.3	$ 20.1
Various other initiatives[2]	$ 1.4	$ 9.0	$ 13.1
Cost of product sales and services ("Cost of sales")	0.8	2.8	8.2
R&D expense	—	0.6	—
S&M expense	—	0.7	1.6
G&A expense	0.6	4.7	3.3
Other operating (income) expense	—	0.2	—
Two-segment restructuring[3]	$ 11.9	$ —	$ —
Cost of sales	5.2	—	—
R&D expense	0.1	—	—
S&M expense	1.1	—	—
G&A expense	5.5	—	—
Total	$ 13.3	$ 9.3	$ 33.2

(1) all of which is reflected as a component of Restructuring charges in Note 14, "Restructuring and Related Charges" in Part II, Item 8 of this Annual Report on Form 10-K (the "Restructuring Footnote").

(2) all of which is reflected in the Restructuring Footnote in 2019 and 2018 and of which $12.3 million is reflected in the Restructuring Footnote in 2017.

(3) of which $11.1 million is reflected in the Restructuring Footnote in 2019.

(ii) legal settlement costs and intellectual property related fees associated with legacy matters prior to the AEA Acquisition, including fees and settlement costs related to product warranty litigation on MEMCOR® products and certain discontinued products. This includes:

	Year Ended September 30,		
	2019	2018	2017
Cost of sales	$ 0.8	$ 3.0	$ 0.4
G&A expense	0.8	1.3	2.1
Total	$ 1.6	$ 4.3	$ 2.5

(iii) expenses associated with our information technology and functional infrastructure transformation subsequent to the AEA Acquisition, including activities to optimize information technology systems and functional infrastructure processes. This includes:

	Year Ended September 30,		
	2019	2018	2017
Cost of sales	$ 0.7	$ 4.2	$ 3.3
S&M expense	—	—	1.5
G&A expense	8.4	10.5	2.5
Other operating (income) expense	—	0.3	—
Total	$ 9.1	$ 15.0	$ 7.3

(iv) costs associated with our IPO and secondary offering as well as costs incurred by us in connection with establishment of our public company compliance structure and processes, including consultant costs. This includes:

	Year Ended September 30,		
	2019	2018	2017
G&A expense	$ 0.2	$ 5.8	$ 8.3
Total	$ 0.2	$ 5.8	$ 8.3

(b) ***Purchase accounting adjustment costs***

Adjusted EBITDA is calculated prior to considering certain significant purchase accounting impacts resulting from business combination and net asset acquisitions. These impacts primarily include the incremental charge to cost of sales from the sale of acquired inventory that was written up to fair value. For the periods presented, adjustments represent the effect of the step-up in value of inventory recognized in cost of sales as a result of the acquisition of Magneto.

(c) ***Share-based compensation***

Adjusted EBITDA is calculated prior to considering non-cash share-based compensation expenses related to equity awards. See Note 17, "Share-Based Compensation" in Part II, Item 8 of this Annual Report on Form 10-K for further detail.

(d) ***Sponsor fees***

Adjusted EBITDA is calculated prior to considering management fees paid to AEA pursuant to a management agreement. Prior to our IPO, AEA provided advisory and consulting services to us, including investment banking, due diligence, financial advisory and valuation services. AEA also provided ongoing advisory and consulting services to us pursuant to the management agreement. In connection with our IPO, the management agreement was terminated. See Note 20, "Related-Party Transactions" in Part II, Item 8 of this Annual Report on Form 10-K for further detail.

(e) ***Transaction related costs***

Adjusted EBITDA is calculated prior to considering transaction, integration and restructuring costs associated with business combinations because these costs are unique to each transaction and represent costs that were incurred as a result of the transaction decision. Such costs may include, without limitation, consulting and legal costs associated with due diligence and closing a transaction, restructuring and integration costs such as severance, facility consolidation costs, product rationalization or inventory obsolescence charges, system integration or conversion costs, fair value changes associated with contingent consideration, and costs associated with any litigation matters that arise subsequent to our acquisition of a business for which the matter in question preceded the transaction, but was not known, not probable or unresolved at the date of acquisition. We believe that viewing earnings prior to considering these charges provides investors with useful additional perspective because the significant costs incurred in connection with business combinations result primarily from the need to eliminate duplicate assets, activities or employees - a natural result of acquiring or disposing a fully integrated set of activities. Integration and restructuring costs associated with a business combination may occur over several years. This includes:

	Year Ended September 30,		
	2019	2018	2017
Cost of sales	$ 3.2	$ 0.5	$ —
G&A expense	8.4	7.1	7.3
Total	$ 11.6	$ 7.6	$ 7.3

(f) ***Other (gains), losses and expenses***

Adjusted EBITDA is calculated prior to considering certain other significant (gains), losses and expenses. Such significant items represent substantive and/or unusual items that are evaluated on an individual basis. Such evaluation considers both the quantitative and qualitative aspects of their nature and they may be highly variable and difficult to predict. Unusual items may represent items that are not part of our ongoing business, items that, either as a result of their nature or size, we would not expect to occur as part of our normal business on a regular basis, items that would be non-recurring, or items related to products we no longer sell. While not all-inclusive, examples of items that could be included as other (gains), losses and expenses would be amounts related to non-cash foreign currency exchange gains and losses on intercompany loans, significant warranty events, and certain disposals of businesses, products or facilities that do not qualify as discontinued operations under GAAP. For the periods presented such events include the following:

(i) impact of foreign exchange gains and losses;

(ii) foreign exchange pact related to headquarter allocations;

(iii) expenses on disposal related to maintaining non-operational business locations, net of gain on sale;

(iv) expenses incurred by the Company related to the remediation of manufacturing defects caused by a third-party vendor for which the Company is seeking restitution;

(v) charges incurred by the Company related to product rationalization in its electro-chlorination business;

(vi) gain on the sale of property and gain on the sale of assets related to the disposition of land at our Windsor, Australia location; and

(vii) expenses incurred by the Company related to the write-off of obsolete inventory as part of the migration of an operational business unit to a new enterprise reporting (“ERP”) system, all reflected as a component of Cost of sales).

Other adjustments include the following (gains), losses and expenses for the periods presented below:

Year Ended September 30, 2019

	Other Adjustments							
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	Total
Cost of sales	$ 0.4	$ —	$ 0.3	$ 2.1	$ 4.1	$ —	$ 5.0	$ 11.9
R&D expense	—	—	—	—	—	—	—	—
S&M expense	—	—	—	—	—	—	—	—
G&A expense	10.1	—	—	—	—	—	—	10.1
Other operating (income) expense	—	—	(0.3)	—	—	(0.4)	—	(0.7)
Total	$ 10.5	$ —	$ —	$ 2.1	$ 4.1	$ (0.4)	$ 5.0	$ 21.3

Year Ended September 30, 2018

	Other Adjustments							
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	Total
Cost of sales	$ 0.7	$ —	$ 1.0	$ 3.9	$ —	$ 0.1	$ 2.1	$ 7.8
R&D expense	—	—	—	—	—	—	—	—
S&M expense	—	—	—	—	—	—	—	—
G&A expense	7.3	(0.5)	—	—	—	—	0.5	7.3
Other operating (income) expense	(2.1)	—	—	—	—	(6.9)	—	(9.0)
Total	$ 5.9	$ (0.5)	$ 1.0	$ 3.9	$ —	$ (6.8)	$ 2.6	$ 6.1

Year Ended September 30, 2017

	Other Adjustments							
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	Total
Cost of sales	(1.8)	4.4	(0.3)	—	—	—	—	2.3
R&D expense	—	—	0.2	—	—	—	—	0.2
S&M expense	—	—	—	—	—	—	—	—
G&A expense	5.2	(3.2)	1.4	—	—	—	—	3.4
Other operating (income) expense	(11.2)	—	0.6	—	—	—	—	(10.6)
Total	$ (7.8)	$ 1.2	$ 1.9	$ —	$ —	$ —	$ —	$ (4.7)

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated:

	Year Ended September 30,				% Variance
	2019		2018		
(In millions, except per share amounts)		% of Revenue		% of Revenue	2019 vs. 2018
Revenue	$ 1,444.4	100.0 %	$ 1,339.5	100.0 %	7.8 %
Cost of product sales and services	(1,018.4)	(70.5)%	(934.8)	(69.8)%	8.9 %
Gross profit	426.0	29.5 %	404.7	30.2 %	5.3 %
General and administrative expense	(217.1)	(15.0)%	(193.8)	(14.5)%	12.0 %
Sales and marketing expense	(138.9)	(9.6)%	(136.0)	(10.2)%	2.1 %
Research and development expense	(15.3)	(1.1)%	(15.9)	(1.2)%	(3.8)%
Total operating expenses	(371.3)	(25.7)%	(345.7)	(25.8)%	7.4 %
Other operating income (expense), net	5.0	0.3 %	7.8	0.6 %	(35.9)%
Interest expense	(58.6)	(4.1)%	(57.5)	(4.3)%	1.9 %
Income before income taxes	1.1	0.1 %	9.3	0.7 %	(88.2)%
Income tax expense	(9.6)	(0.7)%	(1.4)	(0.1)%	585.7 %
Net (loss) income	(8.5)	(0.6)%	7.9	0.6 %	(207.6)%
Net income attributable to non-controlling interest	1.0	0.1 %	1.8	0.1 %	(44.4)%
Net (loss) income attributable to Evoqua Water Technologies Corp.	$ (9.5)	(0.7)%	$ 6.1	0.5 %	(255.7)%
Weighted average shares outstanding					
Basic	114.7		113.9		
Diluted	114.7		120.2		
Earnings per share					
Basic	$ (0.08)		$ 0.05		
Diluted	$ (0.08)		$ 0.05		
Other financial data:					
Adjusted EBITDA (1)	$ 235.0	16.3%	$ 216.9	16.2 %	8.3 %

(1) For the definition of Adjusted EBITDA and a reconciliation to net income (loss), its most directly comparable financial measure presented in accordance with GAAP, see “How We Assess the Performance of Our Business-Adjusted EBITDA.”

Years Ended September 30, 2019 and September 30, 2018

Consolidated Results

Revenues-Revenues increased $104.9 million, or 7.8%, to $1,444.4 million in the year ended September 30, 2019 from $1,339.5 million in the prior year. The following table provides the change in revenues from product sales and revenues from services, respectively:

	Year Ended September 30,				
	2019		2018		% Variance
		% of Revenue		% of Revenue	
Revenue from product sales	$ 851.1	58.9%	$ 802.3	59.9%	6.1%
Revenue from services	593.3	41.1%	537.2	40.1%	10.4%
	$ 1,444.4	100.0%	$ 1,339.5	100.0%	7.8%

Revenues from product sales increased $48.8 million, or 6.1% from the prior year, primarily driven by growth in aftermarket product revenues of $50.1 million, $1.4 million of it due to the ATG UV acquisition. The aftermarket revenue increase was offset by a decline in capital revenues of $1.2 million. While the acquisitions of Pacific Ozone, ProAct, Isotope and ATG UV resulted in an increase to capital revenues of $7.1 million, the decline due to timing of large capital projects more than offset that increase by $8.3 million.

Revenues from services increased $56.1 million, or 10.4% from the prior year, primarily driven by revenue from the acquired businesses of ProAct, Isotope and ATG UV which accounted for $39.1 million. The remaining increase was driven by stronger organic service growth of $17.0 million, which was augmented by price realization.

Cost of Sales and Gross Margin-Total gross margin decreased to 29.5% in the year ended September 30, 2019 from 30.2% in the prior year. The following table provides the change in cost of product sales and cost of services, respectively, along with related gross margins:

	Year Ended September 30,			
	2019		2018	
		Gross Margin %		Gross Margin %
Cost of product sales	$ (615.1)	27.7%	$ (582.6)	27.4%
Cost of services	(403.3)	32.0%	(352.2)	34.4%
	$ (1,018.4)	29.5%	$ (934.8)	30.2%

The gross margin for product sales improved slightly as revenue volume and operational efficiencies offset the negative impacts of product mix and the increase in costs as compared the prior year associated with product rationalization and facility consolidation, restructuring and the remediation of a manufacturing defect caused by a third party vendor of $3.9 million. The gross margin for services declined as the Company continues to leverage costs that are more fixed in nature as revenue volumes increase.

Operating Expenses-Operating expenses increased $25.6 million, or 7.4%, to $371.3 million in year ended September 30, 2019 from $345.7 million in the prior year. The increase was primarily driven by the acquisitions of Pacific Ozone, ProAct, Isotope, and ATG UV which increased expenses by $16.6 million. Share-based compensation expense also increased by $4.2 million. The net change in foreign currency translation resulted in an increase in operating expenses of $5.1 million. Included in 2019 was a loss from unfavorable foreign currency translation of $11.2 million, whereas included in 2018 was a loss from unfavorable foreign currency translation of $6.0 million. These increases were partially offset by a $1.4 million reduction from the change in the estimate of certain acquisitions achieving their earn-out targets in the prior year. A discussion of operating expenses by category is as follows:

Research and Development Expense-Research and development ("R&D") expense decreased $0.6 million, or 3.8%, to $15.3 million in the year ended September 30, 2019 from $15.9 million in the prior year due to the Company's continued efforts to reduce spending.

Sales and Marketing Expense-Sales and marketing expense increased $2.9 million, or 2.1%, to $138.9 million in the year ended September 30, 2019 from $136.0 million in the prior year mainly due to the ProAct acquisition made in the prior year.

General and Administrative Expense-General and administrative expense increased $23.3 million, or 12.0%, to $217.1 million in the year ended September 30, 2019 from $193.8 million in the prior year. The Pacific Ozone, ProAct, Isotope and ATG UV acquisitions contributed an additional $12.7 million of expense. Other factors contributing to the increase include unfavorable foreign currency impacts on our intercompany loans, as described above, of $4.9 million, share-based compensation expense increased $4.2 million and other increased employment expenses of $2.8 million. These increases were offset by a reduction in earn-out adjustments of $1.4 million.

Other Operating Income (Expense), Net-Other operating income (expense), net decreased $2.9 million, or 35.9%, to income of $5.0 million in the year ended September 30, 2019 from income of $7.8 million in the prior year. The current year income was mainly due to the release of an acquisition related contingency and the collection of previously written off amounts, whereas the income in 2018 was from the sale of land in our Australian location which resulted in a gain of $6.8 million. In addition, we recorded gains related to the sale of precious metals of $0.8 million in 2018.

Interest Expense-Interest expense increased $1.1 million, or 1.9%, to $58.6 million in the year ended September 30, 2019 from $57.5 million in the prior year. The increase in interest expense was primarily due to increased debt and interest rates as compared to the prior year.

Income Tax Benefit (Expense)-Income tax expense was $9.6 million for the year ended September 30, 2019, compared to expense of $1.4 million in the prior year. This increase in expense was primarily the result of the favorable impact included in the prior fiscal year related to the reduction of the U.S. federal tax rate which required the remeasurement of U.S. deferred tax liabilities associated with indefinite lived intangible assets and the favorable impact of current year acquisitions for which the acquired deferred tax liabilities generated a reduction in the amount of valuation allowance required against our existing U.S. and state deferred tax assets.

Net Income-Net income decreased by $16.4 million, or 207.6%, to loss of $8.5 million for the year ended September 30, 2019 from net income of $7.9 million in the prior year. This decrease was mainly due to the decrease in gross margin associated with product mix, along with the increase in operating expenses related to non-cash foreign currency translation and share-based compensation charges and additional tax expense as compared to the prior year.

Adjusted EBITDA-Adjusted EBITDA increased $18.1 million, or 8.3%, to $235.0 million for the year ended September 30, 2019 from $216.9 million for the prior year. Increased revenue volume and the benefits derived from restructuring and operational efficiencies that were implemented in the current and prior year were partly offset by the lower margins derived from product mix.

Segment Results

	Year Ended September 30,				
	2019		2018		
		% of Revenue		% of Revenue	% Variance
Revenues					
Integrated Solutions and Services	$ 910.8	63.1 %	$ 835.6	62.4 %	9.0 %
Applied Product Technologies	533.6	36.9 %	503.9	37.6 %	5.9 %
Total Consolidated	1,444.4	100.0 %	$ 1,339.5	100.0 %	7.8 %
Operating Profit					
Integrated Solutions and Services	$ 148.6	10.3%	$ 138.0	10.3%	7.7 %
Applied Product Technologies	69.4	4.8 %	71.9	5.4 %	(3.5)%
Corporate	(158.3)	(11.0)%	(143.1)	(10.7)%	10.6 %
Total Consolidated	$ 59.7	4.1%	$ 66.8	5.0%	(10.6)%
EBITDA					
Integrated Solutions and Services	$ 205.8	14.2 %	$ 186.8	13.9 %	10.2 %
Applied Product Technologies	87.1	6.0 %	88.6	6.6 %	(1.7)%
Corporate and unallocated costs	(135.0)	(9.3)%	(122.7)	(9.2)%	10.0 %
Total Consolidated	$ 157.9	10.9 %	$ 152.7	11.4 %	3.4 %

Adjusted EBITDA on a segment basis is defined as earnings before interest, taxes, depreciation and amortization adjusted for the impact of certain other items that have been reflected at the segment level. The following is a reconciliation of our segment operating profit to Adjusted EBITDA:

	Year Ended September 30,			
	2019		2018	
	Integrated Solutions and Services	Applied Product Technologies	Integrated Solutions and Services	Applied Product Technologies
Operating Profit	$ 148.6	$ 69.4	$ 138.0	$ 71.9
Depreciation and amortization	57.2	17.7	48.8	16.7
EBITDA	205.8	87.1	186.8	88.6
Restructuring and related business transformation costs (a)	0.5	1.1	—	1.5
Transaction costs (b)	0.5	0.7	2.6	—
Legal fees (c)	—	0.6	—	1.9
Other losses and expenses (d)	0.1	10.4	—	0.1
Adjusted EBITDA (e)	$ 206.9	$ 99.9	$ 189.4	$ 92.1

(a) Represents costs and expenses in connection with restructuring initiatives distinct to our Integrated Solutions and Services and Applied Product Technologies segments, respectively, incurred in 2019 and 2018. Such expenses are primarily composed of severance and relocation costs.

(b) Represents costs associated with a change in the current estimate of certain acquisitions achieving their earn-out targets, which resulted in an increase to the fair valued amount of the earn-out recorded upon acquisition in 2019 and 2018, distinct to our Integrated Solutions and Services and Applied Product Technologies segments.

(c) Represents warranty costs associated with the settlement of a legacy warranty claim in 2019 and 2018, distinct to our Applied Product Technologies segment.

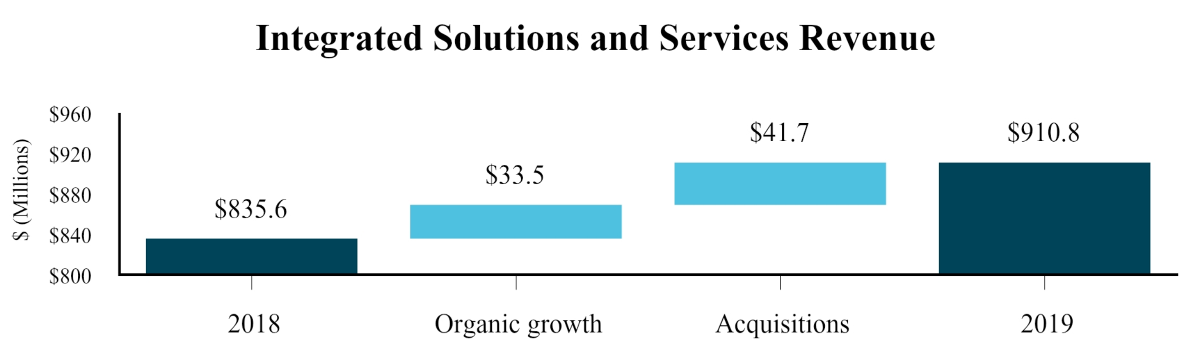
(d) Other losses and expenses as discussed above in "How We Assess the Performance of Our Business-Adjusted EBITDA" distinct to our Integrated Solutions and Services and Applied Product Technologies segments include the following:

	Year Ended September 30,			
	2019		2018	
(In millions)	Integrated Solutions and Services	Applied Product Technologies	Integrated Solutions and Services	Applied Product Technologies
Expenses related to maintaining non-operational business locations	$ 0.1	$ —	$ —	$ —
Product rationalization in electro-chlorination business	—	3.7	—	—
Remediation of manufacturing defects	—	2.1	—	3.9
Gain on sale of property and land	—	(0.4)	—	(6.8)
Write-off of inventory	—	5.0	—	2.6
Costs associated with terminated business venture	—	—	—	0.4
Total	$ 0.1	$ 10.4	$ —	$ 0.1

(e) For the definition of Adjusted EBITDA and a reconciliation to net income (loss), its most directly comparable financial measure presented in accordance with GAAP, see "How We Assess the Performance of Our Business-Adjusted EBITDA."

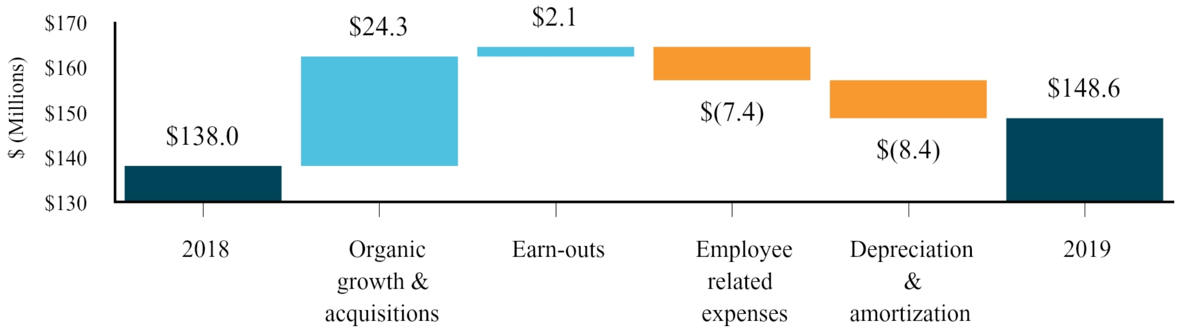
Integrated Solutions and Services

Revenues in the Integrated Solutions and Services segment increased $75.2 million, or 9.0%, to $910.8 million in the year ended September 30, 2019 from $835.6 million in the prior year, driven by organic growth of $33.5 million, mainly from service and aftermarket revenue growth and price realization. Our acquisitions of ProAct and Isotope resulted in another increase of $41.7 million of revenue.



Operating profit in the Integrated Solutions and Services segment increased $10.6 million, or 7.7%, to $148.6 million in the year ended September 30, 2019 from $138.0 million in the prior year. The profitability generated by organic revenue volume in addition to the acquisitions of ProAct and Isotope resulted in a contribution to profit of $24.3 million. Another increase in profit of $2.1 million is due to lower earn–out adjustments recognized in the current year as compared to prior year. These improvements to profitability were partially offset by increased employee related expenses of $7.4 million and $8.4 million from higher depreciation and amortization.

Integrated Solutions and Services Operating Profit

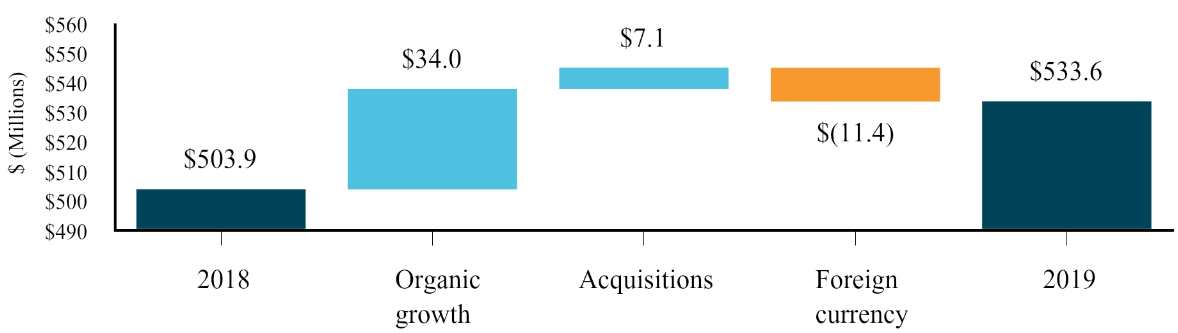


EBITDA in the Integrated Solutions and Services segment increased $19.0 million, or 10.2%, to $205.8 million in the year ended September 30, 2019 from $186.8 million in the prior year.

