GLOBAL POWER EQUIPMENT GROUP INC.
Form 10-K
March 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

Commission File No. 001-16501

Global Power Equipment Group Inc.

(Exact name of registrant as specified in its charter)

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

400 E. Las Colinas Blvd., Suite 400

Irving, TX 75039

(Address of registrant s principal executive offices and zip code)

Registrant s telephone number, including area code: (214) 574-2700

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

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

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

NONE

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

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 x

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 x No ¨

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of June 29, 2012, the last business day of the registrant s most recently completed second fiscal quarter, 16,541,402 shares of our publicly traded common stock held by non-affiliates were outstanding with an aggregate market value of approximately $361 million (based upon the closing price on the NASDAQ Stock Market on June 29, 2012 of $21.84 per share).

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

As of March 4, 2013, there were 16,831,129 shares of common stock of Global Power Equipment Group Inc. outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for the registrant s 2013 Annual Meeting of Stockholders are incorporated by reference into Part III of the Form 10-K to the extent stated herein. The Proxy Statement or an amended report on Form 10-K will be filed within 120 days of the registrant s year ended December 31, 2012.

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

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Cautionary Statement Regarding Forward-Looking Statements

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

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

- future compliance with orders and agreements with regulatory agencies;
- expected outcomes of legal or regulatory proceedings and their expected effects on our results of operations; and
- any other statements regarding future growth, future cash needs, future operations, business plans and future financial results.

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

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

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Part I

Item 1. Business.

Overview

Global Power Equipment Group Inc. (Global Power, we, us or our) is a comprehensive provider of power generation equipment and modification and maintenance services for customers in the United States (U.S.) and international energy, power infrastructure and service industries.

We design, engineer and manufacture a comprehensive range of gas turbine auxiliary equipment and control houses primarily used to enhance the efficiency and facilitate the operation of gas turbine power plants as well as for other industrial, energy and power-related applications. With a strong competitive position in our product lines, we benefit from a large installed base of equipment throughout the world.

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

Through predecessor entities, we have over 49 years of experience providing custom engineered products that are critical for the operation of gas turbine power plants and more than 31 years of experience providing complex outage shutdown services to operators of nuclear power plants as well as other industrial maintenance services.

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

Global Power Equipment Group Inc. and all of its U.S. subsidiaries filed voluntary Chapter 11 petitions under the U.S. Bankruptcy Code on September 28, 2006. We successfully exited Chapter 11 on January 22, 2008 pursuant to an approved Plan of Reorganization. For discussion regarding our emergence from bankruptcy, see below in this Item 1 under the heading Corporate History.

2012 Acquisitions

On July 30, 2012, we acquired Koontz-Wagner Custom Controls Holdings LLC (Koontz-Wagner), a leading manufacturer and integrator of engineered packaged control house solutions for the energy, oil & gas, and electrical industries. The aggregate acquisition price consisted of $32.4 million in cash, of which $31.6 million was paid in the third quarter 2012 and $0.8 million was paid in the fourth quarter 2012. On September 5, 2012, we acquired TOG Holdings, Inc., together with its subsidiary, TOG Manufacturing Company, Inc. (TOG), a precision machined metal and alloy parts provider to original equipment manufacturers for the steam and natural gas turbine power generation market. We paid $12.2 million in cash. Additionally, the TOG net assets acquired included $0.1 million of cash.

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

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We funded the purchase of the Koontz-Wagner acquisition and the TOG acquisition (together, the 2012 Acquisitions) with cash on hand. The financial results of the 2012 Acquisitions have been included in our Products Division as of their respective acquisition dates.

Dividend and Stock Repurchases

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

Additionally, in May 2012, our Board of Directors authorized a program to repurchase up to two million shares of our common stock. The repurchase program is effective through June 30, 2014. During the year ended December 31, 2012, we repurchased 421,731 shares of common stock for $6.8 million.

Revolving Credit Facility

On February 21, 2012, we extinguished our previous $150 million Credit Facility (Previous Credit Facility) and entered into a new $100 million Credit Facility (Revolving Credit Facility). The Revolving Credit Facility allows for borrowings up to $100 million, with an accordion feature for up to $50 million of additional borrowing capacity. The Revolving Credit Facility has a letter of credit sublimit of $75 million and provides access to multi-currency funds. The Revolving Credit Facility has a maturity date of February 21, 2017.