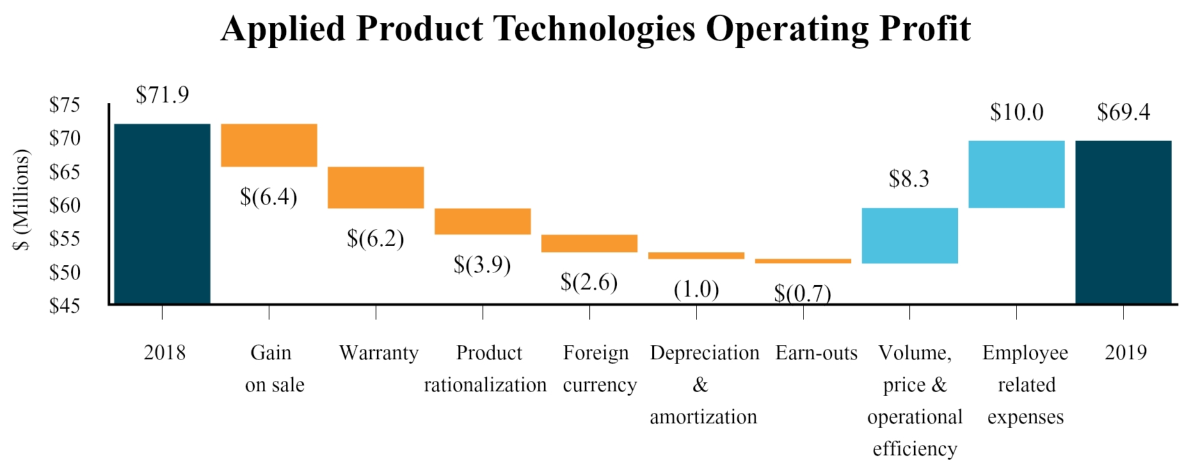
Applied Product Technologies

Revenues in the Applied Product Technologies segment increased by $29.7 million, or 5.9%, to $533.6 million in the year ended September 30, 2019 from $503.9 million in the prior year. Product revenues grew by $40.2 million across multiple businesses, of which the acquisitions of Pacific Ozone and ATG UV resulted in an increase to product revenues of $7.1 million. Offsetting this increase was an unfavorable foreign currency translation impact of $11.4 million.

Applied Product Technologies Revenue



Operating profit in the Applied Product Technologies segment decreased $2.5 million, or 3.5%, to $69.4 million in the year ended September 30, 2019 from $71.9 million in the prior year. Recognized in the prior year was a benefit of $6.8 million from the gain on sale of land, whereas the segment only recognized a gain on sale of property of $0.4 million in the current year, resulting in a decline of $6.4 million. In addition, recognized in the prior year was $6.2 million of profit related to warranty reductions based on improved warranty experience, net of losses from our Italian operations, which did not reoccur in the current year. Other offsets to segment operating profit include increased costs as compared to the prior year from product rationalization and facility consolidation, restructuring and costs associated with the remediation of a manufacturing defect caused by a third party vendor totaling $3.9 million. The unfavorable impact of foreign currency was $2.6 million higher, increased depreciation impacted profitability by another $1.0 million, and $0.7 million of additional cost was due to the change in estimated amount of earn-outs expected to be paid out on prior acquisitions. These impacts to profit were partially offset by increased volume and price of $8.3 million and reduced employee costs of $10.0 million.



EBITDA in the Applied Product Technologies segment decreased $1.5 million, or 1.7%, to $87.1 million in the year ended September 30, 2019 from $88.6 million in the prior year. The decrease in EBITDA was the result of the same factors which impacted operating profit during this year, less the change from depreciation and amortization.

For a discussion of the results of operations for the years ended September 30, 2018 and September 30, 2017 refer to Exhibit 99.1 in the Company's 8-K filed with the SEC on February 15, 2019.

Liquidity and Capital Resources

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, debt service, acquisitions, other commitments and contractual obligations. We consider liquidity in terms of cash flows from operations and their sufficiency to fund our operating and investing activities.

Our principal sources of liquidity are our cash generated by operating activities and borrowings under our $125.0 million Revolving Credit Facility. Historically, we have financed our operations primarily from cash generated from operations and increased equipment financings. Our primary cash needs are for day to day operations, to pay interest and principal on our indebtedness, to fund working capital requirements and to make capital expenditures.

We expect to continue to finance our liquidity requirements through internally generated funds and borrowings under our Revolving Credit Facility. We believe that our projected cash flows generated from operations, together with borrowings under our Revolving Credit Facility are sufficient to fund our principal debt payments, interest expense, our working capital needs and our expected capital expenditures for the next twelve months. Our capital expenditures for the years ended September 30, 2019 and 2018 were $88.9 million and $80.7 million, respectively. However, our budgeted capital expenditures can vary from period to period based on the nature of capital intensive project awards. We may draw on our Revolving Credit Facility from time to time to fund or partially fund an acquisition.

As of September 30, 2019, we had total indebtedness of $977.2 million, including $928.8 million of borrowings under the Term Loan Facility, no borrowings under our Revolving Credit Facility, $46.0 million in borrowings related to equipment financings, $0.8 million of notes payable related to certain equipment related contracts and $1.6 million related to a mortgage. We also had $13.0 million of letters of credit issued under our Revolving Credit Facility and an additional $204 thousand of letters of credit issued under a separate uncommitted facility as of September 30, 2019.

Our Term Loan Facility and Revolving Credit Facility contain a number of covenants imposing certain restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. The restrictions these covenants place on our business operations, include limitations on our or our subsidiaries' ability to:

- incur or guarantee additional indebtedness;
- make certain investments;
- pay dividends or make distributions on our capital stock;
- sell assets, including capital stock of restricted subsidiaries;
- agree to payment restrictions affecting our restricted subsidiaries;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into transactions with our affiliates;
- incur liens; or
- designate any of our subsidiaries as unrestricted subsidiaries.

Our senior secured credit facilities also include an uncommitted incremental facility, which, subject to certain conditions, provides for additional term loans and/or revolving loans in an aggregate amount that does not cause our first lien net leverage ratio to exceed 4.50 to 1.00 (calculated as the ratio of consolidated funded first lien debt for borrowed money (net of unrestricted cash and cash equivalents) to trailing four-quarter Consolidated EBITDA (as defined therein), plus an additional $100 million (excluding incremental revolving credit loans or increases in revolving credit commitments not exceeding $30.0 million) (all of which remained available as of September 30, 2019).

We are a holding company and do not conduct any business operations of our own. As a result, our ability to pay cash dividends on our common stock, if any, is dependent upon cash dividends and distributions and other transfers from our operating subsidiaries. Under the terms of our senior secured credit facilities, our operating subsidiaries are currently limited in their ability to pay cash dividends to us, and we expect these limitations to continue in the future under the terms of any future credit agreement or any future debt or preferred equity securities of ours or of our subsidiaries.

In addition, our Revolving Credit Facility, but not the First Lien Term Loan, contains a financial covenant which requires us to comply with the maximum first lien net leverage ratio of 5.55 to 1.00 as of the last day of any quarter on which the aggregate amount of revolving loans and letters of credit outstanding under the Revolving Credit Facility (net of cash collateralized letters of credit and undrawn outstanding letters of credit in an amount of up to 50% of the Revolving Credit Facility) exceeds 25% of the total commitments thereunder.

As of September 30, 2019 and 2018, we were in compliance with the covenants contained in the senior secured credit facilities.

Our indebtedness could adversely affect our ability to raise additional capital, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk and prevent us from meeting our obligations. See Item 1A, "Risk Factors-Our substantial indebtedness could adversely affect our financial condition and limit our ability to raise additional capital to fund our operations."

Cash Flows

The following table summarizes the changes to our cash flows for the periods presented:

(In millions)	Year Ended September 30, 2019	2018	2017
Statement of Cash Flows Data			
Net cash provided by operating activities	$ 125.2	$ 81.0	$ 28.5
Net cash used in investing activities	(94.5)	(207.0)	(134.9)
Net cash provided by financing activities	5.7	150.6	114.5
Effect of exchange rate changes on cash	(1.6)	(1.5)	0.8
Cash and cash equivalents classified as held for sale	(7.3)	—	—
Change in cash and cash equivalents	$ 27.5	$ 23.1	$ 8.9

Operating Activities

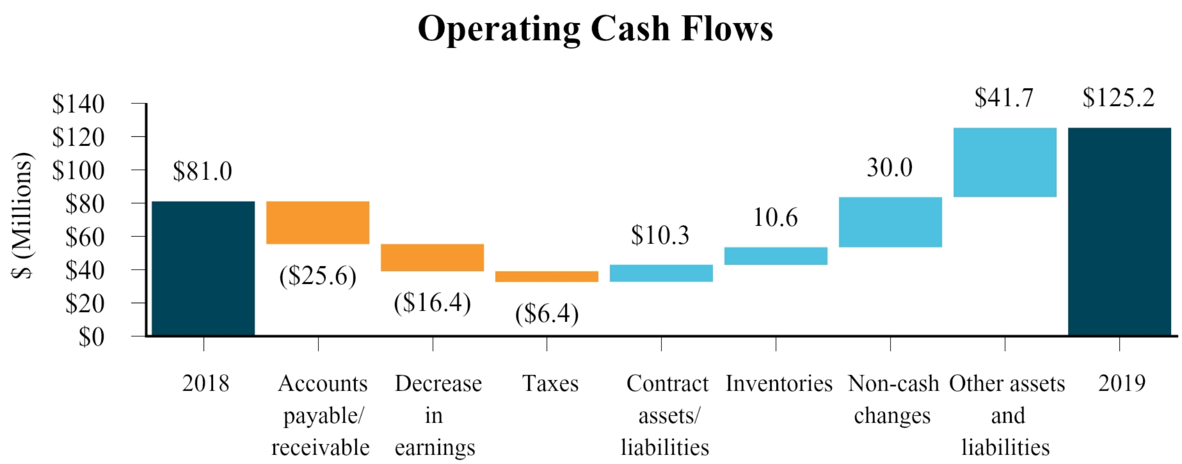
Cash flows from operating activities can fluctuate significantly from period-to-period as working capital needs and the timing of payments for restructuring activities and other items impact reported cash flows. Net cash provided by operating activities increased to $125.2 million in the year ended September 30, 2019 from $81.0 million in the year ended September 30, 2018.

- Operating cash flows in the year ended September 30, 2019 reflect a decrease in net income of $16.4 million from the year ended September 30, 2018 and increased non-cash charges of $30.0 million primarily relating to increased share-based compensation expenses, changes in the foreign currency impact on intercompany loans and deferred taxes.

- The aggregate of receivables, inventories, contract assets, accounts payable and contract billings used $7.8 million in operating cash flows in the year ended September 30, 2019 compared to $3.0 million in the prior year. The amount of cash flow generated from or used by the above mentioned accounts depends upon how effectively we manage our cash conversion cycle, which is a representation of the number of days that elapse from the date of purchase of raw materials and components to the collection of cash from customers. Our cash conversion cycle can be significantly impacted by the timing of collections and payments in a period.

- The aggregate of prepaid expense and other assets, income taxes and other non current assets and liabilities provided $18.2 million in operating cash flows in the year ended September 30, 2019 compared to a use of $3.4 million in the prior year.

- Accrued expenses and other liabilities used $9.2 million in operating cash flows in the year ended September 30, 2019 compared to a use of $22.9 million in the prior year. The reduced use of operational cash flow in 2019 was primarily due to the timing of cash payments for various employee-related liabilities along with the payments of accrued expenses related to the earn-outs, IPO and other transactions which occurred in the prior year.



Investing Activities

Net cash used in investing activities decreased $112.5 million to $94.5 million in the year ended September 30, 2019 from $207.0 million in the year ended September 30, 2018. Although there were was more cash paid for property, plant and equipment and lower proceeds from sales during 2019, this was offset by lower cash outflow associated with acquisitions in the current year.

Financing Activities

Net cash provided by financing activities decreased $144.9 million to $5.7 million in the year ended September 30, 2019 from $150.6 million in the year ended September 30, 2018. This lower amount of cash provided by financing activities in 2019 was primarily due to $137.6 million cash received upon the issuance of stock during the IPO in the prior year, partially offset by the issuance of debt and higher borrowings under the credit facility and other financing arrangements in the current year. In addition, we made higher repayments of debt in the current year which was partially offset by reduced share-based compensation activity and lower distributions to non-controlling interest.

Seasonality

Our business may exhibit seasonality resulting from our customers' increasing demand for our products and services during the spring and summer months as compared to the fall and winter months. For example, our Integrated Solutions and Services segment experiences increased demand for our odor control product lines and services in the warmer months which, together with other factors, typically results in improved performance in the second half of our fiscal year. Inclement weather, such as hurricanes, droughts and floods, can also drive increased demand for our products and services. As a result, our results from operations may vary from period to period.

Off-Balance Sheet Arrangements

As of September 30, 2019 and 2018, we had letters of credit totaling $13.0 million and $11.8 million, respectively, and surety bonds totaling $144.7 million and $123.4 million, respectively, outstanding under our credit arrangements. The longest maturity date of the letters of credit and surety bonds in effect as of September 30, 2019 was March 26, 2029. Additionally, as of September 30, 2018, the Company had letters of credit and surety bonds totaling $0.9 million and $2.5 million, respectively, outstanding under the Company's prior arrangement with Siemens. No such amounts were outstanding as of September 30, 2019.

Contractual Obligations

We enter into long-term obligations and commitments in the normal course of business, primarily debt obligations and non-cancelable operating leases. As of September 30, 2019, our contractual cash obligations over the next several periods were as follows:

(In millions)	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Long-term debt obligations	$ 977.2	$ 13.4	$ 27.4	$ 27.9	$ 908.5
Interest payments on long-term debt obligations	263.2	51.1	99.8	96.9	15.4
Operating lease commitments (a)	56.3	16.0	21.3	10.2	8.8
Capital lease commitments (b)	41.6	13.7	17.9	8.0	2.0
Total	$ 1,338.3	$ 94.2	$ 166.4	$ 143.0	$ 934.7

(a) We occupy certain facilities and operate certain equipment and vehicles under non-cancelable lease arrangements. Lease agreements may contain lease escalation clauses and purchase and renewal options. We recognize scheduled lease escalation clauses over the course of the applicable lease term on a straight-line basis.

(b) We lease certain equipment classified as capital leases. The leased equipment is depreciated on a straight line basis over the life of the lease and is included in depreciation expense.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions about future events that affect amounts reported in our Consolidated Financial Statements and related notes, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. Management evaluates its accounting policies, estimates and judgments on an on-going basis. Management bases its estimates and judgments on historical experience, current trends and various other factors that are believed to be relevant at the time Consolidated Financial Statements are prepared. Actual results may differ from these estimates under different assumptions and conditions.

Management evaluated the development and selection of its critical accounting policies and estimates and believes that the following involve a higher degree of judgment, complexity or uncertainty and are most significant to reporting our results of operations and financial position, and are therefore discussed as critical. The following critical accounting policies reflect the significant estimates and judgments used in the preparation of our Consolidated Financial Statements. Other than the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in the first quarter of fiscal 2019, we have not made any material changes to our accounting policies or methodologies during the current year. More information on all of our significant accounting policies can be found in Note 2, "Summary of Significant Accounting Policies" in Part II, Item 8 of this Annual Report on Form 10-K.

Acquisitions and Purchase Price Allocation

We record acquisitions using the purchase method of accounting in accordance with ASC 805, *Business Combinations*, which requires that the assets acquired and liabilities assumed, including contingent consideration, be recorded at their respective fair values at the acquisition date. The excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired is recorded as goodwill. The application of the purchase method of accounting requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed, in order to properly allocate purchase price consideration. These assumptions and estimates include a market participant's use of the asset and the appropriate discount rates for a market participant. Our estimates are based on historical experience, information obtained from the management of the acquired companies and with the assistance of independent third-party appraisal firms. Significant assumptions and estimates include quoted market prices, carrying values, and expected future cash flows, which includes consideration of future growth rates and margins, attrition rates, future changes in technology and brand awareness, loyalty, and the appropriate weighted-average cost of capital and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unanticipated events and circumstances may occur which could affect the accuracy or validity of estimates used in purchase accounting. The purchase price allocation recorded in a business combination may change during the measurement period, which is a period not to exceed one year from the date of acquisition, as additional information about conditions existing at the acquisition date becomes available.

We record contingent consideration arrangements at fair value on a recurring basis as earn-outs related to acquisitions. The fair value of earn-outs related to acquisitions is based on significant unobservable inputs including the achievement of certain performance metrics. Significant changes in these inputs would result in corresponding increases or decreases in the fair value of the earn-out each period until the related contingency has been resolved. Changes in the fair value of the contingent consideration obligations can result from adjustments in the probability of achieving future development steps, sales targets and profitability and are recorded in General and administrative expenses in the Consolidated Statements of Operations.

Goodwill Impairment Review

We review goodwill to determine potential impairment annually during the fourth quarter of our fiscal year, or more frequently if events and circumstances indicate that the asset might be impaired. Impairment testing for goodwill is performed at a reporting unit level. A reporting unit is defined as an operating segment or one level below the operating segment. We have determined that we have three reporting units.

The fair values of reporting units are determined using a combination of two methods, one utilizing market revenue and earnings multiples derived from stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market applied to the corresponding measure of our reporting unit's financial performance (the market approach - guideline public company ("GPC") method), and the other derived from discounted cash flow models with estimated cash flows based on internal forecasts of revenues and expenses over a specified period plus a terminal value (the income approach discounted cash flows ("DCF") method). In estimating the fair value of the reporting unit utilizing a DCF valuation technique, we incorporate our judgment and estimates of future cash flows, future revenue and gross profit growth rates, terminal value amount, capital expenditures and applicable weighted-average cost of capital used to discount these estimated cash flows. The estimates and projections used in the estimate of fair value are consistent with our current budget and long-range plans, including anticipated change in market conditions, industry trends, growth rates and planned capital expenditures, among other considerations.

We believe these two approaches are appropriate valuation techniques and we generally weight the two resulting values equally as an estimate of a reporting unit's fair value for the purposes of our impairment testing. However, we may weigh one value more heavily than the other when conditions merit doing so. If market conditions change compared to those used in our market approach, or if actual future results of operations fall below the projections used in the DCF method, our goodwill could become impaired in the future. As a result of our goodwill impairment assessment, we have concluded that none of our goodwill was impaired as of September 30, 2019, and we do not believe the risk of impairment is significant at this time.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset based on indicators of reduced profits or losses generated by the asset or asset group, a product recall or an adverse action by a regulator, such as a successful challenge of patent rights.

When necessary, we record charges for impairments of long-lived assets for the amount by which the fair value is less than the carrying value of the asset or asset group. Fair value of long-lived assets are determined using an appraised value (obtained with the assistance of independent third-party appraisal firms) or using an income approach, specifically the discounted cash flow method. Starting with a forecast of the expected future net cash flows associated with an asset or group of assets, we then apply an asset-specific discount rate to arrive at a net present value amount. There were no material impairments of long-lived assets recorded in the current year.

We amortize long-lived assets with finite lives over their estimated useful lives on a straight-line basis. This amortization methodology best matches the pattern of economic benefit that is expected from definite-lived assets.

Revenue Recognition

For sales of aftermarket parts or products with a low level of customization and engineering time, the Company recognizes revenues at the time risks and rewards of ownership pass, which is generally when products are shipped or delivered to the customer as the Company has no obligation for installation. The Company considers shipping and handling services to be fulfillment activities and as such they do not represent separate performance obligations for revenue recognition. Sales of service arrangements are recognized as the services are performed.

For certain arrangements where there is significant customization to the product and for long-term construction-type sales contracts, revenue may be recognized over time as performance is completed. In these instances, revenue is recognized using a measure of progress that applies an input method based on costs incurred in relation to total estimated costs at completion (the percentage-of-completion method). These arrangements include large water treatment projects, systems and solutions for municipal and industrial applications. The nature of the contracts is generally fixed price with milestone billings. In order for revenue to be recognized over a period of time, the product must have no alternative use and the Company must have an enforceable right to payment for the performance completed to date, including a normal profit margin, in the event of termination for convenience. If these two criteria are not met, revenues from these contracts will not be recognized until construction is complete. Contract costs include all direct materials, labor, subcontractors costs and indirect costs related to contract performance. We believe this is the most accurate measure of contract performance because it directly measures the value of the goods and services transferred to the customer.

The percentage-of-completion method of revenue recognition requires us to prepare estimates of cost to complete for contracts in progress. Due to the nature of the work performed on many of our performance obligations, the estimates of total revenue and cost at completion is complex, subject to many variables and may require significant judgment. In making such estimates, judgments are required to evaluate contingencies such as weather, potential variances in schedule and the cost of materials, labor cost and productivity, the impact of change orders, liability claims, contract disputes and achievement of contractual performance standards. As a significant change in one or more of these estimates could affect the profitability of our contracts, we routinely review and update our significant contract estimates through a disciplined project review process in which management reviews the progress and execution of our performance obligations and estimates at completion. Contract revenues and cost estimates are reviewed and revised monthly and the cumulative effect of such adjustments are recognized in current operations. Such changes in contract estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in a prior period. Changes in contract estimates may also result in the reversal of previously recognized revenue if the current estimate differs from the previous estimate. The amount of such adjustments have not been material.

For contracts with multiple performance obligations, we allocate the transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. In cases where we do not provide the distinct good or service on a standalone basis, the primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service. Our contracts are sometimes modified for changes in contract specifications and requirements. Judgment is required to determine if such modifications result in goods or services that are distinct from the existing contract. For customized products and long-term construction type contracts, most contract modifications are for goods and services that are not distinct due to the significant integration provided in the context of the contract and are accounted for as if they were part of the original contract on a cumulative catch-up basis. We account for contract modifications prospectively when it results in the promise to deliver additional goods and services that are distinct and the increase in price of the contract is for the same amount as the stand-alone selling price of the additional goods or services included in the modification.

Our contracts sometimes contain variable consideration in the form of incentive fees, performance bonuses, award fees, liquidated damages or penalties. Other contract provisions also give rise to variable consideration such as claims and unpriced change orders that may either increase or decrease the transaction price. We estimate the amount of variable consideration at the most likely amount we expect to be entitled. Variable consideration is included in the transaction price when it is probable that a significant reversal of cumulative revenue recognized will not occur or when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include such amounts in the transaction price are based largely on our assessment of legal enforceability, anticipated performance, and any other information (historical, current or forecasted) that is reasonably available to us. Variable consideration associated with claims and unapproved change orders is included in the transaction price only to the extent of costs incurred.

Product Warranties

Accruals for estimated expenses related to warranties are made at the time products are sold and are recorded as a component of cost of product sales in the Consolidated Statements of Operations in our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K. The estimated warranty obligation is based on product warranty terms offered to customers, ongoing product failure rates, material usage and service delivery costs expected to be incurred in correcting a product failure, as well as specific obligations for known failures and other currently available evidence. We assess the adequacy of the recorded warranty liabilities on a regular basis and adjust amounts as necessary.

Deferred Taxes, Valuation Allowances, and Tax Contingencies

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in our Consolidated Financial Statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date. We record a valuation allowance to reduce certain deferred tax assets to amounts that are more-likely-than-not to be realized within a reasonable period of time. We evaluate the realizability of our deferred tax assets by assessing the valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include our forecast of future taxable income exclusive of reversing temporary differences and carryforwards, future reversals of existing taxable temporary differences and available tax planning strategies that could be implemented to realize the net deferred tax assets.

We consider both positive and negative evidence when evaluating the need for a valuation allowance on our deferred tax assets in accordance with ASC 740, *Income Taxes*. Available evidence includes historical financial information supplemented by currently available information about future years. Generally, historical financial information is more objectively verifiable than projections of future income and is therefore given more weight in our assessment. We consider cumulative losses in the most recent twelve quarters to be significant negative evidence that is difficult to overcome in considering whether a valuation allowance is required. Conversely, we consider a cumulative income position over the most recent twelve quarters, to be significant positive evidence that a valuation allowance may not be required.

Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. Income tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Uncertain tax positions are reviewed each balance sheet date. We recognize potential interest and penalties related to unrecognized tax benefits in income tax expense.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" in Item 8, included in this Annual Report on Form 10-K for a complete discussion of recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We have market risk exposure arising from changes in interest rates on our senior secured credit facilities, which bear interest at rates that are benchmarked against LIBOR. Based on our overall interest rate exposure to variable rate debt outstanding as of September 30, 2019, a 1% increase or decrease in interest rates would decrease or increase income (loss) before income taxes by approximately $9.3 million. By comparison, a 1% increase or decrease in interest rates would have decreased or increased income (loss) before income taxes by approximately $9.4 million as of September 30, 2018 based on our overall interest rate exposure to variable rate debt outstanding as of that date.

In November 2018, the Company entered into an interest cap to mitigate risks associated with variable rate debt. The LIBOR interest rate cap has a notional value of $600 million, is effective for a period of three years and has a strike price of 3.5%.

Impact of Inflation and Tariffs

Our results of operations and financial condition are presented based on historical cost. Our financial results can be expected to be directly impacted by substantial increases in costs due to commodity cost increases, general inflation and tariffs, which could lead to a reduction in our revenues as well as decreased margins, as increased costs may not be able to be passed on to customers. It is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, but we believe that general inflationary pressures and increased tariffs have had an adverse effect on our margins in 2019 as compared to 2018. We cannot provide any assurance that our results of operations and financial condition will not be materially impacted by inflation in the future. The Company engages in activities to adjust pricing practices with customers to attempt to mitigate the inflationary cost impact incurred. Additionally, we believe that we have experienced supply chain disruptions that were influenced by tariffs, including restrictions in supply from domestic suppliers, delays in shipments and disruptions associated with finding and qualifying alternate suppliers to mitigate the effect of tariffs.

Foreign Currency Risk

We have global operations and therefore enter into transactions denominated in various foreign currencies. While we believe we are not susceptible to any material cash impact on our results of operations caused by fluctuations in exchange rates because our operations are primarily conducted in the United States ("U.S."), if we expand our foreign operations in the future, substantial increases or decreases in the value of the U.S. dollar relative to these other currencies could have a significant impact on our results of operations.

To mitigate cross-currency transaction risk, we analyze significant exposures where we have receipts or payments in a currency other than the functional currency of our operations, and from time to time we may strategically enter into short-term foreign currency forward contracts to lock in some or all of the cash flows associated with these transactions. We also are subject to currency translation risk associated with converting our foreign operations' financial statements into U.S. dollars. We use short-term foreign currency forward contracts and swaps to mitigate the impact of foreign exchange fluctuations on consolidated earnings. We use foreign currency derivative contracts in order to manage the effect of exchange fluctuations on forecasted sales, purchases, acquisitions, inventory, capital expenditures and certain intercompany transactions that are denominated in foreign currencies. We do not use derivative financial instruments for trading or speculative purposes.

Additionally, we are subject to foreign exchange translation risk due to changes in the value of foreign currencies in relation to our reporting currency, the U.S. Dollar. At this time the Company's translation risk is primarily concentrated in the exchange rate between the U.S. Dollar and the Euro due to intercompany loans denominated in Euro used to facilitate the capital requirements of our non-U.S. subsidiaries. As the U.S. Dollar strengthens against the Euro, income will generally be negatively impacted, and as the U.S. Dollar weakens, income will generally be positively impacted. At this time these are non-cash impacts. We manage our worldwide cash requirements in accordance with availability in multiple jurisdictions and effectiveness with which those funds can be accessed. As a result, we may access cash from among international subsidiaries and the U.S. when it is cost effective to do so. We continually review our domestic and foreign cash profile, expected future cash generation and investment opportunities and reassess whether there is a need to repatriate funds held internationally to support our U.S. operations. Accordingly, we do not expect translation risk to have a material economic impact on our financial positions or results of operations.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL INFORMATION

Evoqua Water Technologies Corp.

Audited Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Evoqua Water Technologies Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Evoqua Water Technologies Corp. (the Company) as of September 30, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in equity and changes in cash flows for each of the three years in the period ended September 30, 2019, and the related notes and the financial statement schedule listed in the Index at Item 15(a)1 to the consolidated financial statements (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 30, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 25, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2013.

Pittsburgh, Pennsylvania

November 25, 2019

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Evoqua Water Technologies Corp.

Opinion on Internal Control over Financial Reporting

We have audited Evoqua Water Technologies Corp.'s internal control over financial reporting as of September 30, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Evoqua Water Technologies Corp. (the Company) maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on the COSO criteria.

As indicated in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of ATG UV, which is included in the 2019 consolidated financial statements of the Company and constituted $4.1 million and $1.1 million of total and net assets, respectively, as of September 30, 2019 and $4.9 million and $1.0 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of ATG UV.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of September 30, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in equity and changes in cash flows for each of the three years in the period ended September 30, 2019, and the related notes and the financial statement schedule listed in the Index at Item 15(a)1 to the consolidated financial statements and our report dated November 25, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

November 25, 2019

Evoqua Water Technologies Corp.
Consolidated Balance Sheets

(In thousands)

	September 30, 2019	September 30, 2018
ASSETS		
Current assets	$ 637,293	$ 565,560
Cash and cash equivalents	109,881	82,365
Receivables, net	257,585	254,756
Inventories, net	137,164	134,988
Contract assets	73,467	69,147
Prepaid and other current assets	21,940	23,854
Income tax receivable	—	450
Assets held for sale	37,256	—
Property, plant, and equipment, net	333,584	320,023
Goodwill	392,890	411,346
Intangible assets, net	314,767	340,408
Deferred income taxes, net of valuation allowance	2,790	2,438
Other non-current assets	25,715	23,842
Non-current assets held for sale	30,809	—
Total assets	**$ 1,737,848**	**$ 1,663,617**
LIABILITIES AND EQUITY		
Current liabilities	$ 322,221	$ 284,719
Accounts payable	144,247	141,140
Current portion of debt, net of deferred financing fees	13,418	11,555
Contract liabilities	39,051	17,652
Product warranties	4,922	8,907
Accrued expenses and other liabilities	101,839	97,672
Income tax payable	4,536	7,793
Liabilities held for sale	14,208	—
Non-current liabilities	1,049,805	1,016,882
Long-term debt, net of deferred financing fees	951,599	928,075
Product warranties	2,332	3,360
Other non-current liabilities	78,661	74,352
Deferred income taxes, net of valuation allowance	13,548	11,095
Non-current liabilities held for sale	3,665	—
Total liabilities	**1,372,026**	**1,301,601**
Commitments and Contingent Liabilities (Note 21)		
Shareholders' equity		
Common stock, par value $0.01: authorized 1,000,000 shares; issued 116,008 shares, outstanding 114,344 at September 30, 2019; issued 115,016, outstanding 113,929 shares at September 30, 2018	1,154	1,145
Treasury stock: 1,664 shares at September 30, 2019 and 1,087 shares at September 30, 2018	(2,837)	(2,837)
Additional paid-in capital	552,422	533,435
Retained deficit	(174,976)	(163,871)
Accumulated other comprehensive loss, net of tax	(13,004)	(9,017)
Total Evoqua Water Technologies Corp. equity	**362,759**	**358,855**
Non-controlling interest	3,063	3,161
Total shareholders' equity	**365,822**	**362,016**
Total liabilities and shareholders' equity	**$ 1,737,848**	**$ 1,663,617**

See accompanying notes to these Consolidated Financial Statements

Evoqua Water Technologies Corp.

Consolidated Statements of Operations

(In thousands except per share data)

	Year Ended September 30,		
	2019	**2018**	**2017**
Revenue from product sales	$ 851,161	$ 802,302	$ 718,098
Revenue from services	593,280	537,239	529,326
Revenue	1,444,441	1,339,541	1,247,424
Cost of product sales	(615,171)	(582,606)	(459,641)
Cost of services	(403,308)	(352,202)	(388,032)
Cost of product sales and services	(1,018,479)	(934,808)	(847,673)
Gross profit	**425,962**	**404,733**	**399,751**
General and administrative expense	(217,013)	(193,816)	(169,617)
Sales and marketing expense	(138,936)	(136,009)	(142,441)
Research and development expense	(15,300)	(15,877)	(19,990)
Total operating expenses	(371,249)	(345,702)	(332,048)
Other operating income	5,613	8,406	2,361
Other operating expense	(654)	(591)	(860)
Income before interest expense and income taxes	59,672	66,846	69,204
Interest expense	(58,556)	(57,580)	(55,377)
Income before income taxes	**1,116**	**9,266**	**13,827**
Income tax expense	(9,587)	(1,382)	(7,417)
Net (loss) income	**(8,471)**	**7,884**	**6,410**
Net income attributable to non-controlling interest	**1,052**	**1,749**	**4,247**
Net (loss) income attributable to Evoqua Water Technologies Corp.	**$ (9,523)**	**$ 6,135**	**$ 2,163**
Basic (loss) income per common share	$ (0.08)	$ 0.05	$ 0.02
Diluted (loss) income per common share	$ (0.08)	$ 0.05	$ 0.02

See accompanying notes to these Consolidated Financial Statements

Evoqua Water Technologies Corp.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Year Ended September 30,		
	2019	**2018**	**2017**
Net (loss) income	$ (8,471)	$ 7,884	$ 6,410
Other comprehensive income (loss)			
Foreign currency translation adjustments	1,507	(3,473)	148
Unrealized derivative gain (loss) on cash flow hedges, net of tax of benefit of $154, $0 and $0, respectively	74	(21)	(19)
Change in pension liability, net of tax expense of $26, $232 and $0, respectively	(5,568)	466	4,553
Total other comprehensive (loss) income	(3,987)	(3,028)	4,682
Less: Comprehensive income attributable to non-controlling interest	(1,052)	(1,749)	(4,247)
Comprehensive (loss) income attributable to Evoqua Water Technologies Corp.	$ (13,510)	$ 3,107	$ 6,845

See accompanying notes to these Consolidated Financial Statements

Evoqua Water Technologies Corp.

Consolidated Statements of Changes in Equity

(In thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total
	Shares	Cost	Shares	Cost					
Balance at September 30, 2016	104,495	$ 1,045	245	$ (1,133)	$ 381,223	$ (172,169)	$ (10,671)	$ 5,640	$ 203,935
Equity based compensation expense	—	—	—	—	2,251	—	—	—	2,251
Issuance of common stock	864	9	—	—	5,512	—	—	—	5,521
Stock repurchases	—	—	165	(1,474)	—	—	—	—	(1,474)
Dividends paid to non-controlling interest	—	—	—	—	—	—	—	(4,750)	(4,750)
Net income	—	—	—	—	—	2,163	—	4,247	6,410
Other comprehensive income	—	—	—	—	—	—	4,682	—	4,682
Balance at September 30, 2017	105,359	1,054	410	(2,607)	388,986	(170,006)	(5,989)	5,137	216,575
Equity based compensation expense	—	—	—	—	15,742	—	—	—	15,742
Shares of common stock issued in initial public offering, net of offering costs	8,333	83	—	—	137,522	—	—	—	137,605
Shares withheld related to net share settlement (including tax withholdings)	1,324	8	659	—	(8,815)	—	—	—	(8,807)
Stock repurchases	—	—	18	(230)	—	—	—	—	(230)
Dividends paid to non-controlling interest	—	—	—	—	—	—	—	(3,725)	(3,725)
Net income	—	—	—	—	—	6,135	—	1,749	7,884
Other comprehensive loss	—	—	—	—	—	—	(3,028)	—	(3,028)
Balance at September 30, 2018	115,016	1,145	1,087	(2,837)	533,435	(163,871)	(9,017)	3,161	362,016
Cumulative effect of adoption of new accounting standards	—	—	—	—	—	(1,582)	—	—	(1,582)
Equity based compensation expense	—	—	—	—	19,903	—	—	—	19,903
Issuance of common stock	108	—	—	—	363	—	—	—	363
Shares withheld related to net share settlement (including tax withholdings)	884	9	577	—	(1,279)	—	—	—	(1,270)
Dividends paid to non-controlling interest	—	—	—	—	—	—	—	(1,150)	(1,150)
Net (loss) income	—	—	—	—	—	(9,523)	—	1,052	(8,471)
Other comprehensive loss	—	—	—	—	—	—	(3,987)	—	(3,987)
Balance at September 30, 2019	116,008	$ 1,154	1,664	$ (2,837)	$ 552,422	$ (174,976)	$ (13,004)	$ 3,063	$ 365,822

See accompanying notes to these Consolidated Financial Statements

Evoqua Water Technologies Corp.

Consolidated Statements of Changes in Cash Flows

(In thousands)

	Year Ended September 30, 2019	2018	2017
Operating activities			
Net (loss) income	$ (8,471)	$ 7,884	$ 6,410
Reconciliation of net income to cash flows provided by operating activities:			
Depreciation and amortization	98,236	85,860	77,886
Amortization of debt related costs (includes $0, $5,575 and $3,094 write off of deferred financing fees)	2,612	8,073	8,511
Deferred income taxes	1,948	(6,232)	1,273
Share-based compensation	19,903	15,742	2,251
Gain on sale of property, plant and equipment	(932)	(6,750)	1,230
Foreign currency exchange losses (gains) on intercompany loans and other non-cash items	10,713	5,766	(5,625)
Changes in assets and liabilities			
Accounts receivable	(13,235)	(3,139)	(44,047)
Inventories	(1,469)	(12,051)	(5,948)
Contract assets	(23,827)	(3,544)	(17,296)
Prepaids and other current assets	9,447	(3,773)	(2,971)
Accounts payable	9,408	24,945	4,707
Accrued expenses and other liabilities	(9,159)	(22,851)	(2,243)
Contract liabilities	21,311	(9,254)	1,301
Income taxes	(3,651)	2,777	6,656
Other non-current assets and liabilities	12,362	(2,436)	(3,593)
Net cash provided by operating activities	125,196	81,017	28,502
Investing activities			
Purchase of property, plant and equipment	(88,869)	(80,713)	(57,775)
Purchase of intangibles	(6,426)	(1,950)	(4,914)
Proceeds from sale of property, plant and equipment	3,636	21,641	5,422
Proceeds from sale of business	—	430	—
Acquisitions, net of cash received of $2,073, $27 and $209	(2,873)	(146,443)	(77,628)
Net cash used in investing activities	(94,532)	(207,035)	(134,895)
Financing activities			
Issuance of debt, net of deferred issuance costs	38,381	155,270	415,602
Borrowings under credit facility	292,825	129,000	131,000
Repayment of debt	(307,809)	(242,470)	(423,418)
Repayment of capital lease obligation	(12,900)	(10,474)	(7,962)
Payment of earn-out related to previous acquisitions	(461)	(5,528)	—
Proceeds from issuance of common stock	363	137,605	5,521
Taxes paid related to net share settlements of share-based compensation awards	(1,270)	(8,807)	—
Stock repurchases	—	(230)	(1,474)
Cash paid for interest rate cap	(2,235)	—	—
Distribution to non-controlling interest	(1,150)	(3,725)	(4,750)
Net cash provided by financing activities	5,744	150,641	114,519
Effect of exchange rate changes on cash	(1,601)	(1,512)	766
Cash and cash equivalents classified as held for sale	(7,291)	—	—
Change in cash and cash equivalents	27,516	23,111	8,892
Cash and cash equivalents			
Beginning of period	82,365	59,254	50,362
End of period	$ 109,881	$ 82,365	$ 59,254

See accompanying notes to these Consolidated Financial Statements

Evoqua Water Technologies Corp.

Supplemental Disclosure of Cash Flow Information

(In thousands)

	Year Ended September 30,		
	2019	**2018**	**2017**
Supplemental disclosure of cash flow information			
Cash paid for taxes	$ 10,340	$ 4,450	$ 3,017
Cash paid for interest	$ 52,786	$ 43,596	$ 43,426
Non-cash investing and financing activities			
Accrued earn-out related to acquisitions	$ —	$ 1,570	$ 7,479
Capital lease transactions	$ 18,640	$ 10,595	$ 15,513
Landlord incentives	$ 1,000	$ —	$ 1,700
Cloud computing related intangible transaction	$ —	$ —	$ 5,544

See accompanying notes to these Consolidated Financial Statements

Evoqua Water Technologies Corp.

Notes to Audited Consolidated Financial Statements

(In thousands)

1. Description of the Company and Basis of Presentation

Background

Evoqua Water Technologies Corp. (referred to herein as the "Company" or "EWT") was incorporated on October 7, 2013. On January 15, 2014, Evoqua Water Technologies Corp., acquired through its wholly owned entities, EWT Holdings II Corp. and EWT Holdings III Corp. (a/k/a Evoqua Water Technologies), all of the outstanding shares of Siemens Water Technologies, a group of legal entity businesses formerly owned by Siemens AG ("Siemens"). The stock purchase closed on January 15, 2014 and was effective January 16, 2014 (the "Acquisition"). The stock purchase price, net of cash received, was approximately $730,577. On November 6, 2017, the Company completed its initial public offering ("IPO"), pursuant to which an aggregate of 27,777 shares of common stock were sold, of which 8,333 were sold by the Company and 19,444 were sold by the selling shareholders, with a par value of $0.01 per share. After underwriting discounts and commissions and expenses, the Company received net proceeds from the IPO of approximately $137,605. The Company used a portion of these proceeds to repay $104,936 of indebtedness (including accrued and unpaid interest) under EWT III's senior secured first lien term loan facility and the remainder for general corporate purposes. The Company did not receive any proceeds from the sale of shares by the selling shareholders. On November 7, 2017, the selling shareholders sold an additional 4,167 shares of common stock as a result of the exercise in full by the underwriters of an option to purchase additional shares. On March 19, 2018, the Company completed a secondary public offering, pursuant to which 17,500 shares of common stock were sold by certain selling shareholders. On March 21, 2018, the selling shareholders sold an additional 2,625 shares of common stock as a result of the exercise in full by the underwriters of an option to purchase additional shares. The Company did not receive any proceeds from the sale of shares by the selling shareholders.

The Business

EWT provides a wide range of product brands and advanced water and wastewater treatment systems and technologies, as well as mobile and emergency water supply solutions and service contract options through its segment branch network. Headquartered in Pittsburgh, Pennsylvania, EWT is a multi-national corporation with operations in the United States ("U.S."), Canada, the United Kingdom ("UK"), the Netherlands, Germany, Australia, China, Singapore, Korea and India.

The Company is organizationally structured into two reportable operating segments for the purpose of making operational decisions and assessing financial performance: (i) Integrated Solutions and Services and (ii) Applied Product Technologies.

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") from the accounting records of the Company, and reflect the consolidated financial position and results of operations for the fiscal years ended September 30, 2019, 2018 and 2017. Unless otherwise specified, references in this section to a year refer to its fiscal year. All intercompany transactions have been eliminated. Unless otherwise specified, all dollar amounts in this section are referred to in thousands. Certain prior period amounts have been reclassified to conform to the current period presentation.

2. Summary of Significant Accounting Policies

Fiscal Year

The Company's fiscal year ends on September 30.

Use of Estimates

The Consolidated Financial Statements have been prepared in conformity with GAAP and require management to make estimates and assumptions. These assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the audited Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used for, but not limited to: (i) revenue recognition; (ii) allowance for doubtful accounts; (iii) inventory valuation, asset valuations, impairment, and recoverability assessments; (iv) depreciable lives of assets; (v) useful lives of intangible assets; (vi) income tax reserves and valuation allowances; and (vii) product warranty and litigation reserves. Estimates are revised as additional information becomes available. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents are liquid investments with an original maturity of three or fewer months when purchased.

Accounts Receivable

Receivables are primarily comprised of uncollected amounts owed to the Company from transactions with customers and are presented net of allowances for doubtful accounts. Allowances are estimated based on historical write-offs and the economic status of customers. The Company considers a receivable delinquent if it is unpaid after the term of the related invoice has expired. Write-offs are recorded at the time all collection efforts have been exhausted.

Inventories

Inventories are stated at the lower of cost or market, where cost is generally determined on the basis of an average or first-in, first-out ("FIFO") method. Production costs comprise direct material and labor and applicable manufacturing overheads, including depreciation charges. The Company regularly reviews inventory quantities on hand and writes off excess or obsolete inventory based on estimated forecasts of product demand and production requirements. Manufacturing operations recognize cost of product sales using standard costing rates with overhead absorption which generally approximates actual cost.

Property, Plant, and Equipment

Property, plant, and equipment is valued at cost less accumulated depreciation. Depreciation expense is recognized using the straight-line method. Useful lives are reviewed annually and, if expectations differ from previous estimates, adjusted accordingly. Estimated useful lives for major classes of depreciable assets are as follows:

Asset Class	Estimated Useful Life
Machinery and equipment	3 to 20 years
Buildings and improvements	10 to 40 years

Leasehold improvements are depreciated over the shorter of their estimated useful life or the term of the lease. Costs related to maintenance and repairs that do not extend the assets' useful life are expensed as incurred.

Acquisitions

Acquisitions are recorded using the purchase method of accounting. The purchase price of acquisitions is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair value at the acquisition date. The excess of the acquisition price over those estimated fair values is recorded as goodwill. Changes to the acquisition date preliminary fair values prior to the expiration of the measurement period, a period not to exceed 12 months from date of acquisition, are recorded as an adjustment to the associated goodwill. Contingent consideration resulting from acquisitions is recorded at its estimated fair value on the acquisition date. These obligations are revalued during each subsequent reporting period and changes in the fair value of the contingent consideration obligations can result from adjustments in the probability of achieving future development steps, sales targets and profitability and are recorded in General and administrative expenses in the Consolidated Statements of Operations. Acquisition-related expenses and restructuring costs, if any, are recognized separately from the business combination and are expensed as incurred.

Goodwill and Other Intangible Assets

Goodwill represents purchase consideration paid in a business combination that exceeds the value assigned to the net assets of acquired businesses. Other intangible assets consist of customer-related intangibles, proprietary technology, software, trademarks and other intangible assets. The Company amortizes intangible assets with definite useful lives on a straight-line basis over their respective estimated economic lives which range from 1 to 26 years.

The Company reviews goodwill to determine potential impairment annually during the fourth quarter of its fiscal year, or more frequently if events and circumstances indicate that the asset might be impaired. Impairment testing for goodwill is performed at a reporting unit level and the Company has determined that it has three reporting units. The quantitative impairment testing utilizes both a market (guideline public company) and income (discounted cash flows) method for determining fair value. In estimating the fair value of the reporting unit utilizing a discounted cash flow ("DCF") valuation technique, the Company incorporates its judgment and estimates of future cash flows, future revenue and gross profit growth rates, terminal value amount, capital expenditures and applicable weighted-average cost of capital used to discount these estimated cash flows. The estimates and projections used in the estimate of fair value are consistent with the Company's current budget and long-range plans, including anticipated change in market conditions, industry trend, growth rates and planned capital expenditures, among other considerations.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of the asset or asset group is measured by comparison of its carrying amount to undiscounted future net cash flows the asset or asset group is expected to generate. If the carrying amount of an asset or asset group is not recoverable, the Company recognizes an impairment loss based on the excess of the carrying amount of the asset or asset group over its respective fair value which is generally determined as the present value of estimated future cash flows or as the appraised value.

Assets Held for Sale

Assets and liabilities (the "disposal group") are classified as held for sale when all of the following criteria are met: (i) the Company commits to a plan to sell the disposal group; (ii) it is unlikely the disposal plan will be significantly modified or discontinued; (iii) the disposal group is available for immediate sale in its present condition; (iv) actions required to complete the sale of the disposal group have been initiated; (v) the sale of the asset is probable and the completed sale is expected to occur within one year; and (vi) the disposal group is actively being marketed for sale at a price that is reasonable given its current market value. Upon classification as held for sale, such assets are no longer depreciated or depleted, and a measurement for impairment is performed to determine if there is any excess of carrying value over fair value less costs to sell. Subsequent changes to estimated fair value less the cost to sell will impact the measurement of assets held for sale if the fair value is determined to be less than the carrying value of the assets.

Debt Issuance Costs and Debt Discounts

Debt issuance costs are capitalized and amortized over the contractual term of the underlying debt using the straight line method which approximates the effective interest method. Debt discounts and lender arrangement fees deducted from the proceeds have been included as a component of the carrying value of debt and are being amortized to interest expense using the effective interest method.

Beginning in the first quarter of 2019, the Company entered into an interest rate cap to mitigate risks associated with the Company's variable rate debt. See Note 12, "Derivative Financial Instruments" for further details. The Company paid $2,235 as a premium for the interest rate cap, which is being amortized to interest expense over its three-year term. The Company recorded $621 of premium amortization to interest expense during the year ended September 30, 2019.

Amortization of debt issuance costs and debt discounts/premiums included in interest expense were $1,991, $2,498 and $4,607 for the years ended September 30, 2019, 2018 and 2017, respectively.

In July 2018, the Company wrote off $2,581 of deferred financing fees and incurred and expensed an additional $1,346 of fees related to the sixth amendment of its First Lien Term Facility in which an additional $150,000 was borrowed.

In November 2017, the Company wrote off $1,844 of deferred financing fees related to a $100,000 prepayment of debt, then subsequently wrote off another $1,150 of fees in December of 2017 due to the refinancing of its First Lien Term Loan. The Company incurred another $2,131 of fees as a result of the December refinancing.

In August 2017, the Company wrote off $1,829 of deferred financing fees related to the extinguishment of debt and incurred another $1,188 of fees related to an amendment of its First Lien Term Facility.

In October 2016, the Company wrote off $2,075 of deferred financing fees related to the extinguishment of debt and incurred another $481 of fees related to a tack-on financing the Company completed in October 2016.

Revenue Recognition

The Company adopted Topic 606, *Revenue from Contracts with Customers* on October 1, 2018, and recognizes sales of products and services based on the five-step analysis of transactions as provided in Topic 606 which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services.

For sales of aftermarket parts or products with a low level of customization and engineering time, the Company recognizes revenues at the time risks and rewards of ownership pass, which is generally when products are shipped or delivered to the customer as the Company has no obligation for installation. Sales of short-term service arrangements are recognized as the services are performed, and sales of long-term service arrangements are typically recognized on a straight-line basis over the life of the agreement.

For certain arrangements where there is significant customization to the product, the Company recognizes revenue either over time or at a point in time. These products include large capital water treatment projects, systems and solutions for municipal and industrial applications. The nature of the contracts is generally fixed price with milestone billings. The Company recognizes revenue over time if the product has no alternative use and the Company has an enforceable right to payment for the performance completed to date, including a normal profit margin, in the event of termination for convenience. If these two criteria are not met, revenues from these contracts will not be recognized until construction is complete. Contract revenues and cost estimates are reviewed and revised at least quarterly at a minimum and the cumulative effect of such adjustments are recognized in current operations. The amount of such adjustments have not been material. See Note 4, “Revenue” for further details.

Product Warranties

Accruals for estimated expenses related to warranties are made at the time products are sold and are recorded as a component of Cost of product sales in the Consolidated Statements of Operations. The estimated warranty obligation is based on product warranty terms offered to customers, ongoing product failure rates, material usage and service delivery costs expected to be incurred in correcting a product failure, as well as specific obligations for known failures and other currently available evidence. The Company assesses the adequacy of the recorded warranty liabilities on a regular basis and adjusts amounts as necessary.

Shipping and Handling Cost

Shipping and handling costs are included as a component of Cost of product sales.

Derivative Financial Instruments

The Company's risk-management strategy uses derivative financial instruments to manage interest rate risk and foreign currency exchange rate risk. The Company's objective in using interest rate derivatives is to add stability to interest expense and manage its exposure to interest rate movements. To accomplish this objective, in November 2018, the Company entered into an interest rate cap which has been designated as a cash flow hedge. The Company uses foreign currency derivative contracts in order to manage the effect of exchange fluctuations on forecasted sales and purchases that are denominated in foreign currencies. To mitigate the impact of foreign exchange rate risk, the Company entered into a series of forward contracts designated as cash flow hedges. The Company does not enter into derivatives for trading or speculative purposes. The Company accounts for derivatives and hedging activities in accordance with ASC Topic No. 815, "Derivatives and Hedging" (Topic No. 815). The Company recognizes all derivatives on the balance sheet at fair value. Changes in the fair values of derivatives that are not designated as hedges are recognized in earnings. If the derivative is designated and qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives are either offset against the change in the hedged assets or liabilities through earnings or recognized in Accumulated other comprehensive income (loss), net of tax ("AOCI") until the hedged item is recognized in earnings.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date. Valuation allowances are provided against deferred tax assets when it is deemed more likely than not that some portion or all of the deferred tax asset will not be realized within a reasonable time period. The Company assesses tax positions using a two-step process. A tax position is recognized if it meets a more-likely-than-not threshold, and is measured at the largest amount of benefit that is greater than 50.0% percent of being realized. Uncertain tax positions are reviewed each balance sheet date.

Foreign Currency Translation and Transactions

The functional currency for the international subsidiaries is the local currency. Assets and liabilities are translated into U.S. dollars using current rates of exchange, with the resulting translation adjustments recorded in Accumulated other comprehensive loss, net of tax within shareholders' equity. Revenues and expenses are translated at the weighted-average exchange rate for the period, with the resulting translation adjustments recorded in the Consolidated Statements of Operations.

Foreign currency translation losses (gains), mainly related to intercompany loans, which aggregated $12,599, $7,018 and $(7,111) for the years ended September 30, 2019, 2018 and 2017, respectively, are primarily included in General and administrative expenses in the Consolidated Statements of Operations.

Research and Development Costs

Research and development costs are expensed as incurred. The Company recorded $15,300, $15,877 and $19,990 of costs for the years ended September 30, 2019, 2018 and 2017, respectively.

Equity-based Compensation

The Company measures the cost of awards of equity instruments to employees based on the grant-date fair value of the award. The grant-date fair value of a non-qualified stock option is determined using the Black-Scholes model. The fair value of restricted stock unit awards is determined using the closing price of our common stock on date of grant. Compensation costs resulting from equity-based payment transactions are recognized primarily within General and administrative expenses, at fair value over the requisite vesting period on a straight-line basis.

Earnings (Loss) Per Share

Basic earnings (loss) per common share is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed based on the weighted average number of shares of common stock, plus the effect of diluted common shares outstanding during the period using the treasury stock method. Diluted potential common shares include outstanding stock options.

Retirement Benefits

The Company applies ASC Topic 715, *Compensation—Retirement Benefits*, which requires the recognition in pension obligations and accumulated other comprehensive income of actuarial gains or losses, prior service costs or credits and transition assets or obligations that have previously been deferred. The determination of retirement benefit pension obligations and associated costs requires the use of actuarial computations to estimate participant plan benefits to which the employees will be entitled. The significant assumptions primarily relate to discount rates, expected long-term rates of return on plan assets, rate of future compensation increases, mortality, years of service, and other factors. The Company develops each assumption using relevant experience in conjunction with market-related data for each individual country in which such plans exist. All actuarial assumptions are reviewed annually with third-party consultants and adjusted as necessary. For the recognition of net periodic postretirement cost, the calculation of the expected return on plan assets is generally derived by applying the expected long-term rate of return on the market-related value of plan assets. The fair value of plan assets is determined based on actual market prices or estimated fair value at the measurement date.

Treated Water Outsourcing

Treated Water Outsourcing ("TWO") is a joint venture between the Company and Nalco Water, an Ecolab company, in which the Company holds a 50% partnership interest. The Company is obligated to absorb all risk of loss up to 100% of the joint venture partner's equity. As such, the Company fully consolidates TWO as a variable interest entity ("VIE") under ASC 810, Consolidation. The Company has not provided additional financial support to this entity which it is not contractually required to provide, and the Company does not have the ability to use the assets of TWO to settle obligations of the Company's other subsidiaries.

The following provides a summary of TWO's balance sheet as of September 30, 2019 and 2018, and summarized financial information for the years ended September 30, 2019, 2018 and 2017.

	September 30, 2019	September 30, 2018
Current assets (includes cash of $3,903 and $3,304)	$ 6,324	$ 5,486
Property, plant and equipment	2,186	4,441
Goodwill	2,206	2,206
Other non-current assets	3	3
Total liabilities	(2,388)	(3,608)

	Year Ended September 30,		
	2019	2018	2017
Total revenues	$ 10,633	$ 15,526	$ 22,039
Total operating expenses	(8,732)	(12,996)	(14,835)
Income from operations	$ 1,901	$ 2,530	$ 7,204

Recent Accounting Pronouncements

Accounting Pronouncements Not Yet Adopted

In November 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses* which clarifies that receivables from operating leases are accounted for using the lease guidance and not as financial instruments. ASU 2018-19 will be effective for the Company for the quarter ending December 31, 2020, with early adoptions permitted. The Company is currently assessing the impact of adoption on the Company's Consolidated Financial Statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808) Clarifying the Interaction between Topic 808 and Topic 606*, which clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of a unit of account. In addition, unit-of-account guidance in Topic 808 was aligned with the guidance in Topic 606 (that is, a distinct good or service) when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of Topic 606. ASU 2018-18 should be applied retrospectively to the date of initial adoption of Topic 606 and is effective for the Company for the quarter ending December 31, 2020, with early adoption permitted. The Company is currently assessing the impact of adoption on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Subtopic 820): Disclosure Framework —Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. ASU 2018-13 will be effective for the Company for the quarter ending December 31, 2020, with early adoption permitted. The Company is currently assessing the impact of adoption on the Company's disclosures.

In June 2018, the FASB issued ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,* which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The Company adopted this standard on October 1, 2019 but noted that this adoption did not have an impact on its Consolidated Financial Statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,* which expands and refines hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements and also made certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. The Company adopted this standard on October 1, 2019 but noted that this adoption did not have a material impact on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*: Measurement of Credit Losses on Financial Instruments, which requires entities to use a new forward-looking "expected loss" model that reflects expected credit losses, including credit losses related to trade receivables, and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates which generally will result in the earlier recognition of allowances for losses. ASU 2016-13 will be effective for the Company for the quarter ending December 31, 2020, with early adoption permitted. The Company does not expect the impact of adoption on the Consolidated Financial Statements to be material.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires recognition of operating leases as lease assets and liabilities on the balance sheet, and disclosure of key information about leasing arrangements. Amendments to the standard were issued by the FASB in January, July and December 2018, and March 2019 including certain practical expedients, an amendment that provides an additional and optional transition method to adopt the standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption and certain narrow-scope improvements for lessors. The Company adopted this standard on October 1, 2019 using the modified retrospective approach. In order to comply with Topic 842, the Company completed an assessment of the existing lease portfolio including performing data and policy gap reviews, implemented a new lease accounting system, and updated its processes and accounting policies. The Company expects the impact of adoption on the Consolidated Financial Statements and related disclosures to result in an increase to the Consolidated Balance Sheet in the range of $38 million to $42 million. The Company continues to evaluate certain aspects of lessor accounting, however, it is not expected that this will have a material impact on the Consolidated Financial Statements.

Accounting Pronouncements Recently Adopted

The Company adopted ASU 2017-09, *Scope of Modification Accounting*, which amended Accounting Standards Code Topic 718 as of October 1, 2018. The FASB issued ASU 2017-09 to reduce the cost and complexity when applying Topic 718 and standardize the practice of applying Topic 718 to financial reporting. The ASU was not developed to fundamentally change the definition of a modification, but instead to provide guidance for what changes would qualify as a modification. This adoption did not have a material impact on the Company's Consolidated Financial Statements.

The Company adopted ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, as of October 1, 2018. This ASU requires the disaggregation of the service cost component from other components of net periodic benefit cost, clarifies how to present the service cost component and other components of net benefit costs in the Statements of Consolidated Operations and allows only the service cost component of net benefit costs to be eligible for capitalization. The adoption of this guidance did not have an impact on the Consolidated Financial Statements and had a minimal impact to the related disclosures.

The Company adopted ASU 2016-16*, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,* as of October 1, 2018. The purpose of this update is to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The ASU requires the tax effects of all intra-entity sales of assets other than inventory to be recognized in the period in which the transaction occurs. The changes were required to be applied by means of a cumulative-effect adjustment recorded to retained earnings as of the beginning of the year of adoption. This adoption did not have an impact on the Company's Consolidated Financial Statements.

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as of October 1, 2018. ASU 2014-09 clarifies the principles for recognizing revenue when an entity either enters into a contract with customers to transfer goods or services or enters into a contract for the transfer of non-financial assets. The Company utilized the modified retrospective approach and the cumulative effect of adoption resulted in a net decrease to opening retained earnings of $1,582 which was recognized at October 1, 2018. Based on the new guidance, the Company determined that for some of these contracts in which revenue was previously recognized over a period of time, revenue instead needs to be recognized at a point in time. This change is mainly due to the nature of certain products, which in some cases have an alternative use, and the Company's right to payment in the event of termination for convenience. This adoption did not have a material impact on the Company's Consolidated Financial Statements. See Note 4, "Revenue" for further details.

3. Acquisitions and Divestitures

Acquisitions support the Company's strategy of delivering a broad solutions portfolio with robust technology across multiple geographies and end markets. The Company continues to evaluate potential strategic acquisitions of businesses, assets and product lines and believes that capex-like, tuck-in acquisitions present a key opportunity within its overall growth strategy.

On May 25, 2019, the Company acquired all of the issued and outstanding equity securities of ATG UV Technology Limited ("ATG UV"), a leading manufacturer of ultraviolet ("UV") light disinfection systems used in a wide range of municipal, aquatics and industrial applications, for £5,500 ($6,931) paid in cash at closing. During the year ended September 30, 2019, the Company incurred approximately $193 in acquisition costs, which are included in General and administrative expenses. ATG UV, based in Wigan, UK, is the exclusive technology supplier to Evoqua's ETS-UV™ product line in North America and the acquisition expands Evoqua's reach, allowing the Company to serve customers globally. ATG UV is part of the Applied Product Technologies segment.

The accounting for the acquisition has not yet been completed because the Company has not finalized the valuations of the acquired assets, assumed liabilities and identifiable intangible assets, including goodwill. The preliminary opening balance sheet for ATG UV as of September 30, 2019 is summarized as follows:

Current assets	$	6,296
Property, plant and equipment		362
Goodwill		1,738
Intangible assets		2,277
Total assets acquired		10,673
Total liabilities assumed		(3,742)
Net assets acquired	$	6,931

On October 1, 2019, the Company, entered into a Purchase and Sale Agreement with DuPont de Nemours, Inc., pursuant to which the Company will divest their Memcor® low pressure membrane product line (including the product line's global workforce, its manufacturing site in Windsor, Australia, associated operations and intellectual property) ("Memcor") to DuPont. In connection with this transaction, DuPont will purchase 100% of the corporate capital of the Australian Subsidiaries and all of the assets related to the Memcor® low pressure membrane product line.

The Company expects to recognize a gain on this transaction upon closing. The agreement to sell Memcor met all of the criteria to classify its assets and liabilities as held for sale in the fourth quarter of 2019, which are included within the Company's APT segment's total assets. The sale of Memcor does not represent a strategic shift that will have a major effect on the Company's operations and financial results and is, therefore, not classified as discontinued operations in accordance with ASU 2014-08. As part of the required evaluation under the held for sale guidance, the Company determined that the approximate fair value less costs to sell the operations exceeded the carrying value of the net assets and no impairment charge was recorded.

The following represents the carrying amounts of assets and liabilities, by major class, classified as held for sale on the Consolidated Balance Sheets at September 30, 2019:

ASSETS		
Cash and cash equivalents	$	7,291
Receivables, net		9,603
Inventories, net		6,456
Contract assets		13,025
Prepaid and other current assets		881
Current assets held for sale		37,256
Property, plant and equipment, net		14,827
Goodwill		14,911
Intangible assets, net		1,024
Other non-current assets		47
Non-current assets held for sale		30,809
Total assets held for sale	$	68,065
LIABILITIES		
Accounts payable	$	5,646
Contract liabilities		1,302
Product warranties		3,264
Accrued expenses and other liabilities		3,996
Current liabilities held for sale		14,208
Product warranties		1,594
Other non-current liabilities		2,071
Non-current liabilities held for sale		3,665
Total liabilities held for sale	$	17,873

The above amounts are excluded from the respective balance sheet footnotes at September 30, 2019. The Company incurred aggregate deal costs related to this divestiture of $2,795 during the year ended September 30, 2019, which are primarily included in General and administrative expenses.

2018 Acquisitions

On August 31, 2018, the Company acquired substantially all of the assets of Le Groupe IsH20Top Inc. (“Isotope”), a Quebec-based provider of high-purity water treatment equipment and systems, equipment maintenance services and service deionization for CAD 3,651 ($2,804); CAD 3,171 ($2,435) cash at closing in addition to earn-out payments one year after the closing. Included in consideration is CAD 226 ($175), which represents the fair value of earn-out payments at the date of acquisition if certain revenue targets are achieved, with the maximum earn-out payment of CAD 480 ($369). Isotope serves the ultrapure pharmaceutical, laboratory, medical, university, industrial and microelectronics markets in the Quebec region and provides its customer base with a variety of solutions including reverse osmosis, deionized water systems and steam purification. The Company incurred approximately $188 of acquisition costs, which are included in General and administrative expenses. Isotope is part of the Integrated Solutions and Services segment and strengthens the Company’s Canadian service capabilities.

On July 26, 2018, the Company acquired all of the issued and outstanding equity securities of ProAct Services Corporation (“ProAct”) and its subsidiaries for $133,772 paid in cash at closing which was funded through incremental borrowings under the Company’s Term Loan. ProAct is a leading provider of on-site treatment services of contaminated water in all 50 states. ProAct will operate within the Company’s Integrated Solutions and Services segment and will continue to be based in Ludington, Michigan with a nationwide service footprint and facilities in California, Florida, Michigan, Minnesota, New Jersey, Virginia and Texas. ProAct provides an array of expanded offerings across the Company's existing environmental solutions and enhances its existing service capabilities in mobile/temporary process water and wastewaster treatment, hydrostatic water treatment and coal ash pond remediation. The Company incurred approximately $1,067 of acquisition costs, which are included in General and administrative expenses. The operating results of ProAct have been included in the Company's Consolidated Statements of Operations since the acquisition date, and resulted in $8,042 and $590 of revenue and net income, respectively, for the year ended September 30, 2018.

The following table presents the unaudited pro forma results for the years ended September 30, 2018 and 2017. The unaudited pro forma financial information combines the results of operations of EWT and ProAct as though the Company had been combined as of the beginning of years ended September 30, 2018 and 2017, and the pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at such time. Pro forma results for other acquisitions completed in the year ended September 30, 2018 were determined to not be material. The unaudited pro forma results presented below include adjustments for increased fair value of acquired intangible assets and related amortization charges, acquisition costs, and interest.

	Year Ended September 30,	
	2018	**2017**
Total revenues	$ 1,385,159	$ 1,294,167
Net loss attributable to Evoqua Water	2,116	1,527

On March 9, 2018, the Company acquired all of the issued and outstanding equity securities of Pacific Ozone Technology, Inc. ("Pacific Ozone"), a provider of advanced ozone disinfection systems, testing products and support services for $8,557; $6,557 cash at closing in addition to earn-out payments to be paid out over three years after the closing. Included in consideration is $934, which represents the fair value of earn-out payments if certain performance metrics are achieved, with a maximum amount of $2,000. The Company incurred approximately $191 of acquisition costs, which are included in General and administrative expenses. Pacific Ozone, based in Benecia, California, is part of the Applied Product Technologies segment and adds a new technology, ozone disinfection, to the portfolio and further enhances the Company's ability in the industrial water treatment and aquatics market.

On January 31, 2018, the Company acquired substantially all of the assets of Pure Water Solutions, LLC ("Pure Water"), a provider of high-purity water equipment and systems, service deionization and resin regeneration, with service operations in suburban Denver, Colorado and Santa Fe, New Mexico for $4,699; $3,706 cash at closing in addition to earn-out payments to be paid out one year after the closing. Included in consideration is $993, which represents the fair value of earn-out payments if certain revenue targets are achieved, with a maximum amount of $461. The Company incurred approximately $132 of acquisition costs, which are included in General and administrative expenses. Pure Water is part of the Integrated Solutions and Services segment, and extends the Company's service network.

The opening balance sheet for the acquisitions is summarized as follows:

	Isotope	ProAct	Pacific Ozone	Pure Water	Total
Current Assets	$ 627	$ 11,513	$ 1,822	$ 295	$ 14,257
Property, plant and equipment	—	26,272	151	156	26,579
Goodwill	1,266	84,308	4,337	2,506	92,417
Intangible assets	933	27,464	2,678	1,488	32,563
Other non-current assets	—	—	135	—	135
Total asset acquired	2,826	149,557	9,123	4,445	165,951
Total liabilities assumed	(216)	(15,785)	(1,632)	(278)	(17,911)
Net assets acquired	$ 2,610	$ 133,772	$ 7,491	$ 4,167	$ 148,040

2018 Divestitures

On April 9, 2018, the Company completed the sale of 100% of the corporate capital of Evoqua Water Technologies S.r.l., which includes the Company's former operations in Italy, to Giotto Water S.r.l. ("Giotto"). The aggregate purchase price paid in cash by Giotto in the transaction was €350 ($430), subject to certain earn-out adjustments to be paid by Giotto in connection with the realization of specified tax benefits relating to previous years, and resulted in a nominal gain which is included in Other operating income on the Consolidated Statements of Operations.

4. Revenue

Adoption of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)"

As discussed in Note 2, "Summary of Significant Accounting Policies" the Company adopted ASU 2014-09 on October 1, 2018, using the modified retrospective approach to those contracts that were not completed or substantially complete as of October 1, 2018. Results for the reporting period beginning after October 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with the Company's historical accounting under Topic 605. The Company has applied the standard to all open contracts at the date of initial application. The Company recorded a net decrease to opening retained earnings of $1,582 as of October 1, 2018 as a result of the cumulative impact of adopting Topic 606 representing the unfavorable impact to prior results had the over-time revenue recognition for some customer agreements, as discussed below, been applied. In addition, a $6,106 reduction of contract assets, along with an increase of $6,194 to work-in-process inventory and an increase of $1,773 to contract liabilities was recorded as a result of the adoption using the modified retrospective method.

The impact to the Consolidated Statements of Operations as a result of applying Topic 606 was higher Revenue from product sales and services and higher Cost of product sales and services of $2,066 and $1,508, respectively, for the year ended September 30, 2019, as compared to what those amounts would have been under the previous revenue recognition guidance. In addition, the impact on the Consolidated Balance Sheets at September 30, 2019 was lower Inventories, net of $135 as compared to what this amount would have been under the previous guidance. Also, $644 of contract assets were recognized on the consolidated balance sheet at September 30, 2019 related to this over-time revenue recognition. As a result of adopting Topic 606, the Company reevaluated how they view the types of revenue between product sales and services, and their related cost of sales. As a result, the Company reclassified amounts between the two categories on the Consolidated Statements of Operations.

Revenue Recognition

The Company recognizes sales of products and services based on the five-step analysis of transactions as provided in Topic 606. For all contracts with customers, the Company first identifies the contract which usually is established when the customer's purchase order is accepted or acknowledged. Next the Company identifies the performance obligations in the contract. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The Company then determines the transaction price in the arrangement and allocates the transaction price to each performance obligation identified in the contract. The Company's allocation of the transaction price to the performance obligations are based on the relative standalone selling prices for the goods and services contained in a particular performance obligation. The transaction price is adjusted for the Company's estimate of variable consideration which may include discounts if the Company would fail to meet certain performance requirements, volume discounts or early payment discounts. To estimate variable consideration, the Company utilizes historical experience and known terms. Variable consideration in contracts for the year ended September 30, 2019 was insignificant.

For sales of aftermarket parts or products with a low level of customization and engineering time, the Company recognizes revenues at the time risks and rewards of ownership pass, which is generally when products are shipped or delivered to the customer as the Company has no obligation for installation. The Company considers shipping and handling services to be fulfillment activities and as such they do not represent separate performance obligations for revenue recognition. Sales of service arrangements are recognized as the services are performed.

For certain arrangements where there is significant customization to the product and for long-term construction-type sales contracts, revenue may be recognized over time. In these instances, revenue is recognized using a measure of progress that applies an input method based on costs incurred in relation to total estimated costs. Approximately $326,035, of revenues from construction-type contracts was recognized over time during the year ended September 30, 2019. These arrangements include large capital water treatment projects, systems and solutions for municipal and industrial applications. The nature of the contracts is generally fixed price with milestone billings. In order for revenue to be recognized over a period of time, the product must have no alternative use and the Company must have an enforceable right to payment for the performance completed to date, including a normal profit margin, in the event of termination for convenience. If these two criteria are not met, revenues from these contracts will not be recognized until construction is complete. Revenues from construction-type contracts formerly recognized over time of approximately $1,068 were not recognized during the year ended September 30, 2019. Instead, revenues from these contracts will be recognized when construction is complete. Contract revenues and cost estimates are reviewed and revised quarterly at a minimum and the cumulative effect of such adjustments are recognized in current operations. The amount of such adjustments have not been material.

The Company has made accounting policy elections to exclude all taxes by governmental authorities from the measurement of the transaction price and that long-term construction-type sales contracts, or those contracts for products with significant customization for which the total contract price is less than $100 will be recorded at the point in time when the construction is complete or the product is delivered. Approximately $19,815 of revenues from construction-type contracts was recognized on a completed contract method during the year ended September 30, 2019. This represents projects that are either below the $100 threshold, or the product has no alternative use, but the Company does not have an enforceable right to payment.

The Company has also elected the following practical expedients:

Financing Component

As the Company's standard payment terms are less than one year, the Company has elected the practical expedient not to assess whether a contract has a significant financing component.

Performance Obligations

The Company elects to apply the practical expedient to exclude from this disclosure revenue related to performance obligations if the product has an alternative use and the Company does not have an enforceable right to payment for the performance completed to date, including a normal profit margin, in the event of termination for convenience. The Company maintains a backlog of confirmed orders of approximately $179,341 at September 30, 2019. This backlog represents the aggregate amount of the transaction price allocated to performance obligations that were unsatisfied or partially unsatisfied as of the end of the reporting period. The Company estimates that the majority of these performance obligations will be satisfied within the next twelve months.

The recording of assets recognized from the costs to obtain and fulfill customer contracts primarily relate to the deferral of sales commissions. The Company's costs incurred to obtain or fulfill a contract with a customer are classified as non-current assets and amortized to expense over the period of benefit of the related revenue. These costs are recorded within Cost of product sales and services. The amount of contract costs was insignificant at September 30, 2019.

The Company offers standard warranties that generally do not represent a separate performance obligation. In certain instances, a warranty is obtained separately from the original equipment sale or the warranty provides incremental services and as such is treated as a separate performance obligation.

Disaggregation of Revenue

In accordance with Topic 606, the Company disaggregates revenue from contracts with customers into source of revenue, reportable operating segment and geographical regions. The Company determined that disaggregating revenue into these categories meets the disclosure objective in Topic 606 which is to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Information regarding the source of revenues:

	Year Ended September 30, 2019
Revenue from contracts with customers recognized under Topic 606	$ 1,309,303
Other (1)	135,138
Total	$ 1,444,441

(1) Other revenue relates to revenue recognized from Topic 840, Leases, mainly attributable to long term rentals.

Information regarding revenues disaggregated by source of revenue and segment is as follows:

	Year Ended September 30, 2019		
	Integrated Solutions and Services	Applied Product Technologies	Total
Revenue from capital	$ 219,289	$ 344,097	$ 563,386
Revenue from aftermarket	122,719	165,056	287,775
Revenue from service	568,826	24,454	593,280
Total	$ 910,834	$ 533,607	$ 1,444,441

Information regarding revenues disaggregated by geographic area is as follows:

	Year Ended September 30, 2019
United States	$ 1,147,649
Europe	102,998
Asia	90,273
Canada	80,083
Australia	23,438
Total	$ 1,444,441

Contract Balances

The Company performs its obligations under a contract with a customer by transferring products and/or services in exchange for consideration from the customer. The Company receives payments from customers based on a billing schedule as established in its contracts.

Contract assets relate to costs incurred to perform in advance of scheduled billings. Contract liabilities relate to payments received in advance of performance under the contracts. Change in contract assets and liabilities are due to our performance under the contract.

The tables below provides a roll-forward of contract assets and contract liabilities balances for the periods presented:

	Contract Assets (a)
Balance at September 30, 2018	$ 69,147
Cumulative effect of adoption of new accounting standards	(6,106)
Recognized in current period	325,289
Reclassified to accounts receivable	(302,055)
Foreign currency	217
Reclassified to assets held for sale	(13,025)
Balance at September 30, 2019	$ 73,467

(a) Excludes receivable balances which are disclosed on the Consolidated Balance Sheets.

	Contract Liabilities
Balance at September 30, 2018	$ 17,652
Cumulative effect of adoption of new accounting standards	1,773
Recognized in current period	319,722
Amounts in beginning balance reclassified to revenue	(20,754)
Current period amounts reclassified to revenue	(276,002)
Foreign currency	(2,038)
Reclassified to liabilities held for sale	(1,302)
Balance at September 30, 2019	$ 39,051

5. Fair Value Measurements

As of September 30, 2019 and 2018, the fair values of cash and cash equivalents, accounts receivable and accounts payable approximate carrying values due to the short maturity of these items.

The Company measures the fair value of pension plan assets and liabilities, deferred compensation and plan assets and liabilities on a recurring basis pursuant to ASC Topic 820. ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value driver is observable.

Level 3: Unobservable inputs in which little or no market data is available, therefore requiring an entity to develop its own assumptions.

The following table presents the Company's financial assets and liabilities at fair value. The fair values related to the pension assets are determined using net asset value ("NAV") as a practical expedient, or by information categorized in the fair value hierarchy level based on the inputs used to determine fair value. The reported carrying amounts of deferred compensation assets and liabilities and debt approximate their fair values. The Company uses interest rates and other relevant information generated by market transactions involving similar instruments to fair value these assets and liabilities, therefore all are classified as Level 2 within the valuation hierarchy. For the years ended September 30, 2019 and 2018, there were no transfers between Level 1 and 2 of the fair value hierarchy.

	Net Asset Value	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of September 30, 2019				
Assets:				
Pension plan				
Cash	$ —	$ 14,607	$ —	$ —
Government Securities	4,703	—	—	—
Liability Driven Investment	3,261	—	—	—
Guernsey Unit Trust	997	—	—	—
Global Absolute Return	1,957	—	—	—
Deferred compensation plan assets				
Trust Assets	—	16	—	—
Insurance	—	—	18,684	—
Interest rate cap	—	—	19	—
Foreign currency forward contracts	—	—	278	—
Liabilities:				
Pension plan	—	—	(42,948)	—
Deferred compensation plan liabilities	—	—	(21,318)	—
Long-term debt	—	—	(979,357)	—
Foreign currency forward contracts	—	—	(154)	—
Earn-outs related to acquisitions	—	—	—	(1,545)
As of September 30, 2018				
Assets:				
Pension plan				
Cash	$ —	$ 15,821	$ —	$ —
Government Securities	3,161	—	—	—
Liability Driven Investment	2,598	—	—	—
Guernsey Unit Trust	965	—	—	—
Global Absolute Return	2,038	—	—	—
Deferred compensation plan assets				
Trust Assets	—	648	—	—
Insurance	—	—	18,448	—
Foreign currency forward contracts	—	—	345	—
Liabilities:				
Pension plan	—	—	(35,541)	—
Deferred compensation plan liabilities	—	—	(21,834)	—
Long-term debt	—	—	(957,441)	—
Foreign currency forward contracts	—	—	(67)	—
Earn-outs related to acquisitions	—	—	—	(1,916)

The pension plan assets and liabilities and deferred compensation assets and liabilities are included in other non-current assets and other non-current liabilities on the Consolidated Balance Sheets at September 30, 2019 and 2018.

The Company records contingent consideration arrangements at fair value on a recurring basis and the associated balances presented as of September 30, 2019 and 2018 are earn-outs related to acquisitions. See Note 3, "Acquisitions and Divestitures" for further discussion regarding the earn-outs recorded for specific acquisitions. The fair value of earn-outs related to acquisitions is based on significant unobservable inputs including the achievement of certain performance metrics.

Significant changes in these inputs would result in corresponding increases or decreases in the fair value of the earn-out each period until the related contingency has been resolved. Changes in the fair value of the contingent consideration obligations can result from adjustments in the probability of achieving future development steps, sales targets and profitability and are recorded in General and administrative expenses in the Consolidated Statements of Operations.

A rollforward of the activity in the Company's fair value of earn-outs related to acquisitions is as follows:

	Current Portion (1)	Long-term Portion (2)	Total
Balance at September 30, 2017	$ 4,304	$ 1,691	$ 5,995
Acquisitions	634	934	1,568
Payments	(8,111)	—	(8,111)
Reclassifications	1,479	(1,479)	—
Fair value increase	2,619	—	2,619
Foreign currency	(155)	—	(155)
Balance at September 30, 2018	770	1,146	1,916
Payments	(1,650)	—	(1,650)
Reclassifications	212	(212)	—
Fair value increase	1,283	—	1,283
Foreign currency	(4)	—	(4)
Balance at September 30, 2019	$ 611	$ 934	$ 1,545

(1) Included in Accrued expenses and other liabilities on the Consolidated Balance Sheets.

(2) Included in Other non-current liabilities on the Consolidated Balance Sheets.

6. Accounts Receivable

Accounts receivable are summarized as follows:

	September 30, 2019	September 30, 2018
Accounts Receivable	$ 262,491	$ 258,955
Allowance for Doubtful Accounts	(4,906)	(4,199)
Receivables, net	$ 257,585	$ 254,756

The movement in the allowance for doubtful accounts was as follows:

	Year Ended September 30,		
	2019	2018	2017
Balance at beginning of period	$ (4,199)	$ (3,494)	$ (4,784)
Charged to costs and expenses	(788)	(1,832)	(1,206)
Write-offs	39	1,387	2,481
Foreign currency and other	42	(260)	15
Balance at end of period	$ (4,906)	$ (4,199)	$ (3,494)

7. Inventories

The major classes of inventory, net are as follows:

	September 30, 2019	September 30, 2018
Raw materials and supplies	$ 75,223	$ 69,176
Work in progress	14,741	19,461
Finished goods and products held for resale	58,223	53,786
Costs of unbilled projects	2,347	1,878
Reserves for excess and obsolete	(13,370)	(9,313)
Inventories, net	$ 137,164	$ 134,988

The following is the activity in the reserves for excess and obsolete inventory:

	Year Ended September 30,		
	2019	2018	2017
Balance at beginning of period	$ (9,313)	$ (10,599)	$ (10,141)
Additions charged to expense	(5,754)	(419)	(1,004)
Write-offs	1,541	104	947
Foreign currency and other	156	1,601	(401)
Balance at end of period	$ (13,370)	$ (9,313)	$ (10,599)

8. Property, Plant, and Equipment

Property, plant, and equipment consists of the following:

	September 30, 2019	September 30, 2018
Machinery and equipment	$ 488,924	$ 399,619
Land and buildings	64,165	76,459
Construction in process	40,599	60,803
	593,688	536,881
Less: accumulated depreciation	(260,104)	(216,858)
Property, plant, and equipment, net	$ 333,584	$ 320,023

The Company entered into secured financing agreements that require providing a security interest in specified equipment. As of September 30, 2019, the gross and net amounts of those assets are as follows:

	Gross	Net
Machinery and equipment	$ 48,288	$ 42,162
Construction in process	2,531	2,531
	$ 50,819	$ 44,693

Depreciation expense and maintenance and repairs expense for the years ended September 30, 2019, 2018 and 2017 were as follows:

	Year Ended September 30,		
	2019	2018	2017
Depreciation expense	$ 66,031	$ 59,017	$ 53,327
Maintenance and repair expense	23,861	23,343	21,392

9. Goodwill

Changes in the carrying amount of goodwill are as follows:

	Integrated Solutions and Services	Applied Product Technologies	Total
Balance at September 30, 2017	$ 138,181	$ 183,732	$ 321,913
Business combinations	88,080	4,192	92,272
Measurement period adjustment	(404)	(311)	(715)
Foreign currency translation	(1,487)	(637)	(2,124)
Balance at September 30, 2018	224,370	186,976	411,346
Business combinations and divestitures	—	1,738	1,738
Measurement period adjustments	(1,937)	63	(1,874)
Goodwill reclassified to assets held for sale	—	(14,911)	(14,911)
Foreign currency translation	(420)	(2,989)	(3,409)
Balance at September 30, 2019	$ 222,013	$ 170,877	$ 392,890

As of September 30, 2019 and 2018, $151,880 and $147,861, respectively, of goodwill is deductible for tax purposes.

The Company reviewed the recoverability of the carrying value of goodwill of its reporting units. As the fair value of the Company's reporting units was determined to be in excess of the carrying values at July 1, 2019 and 2018, no further analysis was performed.

10. Other Intangible Assets

Intangible assets consist of the following:

	Estimated Life (years)	September 30, 2019 Carrying Amount	Accumulated Amortization	Net
Amortizing intangible assets				
Customer related	5 - 26	$ 290,407	$ (64,548)	$ 225,859
Proprietary technology	10	50,725	(24,187)	26,538
Trademark	10-15	26,432	(6,245)	20,187
Backlog	1	81,834	(81,834)	—
Other	3	22,868	(14,892)	7,976
Total amortizing intangible assets		472,266	(191,706)	280,560
Indefinite-lived intangible assets		34,207	—	34,207
Total intangible assets		$ 506,473	$ (191,706)	$ 314,767

	Estimated Life (years)	September 30, 2018 Carrying Amount	Accumulated Amortization	Net
Amortizing intangible assets				
Customer related	5 - 26	$ 292,115	$ (47,348)	$ 244,767
Proprietary technology	10	49,315	(19,685)	29,630
Trademark	10-15	26,535	(3,563)	22,972
Backlog	1	82,315	(81,764)	551
Other	4	17,175	(8,894)	8,281
Total amortizing intangible assets		467,455	(161,254)	306,201
Indefinite-lived intangible assets		34,207	—	34,207
Total intangible assets		$ 501,662	$ (161,254)	$ 340,408

The Company's indefinite-lived intangible asset relate to Federal hazardous waste treatment management permits obtained for locations operated by the Integrated Solutions and Services segment. The permits are considered perpetually renewable. The Company performs an indefinite-lived intangible asset impairment analysis on an annual basis during the fourth quarter of the year and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company assessed the carrying value of the permits at the Integrated Solutions and Services segment as of July 1, 2019 using a quantitative analysis outlined in ASU No. 2012-02 to determine whether the existence of events or circumstances would lead to the conclusion that it is more likely than not that the fair values of the permits are less than the carrying amounts. Events and circumstances considered in this review included macroeconomic conditions, new competition, financial performance of the entities which utilizes the permits and other financial and non-financial events. Based on these factors, the Company concluded the fair value of the permits were not more likely than not less than the carrying amounts.

For the amortizing intangible assets, the remaining weighted-average amortization period at September 30, 2019 was as follows:

	Years
Customer-related intangibles	11
Proprietary technology	5
Trademarks	7
Other	2
Aggregate net intangible assets	8

Intangible asset amortization was $32,205, $26,843 and $24,559 for the years ended September 30, 2019, 2018 and 2017, respectively. The estimated future amortization expense is as follows:

2020	$ 29,403
2021	27,682
2022	27,473
2023	26,076
2024	22,591
Thereafter	147,335
Total	$ 280,560

11. Debt

Long-term debt consists of the following:

	September 30, 2019	September 30, 2018
First Lien Term Loan, due December 20, 2024	$ 928,753	$ 938,230
Revolving Credit Facility	—	—
Equipment Financing, due June 30, 2024 to July 5, 2029	45,960	11,588
Notes Payable, due July 31, 2023	807	2,106
Mortgage, due June 30, 2028	1,635	1,835
Total debt	977,155	953,759
Less unamortized discount and lender fees	(12,138)	(14,129)
Total net debt	965,017	939,630
Less current portion	(13,418)	(11,555)
Total long-term debt	$ 951,599	$ 928,075

Term Facilities and Revolving Credit Facility

On January 15, 2014, EWT Holdings III Corp. (“EWT III”), an indirect wholly-owned subsidiary of the Company, entered into a First Lien Credit Agreement and Second Lien Credit Agreement (the “Credit Agreements” or, after the prepayment and termination of the Second Lien Credit Agreement, the “First Lien Credit Agreement” or “Credit Agreement”) among EWT III, EWT Holdings II Corp., the lenders party thereto and Credit Suisse AG as administrative agent and collateral agent. The First Lien Credit Agreement provided for a seven-year term loan facility, and the Second Lien Credit Agreement provided for an eight-year term loan facility. The term loan facilities originally consisted of the “First Lien Term Loan” and “Second Lien Term Loan” in aggregate principal amounts of $505,000 and $75,000, respectively. The First Lien Credit

Agreement also made available to the Company a $75,000 revolving credit facility (the "Revolver"), which provided for a letter of credit sub-facility up to $35,000.

During the year ended September 30, 2018, certain subsidiaries of the Company entered into two amendments to the Credit Agreement which provided for, among other things, the refinancing of the Existing Term Loans with the proceeds of refinancing term loans, extension of the maturity date to December 20, 2024, the reduction in the interest rate spreads on the Term Loan borrowing to 3.00% and an additional $150,000 borrowed in incremental term loans. In addition, the revolving credit commitment and letters of credit sublimit were increased to $125,000 and $45,000, respectively. The other terms of the Existing Credit Agreement, including rates, remain generally the same. As a result of the incremental borrowings, quarterly principal payments increased to $2,369. At September 30, 2019, the interest rate on borrowings was 5.11%, comprised of 2.11% LIBOR plus the 3.00% spread.

Total deferred fees related to the First Lien Term Loan were $12,138 and $14,129, net of amortization, as of September 30, 2019 and 2018, respectively. These fees were included as a contra liability to debt on the Consolidated Balance Sheets.

At September 30, 2019 and 2018, the Company had no outstanding revolver borrowings and as a result, borrowing availability under the Revolver was $125,000 at September 30, 2019 and 2018, respectively, reduced for outstanding letters of credit. The Company's outstanding letters of credit under this agreement aggregated approximately $12,956 and $11,777 at September 30, 2019 and 2018, respectively. Unused amounts, defined as total revolver capacity less outstanding letters of credit and revolver borrowings, were $112,044 and $113,223 at September 30, 2019 and 2018, respectively. At September 30, 2019 and 2018, the Company had additional letters of credit of $204 and $64 issued under a separate arrangement, respectively.

The First Lien Credit Agreement contains limitations on incremental borrowings, is subject to leverage ratios and allows for optional prepayments. Under certain circumstances, the Company may be required to remit excess cash flows as defined based upon exceeding certain leverage ratios. The Company did not exceed such ratios during the year ended September 30, 2019, does not anticipate exceeding such ratios during the year ending September 30, 2020, and therefore does not anticipate any additional repayments during the year ending September 30, 2020.

Equipment Financing

As of September 30, 2019 and 2018, the Company had equipment financings in an aggregate outstanding amount of $45,960 and $11,588, with interest rates ranging from 5.02% to 8.07%, and due dates ranging from June 30, 2024 to July 5, 2029.

Notes Payable

As of September 30, 2019 and 2018, the Company had notes payable in an aggregate outstanding amount of $807 and $2,106, with an interest rate of 6.53%, and a due date of July 31, 2023. These notes are related to certain equipment related contracts and are secured by the underlying equipment and assignment of the related contracts.

Mortgage

On June 29, 2018, the Company's subsidiary MAGNETO special anodes B.V. entered into a 10-year mortgage agreement for €1,600 ($1,744) to finance a facility in the Netherlands, subject to monthly principal payments of €7 ($7) at a blended interest rate of 2.4% with maturity in June 2028. The Company had $1,635 and $1,835 principal outstanding under this facility at September 30, 2019 and 2018, respectively.

Repayment Schedule

Aggregate maturities of all long-term debt, including current portion of long-term debt and excluding capital lease obligations as of September 30, 2019, are presented below:

Year Ended September 30,		
2020	$	13,418
2021		13,589
2022		13,794
2023		13,952
2024		13,864
Thereafter		908,538
Total	$	977,155

12. Derivative Financial Instruments

Interest Rate Risk Management

The Company is subject to market risk exposure arising from changes in interest rates on the senior secured credit facilities, which bear interest at rates that are indexed against LIBOR. The Company's objectives in using interest rate derivatives are to add stability to interest expense and to mitigate its exposure to rising interest rates. To accomplish these objectives, the Company entered into an interest rate cap, designated as a cash flow hedge, to mitigate risks associated with variable rate debt effective November 28, 2018. The LIBOR interest rate cap covers a notional amount of $600,000 of the Company's senior secured debt, is effective for a period of three years and has a strike rate of 3.5%. Interest rate caps designated as cash flow hedges involve the receipt of stipulated amounts from a counterparty if interest rates rise above the strike rate defined in the contract. The premium paid for the interest rate cap was $2,235 and is being amortized to interest expense over its three-year term using the caplet method. The unamortized premium was $1,614 at September 30, 2019, of which $745 is included in Prepaid and other current assets and the remaining $869 is included in Other non-current assets. The Company recorded $621 of premium amortization to interest expense during the year ended September 30, 2019, respectively.

Foreign Currency Risk Management

The Company's functional currency is the U.S. dollar. By operating internationally, the Company is subject to foreign currency risk from transactions denominated in currencies other than the U.S. dollar ("foreign currencies"). To mitigate cross-currency transaction risk, the Company analyzes significant exposures where it has receipts or payments in a currency other than the functional currency of its operations, and from time to time may strategically enter into short-term foreign currency forward contracts to lock in some or all of the cash flows associated with these transactions. The Company is also subject to currency translation risk associated with converting the foreign operations' financial results into U.S. dollars. The Company uses foreign currency derivative contracts in order to manage the effect of exchange fluctuations on forecasted sales and purchases that are denominated in foreign currencies. To mitigate the impact of foreign exchange rate risk, the Company entered into a series of forward contracts designated as cash flow hedges. As of September 30, 2019, the notional amount of the forward contracts held to sell foreign currencies was $12,917.

Credit Risk Management

The counterparties to the Company's derivative contracts are highly rated financial institutions. The Company regularly reviews the creditworthiness of its financial counterparties and does not expect to incur a significant failure of any counterparties to perform under any agreements. The Company is not subject to any obligations to post collateral under derivative instrument contracts. The Company records all derivative instruments on a gross basis in the Consolidated Balance Sheets. Accordingly, there are no offsetting amounts that net assets against liabilities.

Derivatives Designated as Cash Flow Hedges

The Company accounts for derivatives and hedging activities in accordance with ASC Topic No. 815, "Derivatives and Hedging" (Topic No. 815). As required by Topic No. 815, the Company records all derivatives on the balance sheet at fair value and adjusts to market on a quarterly basis. The Company's interest rate cap is valued based on readily observable market inputs, such as quotations on interest rates and LIBOR yield curves at the reporting date. The Company's foreign currency forward contracts are valued based on quoted forward foreign exchange prices and spot rates at the reporting date. For a derivative that is designated as a cash flow hedge, changes in the fair value of the derivative are recognized in AOCI to the extent the derivative is effective at offsetting the changes in the cash flows being hedged until the hedged item affects earnings. To the extent there is any hedge ineffectiveness, changes in fair value relating to the ineffective portion are immediately recognized in earnings in the Consolidated Statements of Operations. The Company recorded no hedge ineffectiveness during the year ended September 30, 2019. The Company does not use derivative financial instruments for trading or speculative purposes.

The following represents the fair value recorded for derivatives designated as cash flow hedges for the periods presented:

		Asset Derivatives	
	Balance Sheet Location	**September 30, 2019**	**September 30, 2018**
Interest rate cap	Prepaid and other current assets	$ 19	$ —
Foreign currency forward contracts	Prepaid and other current assets	269	282

		Liability Derivative	
	Balance Sheet Location	**September 30, 2019**	**September 30, 2018**
Foreign currency forward contracts	Accrued expenses and other current liabilities	$ 154	$ 67

The following represents the amount of gain (loss) recognized in AOCI (net of tax) during the periods presented:

	Year Ended September 30,		
	2019	**2018**	**2017**
Interest rate cap	$ 19	$ —	$ —
Foreign currency forward contracts	(443)	(118)	(70)
	$ (424)	$ (118)	$ (70)

The following represents the amount of (loss) gain reclassified from AOCI into earnings (effective portion) during the periods presented:

		Year Ended September 30,		
	Location of (Loss) Gain	**2019**	**2018**	**2017**
Foreign currency forward contracts	Cost of product sales and services	$ (309)	$ (76)	$ (13)
Foreign currency forward contracts	General and administrative expense	82	18	(35)
Foreign currency forward contracts	Research and development expense	(271)	(39)	(3)
		$ (498)	$ (97)	$ (51)

Based on the fair value amounts of the Company's cash flow hedges at September 30, 2019, the Company expects that approximately $7 of pre-tax net losses will be reclassified from AOCI into earnings during the next twelve months. The amount ultimately realized, however, will differ as exchange rates vary and the underlying contracts settle. In addition, $745 of caplet amortization will be amortized into interest expense during the next twelve months.

Derivatives Not Designated as Cash Flow Hedges

The following represents the fair value recorded for derivatives not designated as cash flow hedges for the periods presented:

		Asset Derivative	
	Balance Sheet Location	**September 30, 2019**	**September 30, 2018**
Foreign currency forward contracts	Prepaid and other current assets	$ 9	$ 63

13. Product Warranties

The Company accrues warranty obligations associated with certain products as revenue is recognized. Provisions for the warranty obligations are based upon historical experience of costs incurred for such obligations, adjusted for site-specific risk factors and as necessary, for current conditions and factors. There are significant uncertainties and judgments involved in estimating warranty obligations, including changing product designs, differences in customer installation processes and future claims experience which may vary from historical claims experience.

A reconciliation of the activity related to the accrued warranty, including both the current and long-term portions, is as follows:

	Current Product Warranties			Non-Current Product Warranties		
	Year Ended September 30,			Year Ended September 30,		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Balance at beginning of the period	$ 8,907	$ 11,164	$ 16,860	$ 3,360	$ 6,110	$ 6,449
Business combination recognition	—	—	285	—	—	—
Warranty provision for sales	5,745	4,930	5,970	1,915	654	727
Settlement of warranty claims	(6,529)	(6,836)	(11,817)	(999)	(3,132)	(852)
Foreign currency translation and other	63	(351)	(134)	(350)	(272)	(214)
Amounts reclassified to liabilities held for sale	(3,264)	—	—	(1,594)	—	—
Balance at end of the period	$ 4,922	$ 8,907	$ 11,164	$ 2,332	$ 3,360	$ 6,110

14. Restructuring and Related Charges

To better align its resources with its growth strategies and reduce the cost structure, the Company commits to restructuring plans as necessary. The Company has undertaken various restructuring initiatives, including the wind-down of the Company's operations in Italy, restructuring of the Company's operations in Australia, consolidation of functional support structures on a global basis, and consolidation of the Singaporean research and development center.

On October 30, 2018, the Company announced a transition from a three-segment structure to a two-segment operating model designed to better serve the needs of customers worldwide. This new structure was effective October 1, 2018 and combined the Municipal services business with the former Industrial segment into a new segment, Integrated Solutions and Services, a group entirely focused on engaging directly with end users. The former Products segment and Municipal products businesses have been combined into a new segment, Applied Product Technologies, which is focused on developing product platforms to be sold primarily through third party channels. The Company expects to incur approximately $3 million of cash costs through fiscal 2020 as a result of this transition related to other non-employee related business optimizations.

During the year ended September 30, 2017, the Company initiated a Voluntary Separation Plan ("VSP") that continued throughout the year ended September 30, 2018 and concluded during the six months ended March 31, 2018. The VSP plan included severance payments to employees as a result of streamlining business operations for efficiency, elimination of redundancies, and reorganizing business processes.

The table below sets forth the amounts accrued for the restructuring components and related activity:

	Year Ended September 30,		
	2019	2018	2017
Balance at beginning of the period	$ 710	$ 3,542	$ 13,217
Restructuring charges related to two-segment realignment	11,090	—	—
Restructuring charges related to other initiatives (including VSP)	2,444	11,085	32,392
Write-off charge and other non-cash activity	(541)	(663)	(727)
Cash payments	(12,966)	(13,280)	(41,432)
Other adjustments	(82)	26	92
Balance at end of the period	$ 655	$ 710	$ 3,542

The balances for accrued restructuring liabilities at September 30, 2019 and 2018, are recorded in Accrued expenses and other liabilities on the Consolidated Balance Sheets. Restructuring charges primarily represent severance charges. The Company expects to pay the remaining amounts accrued as of September 30, 2019 during the first half of 2020.

The table below sets forth the location of amounts recorded above on the Consolidated Statements of Operations:

	Year Ended September 30,		
	2019	2018	2017
Cost of product sales and services	$ 6,257	$ 3,897	$ 14,574
General and administrative expense	5,531	4,775	7,877
Sales and marketing expense	1,082	908	8,727
Research and development expense	123	606	487
Other operating (income) expense, net	—	236	—
	$ 12,993	$ 10,422	$ 31,665

The Company continues to evaluate restructuring activities that may result in additional charges in the future.

15. Employee Benefit Plans

Defined Benefit Plans

The Company maintains multiple employee benefit plans.

Certain of the Company's employees in the UK were participants in a Siemen's defined benefit plan established for employees of a UK-based operation acquired by Siemens in 2004. The plan was frozen with respect to future service credits for active employees, however the benefit formula recognized future compensation increases. The Company agreed to establish a replacement defined benefit plan, with the assets of the Siemens scheme transferring to the new scheme on April 1, 2015.

The Company's employees in Germany also participate in a defined benefit plan. Assets equaling the plan's accumulated benefit obligation were transferred to a German defined benefit plan sponsored by the Company upon the acquisition of EWT from Siemens. The German entity also sponsors a defined benefit plan for a small group of employees located in France.

The changes in projected benefit obligations, plan assets and the funded status of the UK and German defined benefit plans as of and for the years ended September 30, 2019 and 2018, respectively, are as follows:

	2019	2018
Change in projected benefit obligation		
Projected benefit obligation at prior year measurement date	$ 35,541	$ 34,803
Service cost	898	933
Interest cost	699	466
Actuarial losses	8,056	76
Benefits paid from company assets	(139)	(294)
Plan amendment	113	—
Foreign currency exchange impact	(2,220)	(443)
Projected benefit obligation at measurement date	42,948	35,541
Change in plan assets		
Fair value of assets at prior year measurement date	24,583	25,055
Actual return on plan assets	2,269	145
Benefits paid	(48)	(271)
Employer contribution	175	211
Foreign currency exchange impact	(1,454)	(557)
Fair value of assets at measurement date	25,525	24,583
Funded status and amount recognized in assets and liabilities	$ (17,423)	$ (10,958)
Amount recognized in assets and liabilities		
Other non-current assets	$ 2,655	$ 2,558
Other non-current liabilities	$ (20,078)	$ (13,516)
Amount recognized in accumulated other comprehensive loss, before taxes		
Actuarial loss	$ 11,251	$ 5,607

The following table provides summary information for the German plan where the projected benefit obligation and accumulated benefit obligation are in excess of plan assets:

	September 30, 2019	September 30, 2018
Projected benefit obligation	$ 42,948	$ 27,181
Accumulated benefit obligation	$ 22,469	$ 24,864
Fair value of plan assets	$ 25,525	$ 13,665

The weighted average assumptions in the following table represent the rates used to develop the actuarial present value of the projected benefit obligation for the year indicated as well as net periodic pension cost for the following year. The discount rate is based on settling the obligation with high grade, high yield corporate bonds, and the rate of compensation increase is based upon actual experience. The expected return on assets is based on historical performance as well as expected future rates of return on plan assets considering the current investment portfolio mix and the long-term investment strategy.

	2019	2018
Discount rate	0.80% - 1.97%	1.90% - 2.97%
Expected long-term rate of return on plan assets	0.90% - 1.98%	0.90% - 3.12%
Salary scale	2.25% - 4.44%	2.25% - 4.58%
Pension increases	1.00% - 3.38%	1.00% - 3.46%

The Plan trustees for the UK and German pension plans have established investment policies and strategies. The UK Pension Committee established and implemented a liability driven investment approach to take advantage of, and seeking to protect, its well-funded status. The current German investment strategy is to maintain cash reserves.

Through a trust arrangement, the German plan assets are held in cash at a German bank.

The actual overall asset allocation for the UK pension plan as compared to the investment policy goals as of September 30, 2019 was as follows by asset category:

	2019 Actual	2019 Target
Equity	49.6%	23.5%
Index-linked gilts	37.6%	76.5%
Cash	12.8%	—%

Pension expense for the German and UK plans were as follows:

	Year Ended September 30,		
	2019	2018	2017
Service cost	$ 898	$ 933	$ 1,137
Interest cost	699	742	606
Expected return on plan assets	(440)	(470)	(476)
Amortization of actuarial losses	371	299	797
Pension expense for defined benefit plans	$ 1,528	$ 1,504	$ 2,064

The components of pension expense, other than the service cost component which is included in General and administrative expense, are included in the line item Other operating expense in the Consolidated Statements of Operations.

Benefits expected to be paid to participants of the plans are as follows:

Year Ended September 30,	
2020	$ 310
2021	294
2022	526
2023	507
2024	575
Five years thereafter	5,089
Total	$ 7,301

Defined Contribution Plans

The Company maintains a defined contribution 401(k) plan, which covers all U.S.-based employees who meet minimum age and length of service requirements. Plan participants can elect to defer pre-tax compensation through payroll deductions. These deferrals are regulated under Section 401(k) of the Internal Revenue Code. The Company matches 100% of eligible participants' deferrals that do not exceed 6% of their pay (subject to limitations imposed by the Internal Revenue Code). The Company's matching contributions were $14,533, $12,955 and $13,026 for the years ended September 30, 2019, 2018 and 2017, respectively.

Employees in the UK and Germany also participate in a defined contribution plan maintained by the Company. For the years ended September 30, 2019, 2018 and 2017, contributions made to the Company's plan in the UK and Germany were $796, $707 and $739, respectively.

Deferred Compensation

On April 1, 2014, the Company adopted a non-qualified deferred compensation plan for certain highly compensated employees. The Plan matches on a dollar-for-dollar basis, up to the first 6% of a participants' pay. The Company's obligation under the plan represents an unsecured promise to pay benefits in the future. In the event of bankruptcy or insolvency of the Company, assets of the plan would be available to satisfy the claims of general creditors. To increase the security of the participants' deferred compensation plan benefits, the Company has established and funded a grantor trust (known as a rabbi trust). The rabbi trust is specifically designed so that assets are available to pay plan benefits to participants in the event the Company is unwilling or unable to pay the plan benefits for any reason other than bankruptcy or insolvency. As a result, the Company is prevented from withdrawing or accessing assets for corporate needs. Plan participants choose to receive a return on their account balances equal to the return on the various investment options. The rabbi trust assets are primarily invested in mutual funds and insurance contracts of which the rabbi trust is the owner and beneficiary.

Health Benefit Plan

The Company maintains a qualified employee health benefit plan in the U.S. and is self-funded by the Company with respect to claims up to a certain amount. The plan requires contributions from eligible employees and their dependents.

16. Income Taxes

For financial reporting purposes, (loss) income before income taxes includes the following components:

	Year Ended September 30,		
	2019	2018	2017
Domestic	$ (9,140)	$ (8,613)	$ 12,833
Foreign	10,256	17,879	994
Income before income taxes	$ 1,116	$ 9,266	$ 13,827

The components of income tax (expense) benefit were as follows:

	Year Ended September 30,		
	2019	2018	2017
Current:			
Federal	$ —	$ —	$ (876)
State	(400)	(911)	—
Foreign	(7,239)	(6,703)	(5,268)
	(7,639)	(7,614)	(6,144)
Deferred:			
Federal	(3,597)	6,311	(2,350)
State	196	(209)	(421)
Foreign	1,453	130	1,498
	(1,948)	6,232	(1,273)
Total income tax expense	$ (9,587)	$ (1,382)	$ (7,417)

For the year ended September 30, 2019, the U.S. federal statutory rate was 21% and for the year ended September 30, 2018, the U.S. federal statutory rate was 24.5%, a blended rate based upon the number of days in fiscal 2018 that the company will be taxed at the former statutory rate of 35% and the number of days that it will be taxed at the new rate of 21.0%.

A reconciliation of income tax (expense) benefit and the amount computed by applying 21% for the year ended September 30, 2019, the blended statutory federal income tax rate of 24.5% for the year ended September 30, 2018 and 35% for the year ended September 30, 2017 to income from operations before income taxes was as follows:

	Year Ended September 30,		
	2019	2018	2017
Income tax (expense) benefit at the federal statutory rate of 21%	$ (234)	$ (2,270)	$ (4,839)
State and local income taxes, net of federal tax benefit	(204)	(1,053)	(34)
Foreign tax rate differential	(1,471)	(2,389)	914
Nondeductible transaction costs	—	(1,489)	—
Nondeductible interest expense	(1,073)	(853)	(1,396)
Meals and entertainment expense	(953)	(553)	(649)
U.S. tax on foreign earnings	(1,421)	—	—
Nondeductible legal expenses	(112)	—	(859)
Other nondeductible expenses	(223)	(47)	(488)
Impact of tax rate changes	(548)	3,626	—
Valuation allowances	(3,886)	(4,218)	(2,264)
Share-based compensation in excess of accounting	475	5,156	—
Nondeductible loss on sale of subsidiary	—	1,131	—
Return-to-provision adjustments	(655)	449	895
Non-controlling interest	221	428	1,486
Net benefit of foreign R&D expenses	191	336	(1,060)
Transaction related contingent liabilities	(58)	89	—
Puerto Rico taxes, net of federal benefit	—	—	(556)
Contingent liabilities - warranty	93	—	566
Contingent liabilities - long term disability	—	—	105
Foreign R&D credit	—	—	1,165
Foreign withholding taxes	369	—	—
Non-deductible exchange gain or loss	(587)	—	—
Deferred tax adjustments	2,016	—	—
Accrued tax adjustments	(1,348)	—	—
Tax benefits of other comprehensive income	(154)	—	—
Other	(25)	275	(403)
Total	$ (9,587)	$ (1,382)	$ (7,417)

Annual Tax (Expense) Benefit

For the year ended September 30, 2019, tax expense differed from tax expense based on the Company's blended U.S. federal statutory tax rate principally due to the unfavorable impact of maintain a valuation allowance against U.S., state and certain foreign deferred tax assets, providing tax expense on U.S. deferred tax liabilities associated with indefinite lived intangible assets and non-deductible interest expense at certain holding company locations.

For the year ended September 30, 2019, the Company provided tax expense of $9,587 as compared to expense of $1,382 for the fiscal year ended September 30, 2018. This increase in expense was primarily the result of the favorable impact included in the prior fiscal year related to the reduction of the U.S. federal tax rate which required the remeasurement of U.S. deferred tax liabilities associated with indefinite lived intangible assets and the favorable impact of current year acquisitions for which the acquired deferred tax liabilities generated a reduction in the amount of valuation allowance required against the Company's existing U.S. and state deferred tax assets.

For the year ended September 30, 2018, the Company provided tax expense of $1,382 as compared to expense of $7,417 in the fiscal year ended September 30, 2017. This reduction in expense was primarily the result of the favorable impact of the reduction of the U.S. federal tax rate which required the remeasurement of U.S. deferred tax liabilities associated with indefinite lived intangible assets and the favorable impact of current year acquisitions for which the acquired deferred tax liabilities generated a reduction in the amount of valuation allowance required against the Company's existing U.S. and state deferred tax assets.

Significant components of deferred tax assets and liabilities were as follows:

	September 30, 2019	September 30, 2018
Deferred Tax Assets		
Receivable allowances	$ 1,018	$ 975
Reserves and accruals	24,473	16,813
Inventory valuation and other assets	4,989	3,772
Investment in partnership	2,569	4,345
Unrealized foreign exchange gains (losses)	6,730	4,632
Other deferred taxes	897	704
Disallowed interest	7,096	—
Net operating loss carryforwards	49,786	42,392
Gross deferred tax assets	97,558	73,633
Less: Valuation allowance	(41,084)	(36,683)
Deferred tax assets less valuation allowance	56,474	36,950
Deferred Tax Liabilities		
Goodwill	(9,801)	(7,231)
Fixed assets	(38,293)	(20,372)
Intangibles	(15,720)	(15,717)
Other deferred tax liabilities	(3,418)	(2,287)
Gross deferred tax liabilities	(67,232)	(45,607)
Net deferred tax liabilities	$ (10,758)	$ (8,657)

Accounting standards require that deferred tax assets be reduced by a valuation allowance if, based on all available evidence, it is considered more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This assessment requires significant judgement, and in making this evaluation, the Company considers all available positive and negative evidence, including the potential to carryback net operating losses and credits, the future reversal of certain taxable temporary differences, actual and forecasted results, and tax planning strategies that are both prudent and feasible. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended September 30, 2019. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth.

After considering all available evidence, both positive and negative, management determined that a valuation allowance was necessary in certain jurisdictions. As of September 30, 2019, the company maintains a full valuation allowance against its net deferred tax assets (excluding deferred tax liabilities related to indefinite lived intangibles) in the U.S., Germany, and the UK. A partial valuation allowance is maintained in the Netherlands related to deferred tax assets generated prior to the Magneto acquisition that are not expected to be realized.

A reconciliation of the valuation allowance on deferred tax assets is as follows:

	Year Ended September 30,		
	2019	2018	2017
Valuation allowance beginning of period	$ 36,683	$ 48,573	$ 47,846
Change in assessment	(865)	—	—
Current year operations	3,495	(1,435)	3,398
Foreign currency and other	2,254	71	(953)
Acquisitions	(483)	(10,526)	(1,718)
Valuation allowance end of period	$ 41,084	$ 36,683	$ 48,573

Subject to the assets held for sale, the Company does not anticipate that it will dispose any of its foreign subsidiaries in the foreseeable future and as such has not recorded a U.S. deferred tax asset where the tax basis exceeds the financial reporting basis of these investments. Additionally, the Company has not provided a U.S. deferred tax liability on the excess of financial reporting over tax basis of its investments.

As of September 30, 2019, 2018 and 2017, undistributed earnings of non-U.S. affiliates were approximately $49,480, $36,879 and $5,218, respectively, which are considered to be indefinitely reinvested. Upon distribution of these earnings the Company may be subject to U.S. income taxes and foreign withholding taxes. The amount of taxes that may be payable on remittance of these earnings is dependent on the tax laws and profile of the Company at that time and the availability of foreign tax credits in the year in which such earnings are remitted. Therefore, it is not practicable to estimate the amount of taxes that may be payable when these earnings are remitted in the future.

The Company utilizes the more-likely-than-not standard in recognizing a tax benefit in its financial statements. For the year ended September 30, 2019, the Company had unrecognized tax benefits. The Company did not have unrecognized tax benefits for the years ended September 30, 2018 or 2017.

The following is a reconciliation of the Company's total gross unrecognized tax benefits:

	Year Ended September 30,		
	2019	2018	2017
Balance as of beginning of period	$ —	$ —	$ —
Tax positions related to the current year			
Additions	—	—	—
Tax positions related to prior years			
Additions	1,075	—	—
Expiration of statutes of limitations	—	—	—
Balance as of end of period	$ 1,075	$ —	$ —

At September 30, 2019, the Company has classified $1,075 as a current liability. The amount of unrecognized tax benefits is not expected to change significantly during the next 12 months. If the Company's tax positions are sustained by the taxing authorities in favor of the Company, the amount that would affect the Company's effective tax rate is approximately $1,075 at September 30, 2019. No such amounts would affect the Company's effective tax rate at September 30, 2018.

The Company classifies interest expense and, if applicable, penalties which could be assessed related to unrecognized tax benefits as component of income tax (expense) benefit. For the year ended September 30, 2019, the Company recognized approximately $(95) of gross interest and penalties, respectively, which was accrued for at September 30, 2019. No such amounts were recognized for the years ended September 30, 2018 and 2017, respectively.

Tax attributes available to reduce future taxable income begin to expire as follows:

	September 30, 2019	First year of Expiration
Federal net operating loss	$ 197,122	September 30, 2034
State net operating loss	94,082	September 30, 2019
Foreign net operating loss	2,814	September 30, 2023
Foreign net operating loss (Germany and the UK)	18,806	Indefinitely

The Company is subject to audit in the U.S. as well as various states and foreign jurisdictions. The following table summarizes the Company's earliest open tax years by major jurisdiction as of September 30, 2019:

Jurisdiction	Open Tax Years
United States	2015-2019
Australia	2015-2019
Canada	2015-2019
China	2014-2018
Germany	2015-2019
Netherlands	2014-2019
Singapore	2015-2019
United Kingdom	2017-2019

Effects of the Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (the Tax Act) introduced new provisions that were effective January 1, 2018 and changed how certain provisions are calculated beginning with the year ended September 30, 2018. These provisions included additional limitations on certain meals and entertainment expenses, and the inclusion of commissions and performance-based compensation in determining the excessive compensation limitation applicable to certain employees, a limitation on the current deductibility of net interest expense in excess of 30% of adjusted taxable income, a limitation on the use of net operating losses generated after fiscal 2018 to 80% of taxable income, an incremental tax (base erosion anti-abuse tax or BEAT) on excessive amounts paid to foreign related parties. These new provisions did not have a material impact to the Company's tax expense. The Tax Act also created a provision known as GILTI that imposes a tax on certain earnings of foreign subsidiaries. The Company has elected to account for GILTI tax in the period in which it is incurred, and therefore has not provided any deferred tax impacts of GILTI in its Consolidated Financial Statements for the year ended September 30, 2018.

Amounts recorded where accounting is complete principally related to the reduction in the U.S. corporate income tax rate to 21%, which resulted in the Company reporting an income tax benefit of $3,641 to remeasure deferred taxes liabilities associated with indefinite lived intangible assets that will reverse at the new 21% rate. Absent this deferred tax liability, the Company is in a net deferred tax asset position that is fully offset by a valuation allowance. Though the tax effected net deferred tax asset changed, the movement was offset by movement in the valuation allowance with a net tax effect of $0.

17. Share-Based Compensation

The Company designs equity compensation plans to attract and retain employees while also aligning employees' interests with the interests of the Company's shareholders. In addition, members of the Company's Board of Directors (the "Board") participate in equity compensation plans in connection with their service on the Company's Board.

The Company established the Evoqua Water Technologies Corp. Stock Option Plan (the "Stock Option Plan") shortly after the acquisition date of January 16, 2014. The plan allows certain management employees and the Board to purchase shares in Evoqua Water Technologies Corp. Under the Stock Option Plan, the number of shares available for award was 11,083. As of September 30, 2019, there were approximately 1,704 shares available for future grants, however, the Company does not currently intend to make additional grants under the Stock Option Plan.

In connection with the IPO, the Board adopted and the Company's shareholders approved the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan (the "Equity Incentive Plan"), under which equity awards may be made in the respect of 5,100 shares of common stock of the Company. Under the Equity Incentive Plan, awards may be granted in the form of options, restricted stock, restricted stock units ("RSU"), stock appreciation rights, dividend equivalent rights, share awards and performance-based awards (including performance share units and performance-based restricted stock). As of September 30, 2019, there were approximately 2,008 shares available for grants under the Equity Incentive Plan.

In addition to the establishment of the Equity Incentive Plan, in connection with the IPO, the Company entered into RSU agreements with each of the executive officers and certain other key members of management. Pursuant to the RSU agreements, recipients received, in the aggregate 1,197 stock-settled RSUs, the aggregate value of which equals $25,000. The RSUs will vest and settle in full upon the second anniversary of the IPO (the "Vesting Date"), subject to the grantee's continued employment with the Company or any of its subsidiaries through the Vesting Date; provided, however, that in the event that a Change in Control (as defined in the RSU agreements) occurs prior to the Vesting Date, the RSUs will vest and settle in full upon the date of such Change in Control, subject to the grantee's continued employment with the Company or any of its subsidiaries through the Change in Control date. In the event that the grantee's employment is terminated for any reason prior to the Vesting Date, the grantee will forfeit each of his or her RSUs for no consideration as of the date of such termination of employment; provided, that, if the grantee's employment is terminated without Cause (as defined in the RSU agreement) prior to the Vesting Date, the RSUs will vest and settle in full upon the Vesting Date as though the grantee had remained employed through such date.

Option awards are granted at various times during the year, vest ratably at 25% per year, and are exercisable at the time of vesting. The options granted have a ten-year contractual term.

A summary of the stock option activity for the years ended September 30, 2019 and 2018 is presented below:

(In thousands, except per share amounts)	**Options**	**Weighted Average Exercise Price/ Share**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at September 30, 2017	9,060	5.18	7.5 years	
Granted	1,380	20.94		
Exercised	(1,303)	4.80		
Forfeited	(164)	10.37		
Expired	—	—		
Outstanding at September 30, 2018	8,973	$ 7.57	6.9 years	$ 95,864
Granted	1,114	$ 12.74		
Exercised	(930)	$ 5.22		
Forfeited	(511)	$ 12.43		
Cancelled	(27)	20.88		
Expired	—	—		
Outstanding at September 30, 2019	8,619	$ 8.15	6.3 years	$ 80,826
Options exercisable at September 30, 2019	6,240	$ 5.70	5.4 years	$ 71,757
Options vested and expected to vest at September 30, 2019	8,560	$ 8.11	6.3 years	$ 80,606

The total intrinsic value of options exercised (which is the amount by which the stock price exceeded the exercise price of the options of the date of exercise) during the year ended September 30, 2019 was $4,941. During the year ended September 30, 2019, $363 was received from the exercise of stock options. The remaining stock options exercised during the year ended September 30, 2019 were effected through a cashless net exercise.

A summary of the status of the Company's nonvested stock options as of and for the years ended September 30, 2019, 2018 and 2017 is presented below.

(In thousands, except per share amounts)	2019 Shares	2019 Weighted Average Grant Date Fair Value/Share	2018 Shares	2018 Weighted Average Grant Date Fair Value/Share	2017 Shares	2017 Weighted Average Grant Date Fair Value/Share
Nonvested at beginning of period	3,335	$ 4.11	4,300	$ 1.36	5,931	$ 1.15
Granted	1,114	$ 3.87	1,380	$ 7.91	1,039	$ 2.12
Vested	(1,559)	$ 2.61	(2,180)	$ 1.20	(2,002)	$ 1.23
Forfeited	(511)	$ 4.38	(165)	$ 3.27	(668)	$ 1.00
Nonvested at end of period	2,379	$ 4.96	3,335	$ 4.11	4,300	$ 1.36

The total fair value of options vested during the year was $4,064, $2,623 and $2,514 for the years ended September 30, 2019, 2018 and 2017, respectively.

Restricted Stock Units

The following is a summary of the RSU activity for the years ended September 30, 2019 and 2018. On November 2, 2019, 1,158 stock-settled RSUs vested, resulting in the issuance of 739 shares of common stock to the grantees and 419 shares of common stock to treasury to satisfy withholding tax obligations.

	Shares	Weighted Average Grant Date Fair Value/Share
Outstanding at September 30, 2017	—	$ —
Granted	1,224	$ 20.88
Forfeited	(11)	$ 20.88
Outstanding at September 30, 2018	1,213	$ 20.88
Granted	883	$ 12.69
Vested	(24)	$ 20.75
Forfeited	(70)	$ 15.84
Outstanding at September 30, 2019	2,002	$ 17.45
Vested and expected to vest at September 30, 2019	1,946	$ 17.50

Expense Measurement and Recognition

The Company recognizes share-based compensation for all current award grants and, in future periods, will recognize compensation costs for the unvested portion of previous award grants based on grant date fair values. Total share-based compensation expense was $19,978 during the year ended September 30, 2019, of which $19,903 was non-cash. Share-based compensation expense was $15,742 and $2,251 during the years ended September 30, 2018 and 2017, respectively.

Reported non-cash share-based compensation expense was classified on the Consolidated Statements of Operations as shown in the following table:

	Year Ended September 30,		
	2019	2018	2017
Cost of services	$ 142	$ 80	$ 43
General and administrative	19,761	15,662	2,208
	$ 19,903	$ 15,742	$ 2,251

The unrecognized compensation expense related to stock options and RSUs was $9,117 and $8,531, respectively at September 30, 2019, and is expected to be recognized over a weighted average period of 2.5 years and 1.1 years, respectively.

The Company has little historic data with respect to estimates of expected employee behaviors related to option exercises and forfeitures. As a result, in addition to Company data, the Company has used historic data from public disclosures of comparable companies which the Company believes to be representative of its own expected employee behaviors.

The Company estimates the fair value of each stock option award on the grant date using the Black-Scholes valuation model incorporating the assumptions noted in the following table. Option valuation models require the input of highly subjective assumptions, and changes in assumptions used can materially affect the fair value estimate.

Option valuation assumptions for options granted are as follows:

	Year Ended September 30,		
	2019	2018	2017
Expected volatility	26.3% -30.0 %	23.5% - 34.3%	25.30% - 28.70%
Expected dividends	—	—	—
Expected term (in years)	5.6 - 6.0	6.0 - 6.1	6.0 - 6.1
Risk free rate	1.5% - 2.6%	2.5% - 2.8%	1.89% - 1.93%
Grant date fair value per share of options granted	$3.14 - $7.06	$5.58 - $7.96	$2.13 - $2.41

The risk-free interest rate is based on the U.S. treasury security rate in effect as of the date of grant. As the Company has little history with respect to volatility of share prices the expected volatility is not based on realized volatility. The Company, as permitted under ASC 718, has identified guideline public companies who are participants in the Company's markets. The Company obtained share price trading data from the guideline companies and based their estimate of expected volatility on the implied volatility of the guideline companies in addition to the Company's own implied volatility. As the guideline companies are comparable in most significant respects, the Company believes they represent an appropriate basis for estimating expected volatility.

Employee Stock Purchase Plan

Effective October 1, 2018, the Company implemented an employee stock purchase plan ("ESPP") which allows employees to purchase shares of the Company's stock at 85% of the lower of the fair market value on the first day of the applicable offering period or on the last business day of a six-month purchase period within the offering period. These purchases were offered twice throughout fiscal 2019, and were paid by employees through payroll deductions over the respective six month purchase period, at which point the stock was be transferred to the employees. On December 21, 2018, the Company registered 11,297 shares of common stock, par value $0.01 per share, of which 5,000 are available for future issuance under the ESPP. During the year ended September 30, 2019, the Company incurred compensation expense of $400, primarily in salaries and wages in respect of the ESPP, representing the fair value of the discounted price of the shares. These amounts are included in the total share-based compensation expense above. On April 1, 2019 and October 1, 2019, 46 shares and 58 shares, respectively, were issued under the ESPP plan.

18. Other Comprehensive Loss

The components of accumulated other comprehensive (loss) were:

	September 30, 2019	September 30, 2018
Foreign currency translation loss	$ (2,705)	$ (4,212)
Pension benefit plans, net of tax benefit of $776 and $700	(10,475)	(4,907)
Unrealized derivative gain on cash flow hedges, net of tax expense of $135 and $289	176	102
Total accumulated other comprehensive loss	$ (13,004)	$ (9,017)

The gains (losses) in accumulated other comprehensive (loss) by component, net of tax, for the years ended September 30, 2019, 2018 and 2017 are as follows:

	Foreign currency translation	Pension plans	Cash flow Hedges
Balance at September 30, 2016	$ (887)	$ (9,926)	$ 142
Other comprehensive income (loss) before reclassifications	148	4,553	(70)
Amounts (loss) reclassified from accumulated other comprehensive loss into earnings	—	—	51
Balance at September 30, 2017	$ (739)	$ (5,373)	$ 123
Other comprehensive (loss) income before reclassifications	(3,473)	167	(118)
Amounts (loss) reclassified from accumulated other comprehensive loss into earnings	—	299	97
Balance at September 30, 2018	(4,212)	(4,907)	102
Other comprehensive income (loss) before reclassifications	1,507	(5,939)	(424)
Amounts (loss) reclassified from accumulated other comprehensive loss into earnings	—	371	498
Balance at September 30, 2019	$ (2,705)	$ (10,475)	$ 176

Amounts reclassified out of other comprehensive loss related to the amortization of actuarial losses are included in pension expense. Refer to Note 12, “Derivative Financial Instruments” for the location in the Consolidated Statements of Operations of amounts reclassified out of other comprehensive loss related to cash flow hedges.

19. Concentration of Credit Risk

The Company’s cash and cash equivalents and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents are placed with financial institutions that management believes are of high credit quality. Accounts receivable are derived from revenue earned from customers located in the U.S. and internationally and generally do not require collateral. The Company’s trade receivables do not represent a significant concentration of credit risk at September 30, 2019 and 2018 due to the wide variety of customers and markets into which products are sold and their dispersion across geographic areas. The Company does perform ongoing credit evaluations of its customers and maintains an allowance for potential credit losses on trade receivables. As of and for the years ended September 30, 2019, 2018 and 2017, no customer accounted for more than 10% of net sales or net accounts receivable.

The Company operates predominantly in ten countries worldwide and provides a wide range of proven product brands and advanced water and wastewater treatment technologies, mobile and emergency water supply solutions and service contract options through its Integrated Solutions and Services and Applied Product Technologies segments. The Company is a multi-national business but its sales and operations are primarily in the U.S. Sales to unaffiliated customers are based on the Company locations that maintain the customer relationship and transacts the external sale.

The following tables set forth external net revenue, net of intercompany eliminations, and net asset information by region:

	Year Ended September 30,		
	2019	2018	2017
Sales to external customers			
United States	$ 1,147,649	$ 1,067,636	$ 1,033,404
Rest of World	296,792	271,905	214,020
Total	$ 1,444,441	$ 1,339,541	$ 1,247,424

	September 30, 2019	September 30, 2018
Net Assets		
United States	$ 324,887	$ 332,624
Rest of World	40,935	29,392
	365,822	362,016
Long Lived Assets		
United States	304,088	286,193
Rest of World	29,496	33,830
	$ 333,584	$ 320,023

20. Related-Party Transactions

Transactions with Investors

Prior to the IPO, the Company paid an advisory fee of $333 per quarter to AEA Investors LP ("AEA"), the private equity firm and ultimate majority shareholder. In addition, the Company reimburses AEA for normal and customary expenses incurred by AEA on behalf of the Company. The Company incurred expenses, excluding advisory fees, of $20, $328 and $288 for the years ended September 30, 2019, 2018 and 2017, respectively. The Company owed no amounts to AEA at September 30, 2019 and 2018, respectively.

Transactions with Customers and Employees

The Company also has a related party relationship with one of their customers, who is also a shareholder of the Company. The Company had sales to this customer of $2,476, $3,603 and $3,917, respectively, for the years ended September 30, 2019, 2018 and 2017 and was owed $518 and $3,139 from them at September 30, 2019 and 2018, respectively.

21. Commitments and Contingencies

Operating Leases

The Company occupies certain facilities and operates certain equipment and vehicles under non-cancelable lease arrangements. Lease agreements may contain lease escalation clauses and purchase and renewal options. The Company recognizes scheduled lease escalation clauses over the course of the applicable lease term on a straight-line basis in the Consolidated Statement of Operations.

Total rent expense was $20,088, $18,864 and $15,267 for the years ended September 30, 2019, 2018 and 2017, respectively.

Future minimum aggregate rental payments under non-cancelable operating leases are as follows:

Year Ended September 30,		
2020	$	15,994
2021		12,714
2022		8,554
2023		6,147
2024		4,073
Thereafter		8,765
Total	$	56,247

Capital Leases

The Company leases certain equipment under leases classified as capital leases. The leased equipment is depreciated on a straight line basis over the life of the lease and is included in depreciation expense on the Consolidated Statements of Operations.

The gross and net carrying values of the equipment under capital leases as of September 30, 2019 and 2018 was as follows:

	September 30, 2019	September 30, 2018
Gross carrying amount	$ 69,760	$ 52,314
Net carrying amount	36,337	31,116

The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of September 30, 2019.

Year Ended September 30,		
2020	$	13,663
2021		10,328
2022		7,628
2023		5,033
2024		2,987
Thereafter		1,957
Total		41,596
Less amount representing interest (at rates ranging from 1.71% to 9.71%)		5,451
Present value of net minimum capital lease payments		36,145
Less current installments of obligations under capital leases		17,859
Obligations under capital leases, excluding current installments	$	18,286

The current installments of obligations under capital leases are included in Accrued expenses and other liabilities on the Consolidated Balance Sheets. Obligations under capital leases, excluding current installments, are included in other non-current liabilities on the Consolidated Balance Sheets.

The Company is a lessor to multiple parties. The Company purchases equipment through internal funding or bank debt equal to the fair market value of the equipment. The equipment is then leased to customers for periods ranging from five to twenty years. As of September 30, 2019, future minimum lease payments receivable under operating leases are as follows:

Year Ended September 30,		
2020	$	5,986
2021		5,044
2022		5,072
2023		4,090
2024		3,967
Thereafter		55,737
Future minimum lease payments	$	79,896

Guarantees

From time to time, the Company is required to provide letters of credit, bank guarantees, or surety bonds in support of its commitments and as part of the terms and conditions on water treatment projects. In addition, the Company is required to provide letters of credit or surety bonds to the department of environmental protection or equivalent in some states in order to maintain its licenses to handle toxic substances at certain of its water treatment facilities.

These financial instruments typically expire after all Company commitments have been met, a period typically ranging from twelve months to ten years, or more in some circumstances. The letters of credit, bank guarantees, or surety bonds are arranged through major banks or insurance companies. In the case of surety bonds, the Company generally indemnifies the issuer for all costs incurred if a claim is made against the bond.

As of September 30, 2019 and 2018 the Company had Revolving Credit capacity to issue of $45,000 with letters of credit outstanding of $12,956 and $11,777, respectively, and remaining available of $32,044 and $33,223, respectively, under the Company's credit arrangements. As of September 30, 2019 and 2018 the Company had Surety capacity from surety underwriters of $220,000 and $200,000 with surety issuance of $144,717 and $123,427 and remaining available of $75,283 and $76,573. Additionally, as of September 30, 2018, the Company had letters of credit and surety bonds totaling $857 and $2,469, respectively, outstanding under the Company's prior arrangement with Siemens. No such amounts were outstanding as of September 30, 2019. The longest maturity date of letters of credit and surety bonds in effect as of September 30, 2019 was March 26, 2029.

Litigation

From time to time, as a normal incident of the nature and kind of business in which the Company is engaged, various claims or charges are asserted and litigation commenced against it arising from or related to: product liability; personal injury; trademarks, trade secrets or other intellectual property; labor and employee disputes; commercial or contractual disputes; breach of warranty; or environmental matters. Claimed amounts may be substantial but may not bear any reasonable relationship to the merits of the claim or the extent of any real risk of court or arbitral awards. While it is not feasible to predict the outcome of these matters with certainty, and some lawsuits, claims or proceedings may be disposed or decided unfavorably, the Company does not expect that any asserted or un-asserted legal claims or proceedings, individually or in the aggregate, will have a material adverse effect on the results of operations, or financial condition.

22. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following:

	September 30, 2019	September 30, 2018
Salaries, wages and other benefits	$ 35,206	$ 34,688
Obligation under capital leases	17,859	12,236
Third party commissions	11,394	5,097
Taxes, other than income	5,215	11,561
Insurance liabilities	4,895	5,005
Provisions for litigation	1,533	1,137
Severance payments	655	710
Earn-outs related to acquisitions	611	770
Other	24,471	26,468
	$ 101,839	$ 97,672

23. Business Segments

The Company's reportable operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance. The key factors used to identify these reportable operating segments are the organization and alignment of the Company's internal operations, the nature of the products and services, and customer type.

During the first quarter of 2019, the Company implemented changes to its organizational and management structure that resulted in changes to our reportable operating segments for financial reporting purposes. Through the fiscal year ended September 30, 2018, the Company had three reportable operating segments: Industrial, Municipal and Products. Changes in the management reporting structure during the first quarter of 2019 required an assessment to be conducted in accordance with ASC Topic 280, Segment Reporting, to determine the Company's reportable operating segments.

As a result of this assessment, the Company now has two reportable operating segments, Integrated Solutions and Services and Applied Product Technologies. Prior period information has been revised to reflect this new segment structure. The business segments are described as follows:

Integrated Solutions and Services is a group entirely focused on engaging directly with end users through direct sales with a market vertical focus. Integrated Solutions and Services provides tailored services and solutions in collaboration with the customers backed by life-cycle services including on-demand water, outsourced water, recycle / reuse and emergency response service alternatives to improve operational reliability, performance and environmental compliance. Key offerings within this segment also include equipment systems for industrial needs (influent water, boiler feed water, ultrahigh purity, process water, wastewater treatment and recycle / reuse), full-scale outsourcing of operations and maintenance, and municipal services, including odor and corrosion control services.

Applied Product Technologies is focused on developing product platforms to be sold primarily through third party channels. This segment primarily engages in indirect sales through independent sales representatives, distributors and aftermarket channels. Applied Product Technologies provides a range of highly differentiated and scalable products and technologies specified by global water treatment designers, OEMs, engineering firms and integrators. Key offerings within this segment include filtration and separation, disinfection, wastewater solutions, anode and electrochlorination technology and aquatics technologies and solutions for the global recreational and commercial pool market.

The Company evaluates its business segments' operating results based on revenue, earnings before interest, taxes, depreciation and amortization, and certain other charges that are specific to the activities of the respective segments. Corporate activities include general corporate expenses, elimination of intersegment transactions, interest income and expense and certain other charges. Certain other charges include restructuring and other business transformation charges that have been undertaken to align and reposition the Company to the current reporting structure, acquisition related costs (including transaction costs, certain integration costs and recognition of backlog intangible assets recorded in purchase accounting) and share-based compensation charges.

Since certain administrative costs and other operating expenses have not been allocated to business segments, the results in the below table are not necessarily a measure computed in accordance with generally accepted accounting principles and may not be comparable to other companies.

The tables below provide segment information for the periods presented and a reconciliation to total consolidated information:

	Year Ended September 30,		
	2019	2018	2017
Total sales			
Integrated Solutions and Services	$ 919,985	$ 844,851	$ 753,858
Applied Product Technologies	631,332	579,291	567,820
Total sales	1,551,317	1,424,142	1,321,678
Intersegment sales			
Integrated Solutions and Services	9,151	9,217	8,524
Applied Product Technologies	97,725	75,384	65,730
Total intersegment sales	106,876	84,601	74,254
Sales to external customers			
Integrated Solutions and Services	910,834	835,634	745,334
Applied Product Technologies	533,607	503,907	502,090
Total sales	1,444,441	1,339,541	1,247,424
Earnings before interest, taxes, depreciation and amortization (EBITDA)			
Integrated Solutions and Services	205,810	186,824	168,182
Applied Product Technologies	87,052	88,682	100,634
Corporate	(134,954)	(122,800)	(121,726)
Total EBITDA	157,908	152,706	147,090
Depreciation and amortization			
Integrated Solutions and Services	57,217	48,781	43,583
Applied Product Technologies	17,675	16,734	16,007
Corporate	23,344	20,345	18,296
Total depreciation and amortization	98,236	85,860	77,886
Income (loss) from operations			
Integrated Solutions and Services	148,593	138,043	124,599
Applied Product Technologies	69,377	71,948	84,627
Corporate	(158,298)	(143,145)	(140,022)
Total income from operations	59,672	66,846	69,204
Interest expense	(58,556)	(57,580)	(55,377)
Income before income taxes	1,116	9,266	13,827
Income tax expense	(9,587)	(1,382)	(7,417)
Net (loss) income	$ (8,471)	$ 7,884	$ 6,410
Capital expenditures			
Integrated Solutions and Services	73,656	$ 58,464	$ 45,611
Applied Product Technologies	7,589	11,501	5,282
Corporate	7,624	10,748	6,882
Total Capital expenditures	$ 88,869	$ 80,713	$ 57,775

	September 30, 2019	September 30, 2018
Assets		
Integrated Solutions and Services	$ 762,707	$ 711,622
Applied Product Technologies	657,879	677,993
Corporate	317,262	274,002
Total assets	1,737,848	1,663,617
Goodwill		
Integrated Solutions and Services	222,013	224,370
Applied Product Technologies	170,877	186,976
Total goodwill	$ 392,890	$ 411,346

24. Earnings Per Share

The following table sets forth the computation of basic and diluted income from continuing operations per common share:

(In thousands, except per share data)	Year Ended September 30, 2019	2018	2017
Numerator:			
Net (loss) income attributable to Evoqua Water Technologies Corp.	$ (9,523)	$ 6,135	$ 2,163
Denominator:			
Denominator for basic net income per common share—weighted average shares	114,703	113,944	104,964
Effect of dilutive securities:			
Share-based compensation	—	6,221	4,724
Denominator for diluted net loss per common share—adjusted weighted average shares	114,703	120,165	109,688
Basic (loss) income per common share	$ (0.08)	$ 0.05	$ 0.02
Diluted (loss) income per common share	$ (0.08)	$ 0.05	$ 0.02

Since the Company was in a net loss position for the year ended September 30, 2019, there was no difference between the number of shares used to calculate basic and diluted loss per share. Because of their anti-dilutive effect, 3,356 common share equivalents, comprised of employee stock options, have been excluded from the diluted EPS calculation for the year ended September 30, 2019.

25. Quarterly Financial Data

(Unaudited, in thousands, except per share data)

Three months ended	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019
Revenue from product sales and services	$ 323,002	$ 348,628	$ 360,343	$ 412,468
Gross profit	88,730	95,611	111,294	130,327
Interest expense	(14,443)	(14,474)	(14,842)	(14,797)
Income tax benefit (expense)	4,514	4,579	(7,959)	(10,721)
Net (loss) income	(16,288)	1,573	4,290	1,954
Net (loss) income attributable to Evoqua Water Technologies, Corp	(16,730)	1,384	4,135	1,688
Basis (loss) earnings per common share	$ (0.15)	$ 0.01	$ 0.04	$ 0.01
Diluted (loss) earnings per common share	$ (0.15)	$ 0.01	$ 0.03	$ 0.01

Three months ended	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018
Revenue from product sales and services	$ 297,051	$ 333,690	$ 342,475	$ 366,326
Gross profit	88,379	107,997	102,007	106,350
Interest expense	(17,243)	(10,810)	(12,370)	(17,157)
Income tax benefit (expense)	4,410	(2,018)	(1,433)	(2,342)
Net (loss) income	(3,005)	12,980	1,035	(3,128)
Net (loss) income attributable to Evoqua Water Technologies, Corp	(3,713)	12,503	793	(3,450)
Basis (loss) earnings per common share	$ (0.03)	$ 0.11	$ 0.01	$ (0.03)
Diluted (loss) earnings per common share	$ (0.03)	$ 0.10	$ 0.01	$ (0.03)

26. Subsequent Events

On October 1, 2019, the Company acquired a 60% investment position in San Diego-based Frontier Water Systems, LLC (“Frontier”). Frontier is a pioneer in the development of patented, engineered equipment packages for high-rate treatment and removal of selenium, nitrate and other metals from complex water systems. Frontier will be part of the Integrated Solutions and Services segment

On October 3, 2019, the Company entered into a Purchase and Sale Agreement (the “Agreement”) with DuPont de Nemours, Inc. (“DuPont”), pursuant to which the Company will divest their Memcor® low pressure membrane product line (including the product line’s global workforce, its manufacturing site in Windsor, Australia, associated operations and intellectual property) (“Memcor”) to DuPont (the “Transaction”). In connection with the Transaction, DuPont will purchase 100% of the corporate capital of the Australian Subsidiaries and all of the assets related to the Memcor® low pressure membrane product line. The aggregate purchase price to be paid by DuPont in the Transaction is $110 million in cash, subject to certain post-closing purchase price adjustments as described in the Agreement. The Agreement contains representations, warranties and covenants customary for dispositions of this type. The Company currently expects the Transaction to close in the first quarter of fiscal 2020, subject to customary closing conditions. The Company and DuPont have a history of collaboration, and following the Transaction, Dupont will continue to supply the Company with Memcor® products. As of a result of this transaction, all of the assets and liabilities associated with the Memcor product line were moved to Held for Sale on the Consolidated Balance Sheets and Consolidated Statements of Changes in Cash Flows. Memcor is part of the Applied Product Technologies segment.

On November 2, 2019, 1,158 stock-settled RSUs vested, resulting in the issuance of 739 shares of common stock to the grantees and 419 shares of common stock to treasury to satisfy withholding tax obligations.

Evoqua Water Technologies Corp.
Supplementary Financial Information

SCHEDULE I-Evoqua Water Technologies Corp.

(Parent company only)

Condensed Consolidated Balance Sheets

(In thousands)

	September 30, 2019	September 30, 2018
ASSETS		
Current assets	$ 335	$ 129
Cash and cash equivalents	121	76
Prepaid and other current assets	214	53
Investment in affiliate	385,175	376,555
Total assets	**$ 385,510**	**$ 376,684**
LIABILITIES AND EQUITY		
Due to affiliates	9,747	8,812
Total liabilities	**9,747**	**8,812**
Common stock, par value $0.01: authorized 1,000,000 shares; issued 116,008 shares, outstanding 114,344 at September 30, 2019; issued 115,016, outstanding 113,929 shares at September 30, 2018	1,154	1,145
Treasury stock: 1,664 shares at September 30, 2019 and 1,087 shares at September 30, 2018	(2,837)	(2,837)
Additional paid-in capital	552,422	533,435
Retained deficit	(174,976)	(163,871)
Total shareholders' equity	**375,763**	**367,872**
Total liabilities and shareholder's equity	**$ 385,510**	**$ 376,684**

SCHEDULE I-Evoqua Water Technologies Corp.

(Parent company only)

Condensed Statements of Operations

(In thousands)

	Year Ended September 30,		
	2019	2018	2017
Other operating income	$ 73	$ 78	$ 29
General and administrative expense	(303)	(2,142)	—
Net (loss) income of subsidiaries	(9,293)	8,199	2,134
(Loss) income before taxes	(9,523)	6,135	2,163
Benefit for income taxes	—	—	—
Net (loss) income	$ (9,523)	$ 6,135	$ 2,163

SCHEDULE 1-Evoqua Water Technologies Corp.

Condensed Statements of Changes in Cash Flows

(Parent company only)

(In thousands)

	Year Ended September 30,		
	2019	2018	2017
Operating activities			
Net income	$ (9,523)	$ 6,135	$ 2,163
Adjustments to reconcile net income to net cash used in operating activities			
Net income of subsidiaries	9,293	(8,199)	(2,134)
Changes in assets and liabilities			
Due to affiliates	1,343	8,812	—
Accrued expenses	—	(61)	61
Prepaids and other current assets	(161)	—	256
New cash provided by operating activities	952	6,687	346
Investing activities			
Contributed capital	—	(140,999)	—
Net cash used in investing activities	—	(140,999)	—
Financing activities			
Proceeds from issuance of common stock	363	137,605	5,521
Stock repurchases	—	(230)	(1,474)
Taxes paid related to net share settlements of share-based compensation awards	(1,270)	(8,807)	—
Net cash provided by financing activities	(907)	128,568	4,047
Change in cash and cash equivalents	45	(5,744)	4,393
Cash and cash equivalents			
Beginning of period	76	5,820	1,427
End of period	$ 121	$ 76	$ 5,820

SCHEDULE I-Evoqua Water Technologies Corp.

(Parent company only)

Notes to Financial Statements

(In thousands)

1. Basis of Presentation

Basis of Presentation

In the parent-company-only financial statements, the Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries. The Company's share of net income (loss) of its consolidated subsidiaries is included in consolidated income (loss) using the equity method. The parent-company-only financial statements should be read in conjunction with the Company's consolidated financial statements.

2. Guarantees and Restrictions

As of September 30, 2019, EWT Holdings III, Corp., a subsidiary of the Company, had $928,753 collectively of debt outstanding under the First Lien Term Loan. Under the terms of the credit agreements governing the Company's senior secured credit facilities, EWT Holdings II, Corp. has guaranteed the payment of all principal and interest. In the event of a default under our senior secured credit facilities, certain of the Company's subsidiaries will be directly liable to the debt holders. As of September 30, 2019, the Term Loan Facility had a maturity date of December 20, 2024. The credit agreements governing the Company's senior secured credit facilities also include restrictions on the ability of the Company and its subsidiaries to (i) incur additional indebtedness and liens in connection therewith; (ii) pay dividends and make certain other restricted payments; (iii) effect mergers or consolidations; (iv) enter into transactions with affiliates; (v) sell or dispose of property or assets; and (vi) engage in unrelated lines of business.

3. Dividends from Subsidiaries

There were no cash dividends paid to Evoqua Water Technologies Corp. from the Company's consolidated subsidiaries of each of the periods ended September 30, 2019, 2018 and 2017.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with Securities Exchange Act Rules 13a-15(e) and 15d-15(e), our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2019.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

During the year ended September 30, 2019, the Company completed one acquisition, ATG UV on May 25, 2019. This acquisition represented less than 1% of the Company's consolidated total revenues and consolidated total assets as of September 30, 2019. Management did not include ATG UV when conducting its assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2019.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO) in Internal Control-Integrated Framework. Management has concluded that the Company's internal control over financial reporting was effective as of September 30, 2019.

Management has concluded that our consolidated financial statements included in this Form 10-K fairly represent, in all material respects, the financial position, results of operations and cash flows as of, and for, the periods presented in this Form 10-K, in conformity with U.S. generally accepted accounting principles. Ernst & Young LLP has issued an attestation report on the effectiveness of our internal control over financial reporting and an unqualified opinion on our financial statements, which is included in Item 8 of this Form 10-K.

Remediation of Previously Identified Material Weakness

Management has concluded that the material weakness in internal control over revenue recognition and recording process described in Part II, Item 9A, Controls and Procedures, in our Annual Report on Form 10-K for the year ended September 30, 2018 has been remediated as of September 30, 2019.

Changes in Internal Control Over Financial Reporting

Except for the changes in connection with the implementation of the remediation discussed above, there were no other changes in our internal control over financial reporting that occurred during the year ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Amendment to the Second Amended and Restated Registration Rights Agreement

On November 22, 2019, the Company entered into Amendment No. 1 (the "Amendment"), among the Company, the AEA Investors (as defined therein) and the Amending Investors (as defined therein), relating to the Second Amended and Restated Registration Rights Agreement, dated October 16, 2017, by and among the Company, AEA Investors and the Minority Investors (as defined therein) to, among other things, increase the Restricted Period (as defined therein) applicable to the AEA Inventors and the Amending Investors to a period of three (3) years following the Company's IPO. For a description of our relationship with AEA Investors, please see Certain Relationships and Related Party Transactions in the Company's Annual Proxy Statement, which will be filed with the SEC within 120 days after September 30, 2019, and is incorporated herein by reference herein.

The foregoing description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the Amendment, a copy of which is attached hereto as Exhibit 10.10, and the terms of which are incorporated herein by reference.

Compensatory Arrangements of Certain Officers.

On November 25, 2019, the Company and Evoqua Water Technologies LLC, a wholly-owned subsidiary of the Company, entered into an Amended and Restated Employment Agreement with each of Ronald Keating, pursuant to which Mr. Keating will continue to serve as Chief Executive Officer (the "Restated Keating Employment Agreement"), and Benedict J. Stas, pursuant to which Mr. Stas will continue to serve as Chief Financial Officer (the "Restated Stas Employment Agreement"). The terms of the Restated Keating Employment Agreement and the Restated Stas Employment Agreement, which incorporate updates to each executive's base salary and modifications to the executive's severance benefits, are more fully described below.

Restated Keating Employment Agreement

The Restated Keating Employment Agreement provides that Mr. Keating will receive a base salary of $827,367 per year, subject to increase at the discretion of the board of directors of the Company (or a committee thereof) (the "Board"), and shall be eligible to receive a target annual bonus equal to 100% of his base salary, with the actual bonus amount, if any, to be based on the Company's actual performance relative to the performance targets established by the Board. The annual bonus may, in the discretion of the Board, be paid in cash or in equity, which equity may be conditioned on satisfaction of certain additional vesting requirements if a bonus premium of no less than 20% of the earned annual bonus amount is provided upon vesting. In addition, Mr. Keating is entitled to reimbursement for reasonable out-of-pocket business expenses incurred in performing his duties in accordance with the expense reimbursement policy of the Company in effect from time to time and is eligible to participate in all benefit programs for which other senior executives of the Company are generally eligible. The Restated Keating Employment Agreement also provides, with respect to all outstanding stock options held by

Mr. Keating, that in the event of Mr. Keating's termination of employment, any applicable post-termination exercise period shall be the longer of (i) 90 days following the date of his termination, and (ii) the period specified in the applicable option award agreement.

Under the terms of the Restated Keating Employment Agreement, if Mr. Keating's employment is terminated other than for Cause, death or Disability, or he resigns for Good Reason, at any time other than within two years following a Change in Control (each such capitalized term, as defined in the Restated Keating Employment Agreement), subject to Mr. Keating's ongoing compliance with applicable restrictive covenants and his execution, without revocation, of a general release of claims, Mr. Keating will be entitled to following: (i) base salary continuation for two years following his termination date, (ii) a pro-rata portion of his actual bonus for the year in which the termination occurs, (iii) medical and dental continuation for a maximum of 12 months (the "Medical and Dental Continuation"), and (iv) reimbursement for outplacement assistance for six months up to a maximum of $15,000 (the "Outplacement Services").

If such termination of employment other than for Cause, death or Disability, or resignation for Good Reason, in either case, occurs within two years following a Change in Control, subject to Mr. Keating's ongoing compliance with applicable restrictive covenants and his execution, without revocation, of a general release of claims, Mr. Keating will be entitled to following: (i) an amount equal to the sum of (x) 2.5 times his base salary at the rate in effect immediately prior to his termination date, plus (y) 2.5 times his target annual bonus opportunity, plus (z) a pro-rata portion of his target annual bonus opportunity for the year of termination, with such amount payable in a lump sum on the first payroll date following the date upon which Mr. Keating's release of claims becomes effective, (ii) the Medical and Dental Continuation, (iii) the Outplacement Services, and (iv) full vesting of all of his then-outstanding unvested equity awards in the Company.

The Restated Keating Employment Agreement also includes restrictive covenants providing for non-competition, non-solicitation of employees and non-interference with business relationships, in each case, during employment and for two years thereafter, mutual non-disparagement, and perpetual non-disclosure of confidential information.

The Restated Keating Employment Agreement, the terms of which are incorporated herein by reference, is attached hereto as Exhibit 10.14. The Restated Keating Employment Agreement supersedes Mr. Keating's prior employment agreement, dated as of September 8, 2013, as amended on each of September 6, 2017 and June 22, 2018.

Restated Stas Employment Agreement

The Restated Stas Employment Agreement provides that Mr. Stas will receive a base salary of $410,000, subject to increase at the discretion of the Board, and shall be eligible to receive a target annual bonus equal to 70% of his base salary, with the actual bonus amount, if any, to be based on the Company's actual performance relative to the performance targets established by senior management of the Company. The annual bonus may, in the discretion of the Board, be paid in cash or in equity, which equity may be conditioned on satisfaction of certain additional vesting requirements if a bonus premium of no less than 20% of the earned annual bonus amount is provided upon vesting. In addition, Mr. Stas is entitled to reimbursement for reasonable out-of-pocket business expenses incurred in performing his duties in accordance with the expense reimbursement policy of the Company in effect from time to time and is eligible to participate in all benefit programs for which other executives of the Company are generally eligible. The Restated Stas Employment Agreement also provides, with respect to all outstanding stock options held by Mr. Stas, that in the event of Mr. Stas' termination of employment, any applicable post-termination exercise period shall be for the longer of (i) 90 days following the date of his termination, and (ii) the period specified in the applicable option award agreement.

Under the terms of the Restated Stas Employment Agreement, if Mr. Stas' employment is terminated other than for Cause, death or Disability, or he resigns for Good Reason, at any time other than within two years following a Change in Control (each such capitalized term, as defined in the Restated Stas Employment Agreement), subject to Mr. Stas' ongoing compliance with applicable restrictive covenants and his execution, without revocation, of a general release of claims, Mr. Stas will be entitled to following: (i) base salary continuation one year following his termination date, (ii) a pro-rata portion of his actual bonus for the year in which the termination occurs, (iii) the Medical and Dental Continuation, and (iv) the Outplacement Services.

If such termination of employment other than for Cause, death or Disability, or resignation for Good Reason, in either case, occurs within two years following a Change in Control, subject to Mr. Stas' ongoing compliance with applicable restrictive covenants and his execution, without revocation, of a general release of claims, Mr. Stas will be entitled to following: (i) an amount equal to the sum of (x) two times his base salary at the rate in effect immediately prior to his termination date, plus (y) two times his target annual bonus opportunity, plus (z) a pro-rata portion of his target annual bonus opportunity for the year of termination, with such amount payable in a lump sum on the first payroll date following the date upon which Mr. Stas' release of claims becomes effective, (ii) the Medical and Dental Continuation, (iii) the Outplacement Services, and (iv) full vesting of all of his then-outstanding unvested equity awards in the Company.

The Restated Stas Employment Agreement also includes restrictive covenants providing for non-competition, non-solicitation of employees and non-interference with business relationships, in each case during employment and for one year thereafter, non-disparagement, and perpetual non-disclosure of confidential information.

The Restated Stas Employment Agreement, the terms of which are incorporated herein by reference, is attached hereto as Exhibit 10.17. The Restated Stas Employment Agreement supersedes Mr. Stas' prior employment agreement, dated as of February 26, 2015, as amended on each of September 6, 2017 and June 22, 2018.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is set forth under the headings “Proposal 1 - Election of Class I Directors,” “Our Board of Directors,” “Corporate Governance and Board Matters,” “Executive Officers” and “Security Ownership of Certain Beneficial Owners and Management” in the Company’s Proxy Statement, which will be filed with the SEC within 120 days after September 30, 2019, and is incorporated herein by reference.

Evoqua has adopted a code of ethics applicable to all of our directors, officers (including our principal executive officer, principal financial officer and principal accounting officer) and employees, known as the Code of Ethics and Business Conduct. The Code of Ethics and Business Conduct is available on our website at aqua.evoqua.com/corporate-governance. In the event that we amend or waive certain provisions of the Code of Ethics and Business Conduct applicable to our principal executive officer, principal financial officer or principal accounting officer that requires disclosure under applicable SEC rules, we will disclose the same on our website.

Item 11. Executive Compensation

The information required by this Item is set forth under the headings “Director Compensation” and “Executive Compensation” in the Company’s Proxy Statement, which will be filed with the SEC within 120 days after September 30, 2019, and is incorporated herein by reference.

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

The information required by this Item is set forth under the headings “Executive Compensation,” “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance under Equity Compensation Plans” in the Company’s Proxy Statement, which will be filed with the SEC within 120 days after September 30, 2019, and is incorporated herein by reference.

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

The information required by this Item is set forth under the headings “Board of Directors and Director Independence” and “Certain Relationships and Related Party Transactions” in the Company’s Proxy Statement, which will be filed with the SEC within 120 days after September 30, 2019, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item is set forth under the headings “Proposal 5 - Ratification of the Selection of Ernst & Young LLP as our Independent Registered Public Accounting Firm,” “Independent Registered Public Accounting Firm’s Fees and Services” and “Policy on Audit Committee Pre-Approval of Audit and Non-Audit Related Services of Independent Auditors” in the Company’s Proxy Statement, which will be filed with the SEC within 120 days after September 30, 2019, and is incorporated herein by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) 1. Financial Statements:

The following items are included in Part II, Item 8:

2. Schedules. An index of exhibits and schedules is included below. Schedules other than those listed below have been omitted from this Annual Report on Form 10-K because they are not required, are not applicable or the required information is included in the financial statements or the notes thereto in Part II, Item 8.

3. Exhibits:

The following exhibits are filed or furnished as a part of this report:

Exhibit No.	Exhibit Description
2.1	Quota Sale and Purchase Agreement between Giotto Water S.r.l. and WTG Holdings Cooperatief U.A., dated April 3, 2018 (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on April 6, 2018 (File No. 001-38272)).
2.2	Stock Purchase Agreement, by and among EWT Holdings III Corp., ProAct Services Corporation, the equity holders of ProAct Services Corporation, and Hammond, Kennedy, Whitney & Company, Inc. (solely in its capacity as the Sellers' Representative under the Purchase Agreement), dated as of June 19, 2018 (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on August 1, 2018 (File No. 001-38272)).
2.3	Purchase and Sale Agreement by and among Evoqua Water Technologies LLC, WTG Holdings Cooperatief U.A., Evoqua Water Technologies Limited, Evoqua Water Technologies Pte. Ltd., Evoqua Water Technologies Ltd., Evoqua Water Technologies (Shanghai) Co. Ltd., WTG Holdco Australia (Memcor) Pty. Ltd., Evoqua Water Technologies Membrane Systems Pty. Ltd. and DuPont de Nemours, Inc., dated October 1, 2019 (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on October 3, 2019 (File No. 001-38272)).
3.1	Amended and Restated Certificate of Incorporation of Evoqua Water Technologies Corp. (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).

3.2		Third Amended and Restated Bylaws of Evoqua Water Technologies Corp. (incorporated by reference to Exhibit 3.2 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
4.1		Specimen Common Stock Certificate of Evoqua Water Technologies Corp. (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
4.2	*	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
10.1		First Lien Credit Agreement, among EWT Holdings III Corp., as the borrower, EWT Holdings II Corp., as the parent guarantor, the financial institutions party thereto as lenders, Credit Suisse AG, as administrative agent and Credit Suisse AG, as collateral agent, dated January 15, 2014 (incorporated by reference to Exhibit 10.1 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 filed on October 11, 2017 (File No. 333-220785)).
10.2		Incremental Term Facility Amendment No. 1, among EWT Holdings III Corp., as the borrower, EWT Holdings II Corp., as the parent guarantor, EWT Holdings II Corp.'s indirect wholly-owned subsidiaries party thereto as guarantors, the financial institutions party thereto as lenders, Credit Suisse AG, as administrative agent and Credit Suisse AG, as collateral agent, dated April 15, 2016 (incorporated by reference to Exhibit 10.2 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 filed on October 11, 2017 (File No. 333-220785)).
10.3		Amendment No. 2, among EWT Holdings III Corp., as the borrower, EWT Holdings II Corp., as the parent guarantor, EWT Holdings II Corp.'s indirect wholly-owned subsidiaries party thereto as guarantors, the financial institutions party thereto as lenders, Credit Suisse AG, as administrative agent and Credit Suisse AG, as collateral agent, dated October 28, 2016 (incorporated by reference to Exhibit 10.3 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 filed on October 11, 2017 (File No. 333-220785)).
10.4		Amendment No. 3, among EWT Holdings III Corp., as the borrower, EWT Holdings II Corp., as the parent guarantor, EWT Holdings II Corp.'s indirect wholly-owned subsidiaries party thereto as guarantors, the financial institutions party thereto as lenders, Credit Suisse AG, as administrative agent and Credit Suisse AG, as collateral agent, dated March 6, 2017 (incorporated by reference to Exhibit 10.4 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 filed on October 11, 2017 (File No. 333-220785)).
10.5		Amendment No. 4, among EWT Holdings III Corp., as the borrower, EWT Holdings II Corp., as the parent guarantor, EWT Holdings II Corp.'s indirect wholly-owned subsidiaries party thereto as guarantors, the financial institutions party thereto as lenders, Credit Suisse AG, as administrative agent and Credit Suisse AG, as collateral agent, dated August 8, 2017 (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 filed on October 11, 2017 (File No. 333-220785)).
10.6		Amendment No. 5, among EWT Holdings III Corp., as borrower, EWT Holdings II Corp., as parent guarantor, the subsidiary guarantors party thereto, the financial institutions party thereto, as lenders, and Credit Suisse AG, as administrative agent and collateral agent, dated December 20, 2017 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on December 20, 2017 (File No. 001-38272)).
10.7		Amendment No. 6, among EWT Holdings III Corp., as borrower, EWT Holdings II Corp., as parent guarantor, the subsidiary guarantors party thereto, the financial institutions party thereto, as lenders, and Credit Suisse AG, as administrative agent and collateral agent, dated July 26, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 1, 2018 (File No. 001-38272)).
10.8		Second Amended and Restated Stockholders' Agreement, among EWT Holdings I Corp., AEA Investors Fund V LP, AEA Investors Fund V-A LP, AEA Investors Fund V-B LP, AEA Investors Participant Fund V LP, AEA Investors QP Participant Fund V LP and the additional investors party thereto, dated December 11, 2014 (incorporated by reference to Exhibit 10.6 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.9		Second Amended and Restated Registration Rights Agreement, among Evoqua Water Technologies Corp., AEA Investors Fund V LP, AEA Investors Fund V-A LP, AEA Investors Fund V-B LP, AEA Investors Participant Fund V LP, AEA Investors QP Participant Fund V LP and the additional investors party thereto, dated October 16, 2017 (incorporated by reference to Exhibit 10.7 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.10	*	Amendment No. 1 to the Second Amended and Restated Registration Rights Agreement, among Evoqua Water Technologies Corp., AEA Investors Fund V LP, AEA Investors Fund V-A LP, AEA Investors Fund V-B LP, AEA Investors Participant Fund V LP, AEA Investors QP Participant Fund V LP and the additional investors party thereto, dated November 22, 2019.
10.11		Management Agreement, among WTG Holdings I Corp., WTG Holdings III Corp. and AEA Investors LP, dated January 7, 2014 (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 filed on October 11, 2017 (File No. 333-220785)).
10.12	†	Employment Agreement, by and between Ronald Keating and the Company, dated September 8, 2014 (incorporated by reference to Exhibit 10.9 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.13	†	Amendment, dated September 6, 2017, to Employment Agreement, by and between Ronald Keating and the Company, dated September 8, 2014 (incorporated by reference to Exhibit 10.10 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).

10.14	†*	Amended & Restated Employment Agreement, by and between Ronald Keating and the Company, dated November 25, 2019.
10.15	†	Employment Agreement, by and between Benedict J. Stas and the Company, dated February 26, 2015 (incorporated by reference to Exhibit 10.11 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.16	†	Amended and Restated Amendment, dated October 13, 2017, to Employment Agreement, by and between Benedict J. Stas and the Company, dated February 26, 2015 (incorporated by reference to Exhibit 10.12 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.17	†*	Amended & Restated Employment Agreement, by and between Benedict J. Stas and the Company, dated November 25, 2019.
10.18	†	Employment Agreement, by and between Rodney Aulick and the Company, dated April 14, 2014 (incorporated by reference to Exhibit 10.15 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.19	†	Amendment, dated September 6, 2017, to Employment Agreement, by and between Rodney Aulick and the Company, dated April 14, 2014 (incorporated by reference to Exhibit 10.16 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.20	†	EWT Holdings I Corp. Stock Option Plan (incorporated by reference to Exhibit 10.17 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.21	†	Employment Agreement, by and between Anthony Webster and the Company, dated January 20, 2016 (incorporated by reference to Exhibit 10.22 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.22	†	Amended and Restated Amendment, dated October 13, 2017, to Employment Agreement, by and between Anthony Webster and the Company, dated January 20, 2016 (incorporated by reference to Exhibit 10.23 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.23	†	Bonus Agreement, by and between Anthony Webster and the Company, dated March 1, 2016 (incorporated by reference to Exhibit 10.24 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.24	†	Employment Agreement, by and between Vincent Grieco and the Company, dated September 6, 2017 (incorporated by reference to Exhibit 10.27 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.25	†	Employment Agreement, by and between James M. Kohosek and the Company, dated September 6, 2017 (incorporated by reference to Exhibit 10.28 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.26	†	Form of Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.29 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.27	†	Form of 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.30 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.28	†	Form of 2017 Annual Incentive Plan (incorporated by reference to Exhibit 10.31 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.29	†	Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.32 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.30	†	Employment Agreement, by and between Snehal Desai and the Company, dated January 15, 2018 (incorporated by reference to Exhibit 10.33 to the Registrant’s Registration Statement on Form S-1 filed on March 12, 2018 (File No. 333-223583)).
10.31	†*	Employment Agreement, by and between Hervé Fages and the Company, dated January 31, 2019.
10.32		Form of Indemnification Agreement (incorporated by reference to Exhibit 10.33 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)).
10.33	†	Form of Nonqualified Stock Option Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant’s Form 8-K filed on April 4, 2018 (File No. 001-38272)).
10.34	†	Form of Restricted Stock Unit Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan (Employee Form) (incorporated by reference to Exhibit 10.2 to the Registrant’s Form 8-K filed on April 4, 2018 (File No. 001-38272)).
10.35	†	Form of Amendment to Employment Agreement (incorporated by reference to Exhibit 10.1 to the Registrant’s Form 8-K filed on June 22, 2018 (File No. 001-38272)).

10.36	†	Evoqua Water Technologies Corp. Non-Employee Directors Deferred Compensation Policy (effective February 26, 2018) (incorporated by reference to Exhibit 10.40 to the Registrant's Form 10-K filed on December 11, 2018 (File No. 001-38272)).
10.37	†	Evoqua Water Technologies Corp. Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 filed on December 21, 2018 (File No. 333-228988)).
10.38	†	Form of Nonqualified Stock Option Award Agreement under Evoqua Water Technologies Corp. 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed on May 10, 2019 (File No. 001-38272)).
10.39	†	Form of Restricted Stock Unit Award Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q filed on May 10, 2019 (File No. 001-38272)).
10.40	†	Form of Restricted Stock Unit Award Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan (RSUs Received in Connection with AIP Payment) (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed on August 6, 2019 (File No. 001-38272)).
21.1	*	List of subsidiaries of Evoqua Water Technologies Corp.
23.1	*	Consent of Ernst & Young.
31.1	*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1	*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	*	XBRL Instance Document.
101.SCH	*	XBRL Taxonomy Extension Schema Document.
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document.

† Indicates a management contract or compensatory plan or arrangement.

* Filed herewith.

SIGNATURES

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

EVOQUA WATER TECHNOLOGIES CORP.

November 25, 2019	/s/ RONALD C. KEATING
	By: Ronald C. Keating Chief Executive Officer (Principal Executive Officer)

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

Signature	Title	Date
/s/ Ronald C. Keating Ronald C. Keating	Chief Executive Officer (Principal Executive Officer)	November 25, 2019
/s/ Benedict J. Stas Benedict J. Stas	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	November 25, 2019
/s/ Martin Lamb Martin Lamb	Chairman of the Board and Director	November 25, 2019
/s/ Nick Bhambri Nick Bhambri	Director	November 25, 2019
/s/ Gary Cappeline Gary Cappeline	Director	November 25, 2019
/s/ Judd Gregg Judd Gregg	Director	November 25, 2019
/s/ Brian R. Hoesterey Brian R. Hoesterey	Director	November 25, 2019
/s/ Vinay Kumar Vinay Kumar	Director	November 25, 2019

/s/ Lynn C. Swann	Director	November 25, 2019
Lynn C. Swann		
/s/ Peter M. Wilver	Director	November 25, 2019
Peter M. Wilver		

CORPORATE INFORMATION

Corporate Headquarters

210 Sixth Avenue
Suite 3300
Pittsburgh, PA 15222
+1-724-772-0044

Stock Listing

Evoqua Water Technologies common stock is listed on the New York Stock Exchange under the symbol AQUA

Annual Meeting of Shareholders

February 18, 2020, 12:30 p.m. (Mountain Time)
Evoqua Water Technologies
725 Wooten Road
Colorado Springs, CO 80915

Independent Registered Public Accounting Firm

Ernst & Young LLP

Transfer Agent & Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
Telephone: (800) 937-5449
Email: help@astfinancial.com
Website Address: www.amstock.com

Shareholder Information

Our Annual Reports on Form 10K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and statements of changes in beneficial ownership and amendments to those reports are available for free on our investors relations website at aqua.evoqua.com.
To obtain copies of these reports, you may email, call or write us:

Attention: Investor Relations
Evoqua Water Technologies
210 Sixth Avenue
Suite 3300
Pittsburgh, PA 15222
Phone: +1-724-772-0044
ir@evoqua.com

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, as part of our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by subscribing to email alerts. We also make certain corporate governance documents available on our investor relations website, including our corporate governance guidelines, board committee charters, code of conduct and ethics, as well as certain company policies.

BOARD OF DIRECTORS

As of December 1, 2019

Nick Bhambri

Gary Cappeline

Judd Gregg

Brian Hoesterey

Ron Keating
CEO

Vinay Kumar

Martin Lamb
Chairman

Lynn Swann

Peter Wilver

LEADERSHIP TEAM

Ron Keating
President, CEO and Director

Ben Stas
Executive Vice President,
CFO and Treasurer

Rodney Aulick
Executive Vice President,
Integrated Solutions and
Services Segment President

Hervé Fages
Executive Vice President,
Applied Product Technologies
Segment President

Snehal Desai
Executive Vice President,
Chief Growth Officer

Vince Grieco
Executive Vice President,
Secretary and General Counsel

Jim Kohosek
Executive Vice President,
Chief Administrative Officer

Anthony Webster
Executive Vice President,
Chief Human Resources Officer

Global Headquarters
210 Sixth Avenue
Suite 3300
Pittsburgh, PA 15222 USA
+1-724-772-0044
www.evoqua.com