Sale of Deltak Assets

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

Business Segments

We operate through two business segments that we refer to as our Products Division and our Services Division. Through our Products Division, we design, engineer and manufacture products worldwide for the gas turbine power generation, energy and process industries. Through our Services Division, we provide industrial services, focusing on specialty services, outage management and facility upgrade services for nuclear, fossil-fuel and hydroelectric power facilities and other heavy industrial plants.

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

Market Overview

Gas Turbine Power Generation, Process and Cogeneration Market. All gas turbine power plants combine a gas turbine with a generator to produce electricity. In a simple cycle gas turbine plant, the hot exhaust coming out of the gas turbine is vented to the atmosphere through an exhaust stack. In a combined cycle plant, the hot exhaust coming out of the gas turbine is fed into a heat recovery steam generator (commonly referred to as an HRSG); the HRSG captures much of the heat from the gas turbine exhaust to generate steam, which in turn is used to power a steam turbine and generate more electricity before the exhaust is vented into the atmosphere. We manufacture products that are critical components of both simple cycle and combined cycle plants, including filter houses, inlet and exhaust systems and turbine and generator components. We also engineer and manufacture specialized diverter dampers that are used in some combined cycle plants between the gas turbines and the HRSG.

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

- lower construction costs;
- shorter construction periods;
- improved operating efficiency;
- lower emissions of CO_2;
- minimal other environmental impact;
- flexibility to expand plant capacity;
- smaller geographical footprint; and
- rapid start-up and shutdown time.

As a provider of equipment for simple and combined cycle gas turbine power plants, we expect to benefit from the forecasted growth of gas turbine power plant capacity related to the factors listed above.

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

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

- *Aging Infrastructure*. According to the U.S. Department of Energy s (DOE) Energy Information Administration, more than half of the electrical generating capacity in the U.S. was placed in service before 1980. Coupled with the relatively limited number of large scale power generation facilities being constructed in the U.S., the efforts to maintain older plants of all types and take advantage of newer and more efficient technologies at existing sites have created opportunities for companies providing these services.
- *Increasing Demand for Nuclear Plant Maintenance*. The U.S. currently has 104 operating nuclear reactors that generate approximately 20% of annual electric production. These nuclear reactors have been in operation for an average of more than 31 years and require extensive ongoing engineering and maintenance services to support operations and improve performance. Nuclear power

plants in the U.S. are subject to a rigorous program of U.S. Nuclear Regulatory Commission (NRC) oversight, inspection, preventive and corrective maintenance, equipment replacement and equipment testing. Nuclear power plants are required by the NRC to go offline to refuel at intervals of no more than 24 months and to perform condition monitoring and preventive maintenance during every refueling outage. Initially, commercial nuclear power plants in the U.S. were licensed to operate for 40 years, reflecting the amortization period generally used by electric utility companies for large capital investments. In 2000, the NRC issued the first license renewal to a nuclear power plant, extending its license for an additional 20 years beyond its original 40-year license allowing operations to continue for the long term. As of August 2012, the NRC had extended the licenses of 73 reactors, over two thirds of the U.S. fleet. In all, about 90 reactors are expected to operate for 60 years, with owners undertaking increasing modification, maintenance and construction capital projects to upgrade these facilities.

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

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

Business Strategy

Our growth strategy is to build a market leadership position in our targeted segments, utilizing our strong brands, application expertise and re-investment in new products and services offerings. To accomplish this over a three to five year period, we intend to take the following actions.

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

Ultimately, our financial goals are to grow our revenues and our operating margin during the next three to five years through organic growth initiatives and acquisitions. Our strategic imperatives are as follows: focus on natural gas growth trend, invest in growth, localize in emerging markets, deliver the base business performance and, most importantly, build our team to execute.

Products Division

Our Products Division designs, engineers and manufactures auxiliary equipment and control houses to the worldwide gas and steam turbine power generation and cogeneration market segments. Our principal customers are utility-scale gas turbine original equipment manufacturers (OEMs) and EPC firms. We also provide precision parts, replacement parts, filter elements and aftermarket retrofit equipment to both OEMs and end users. Our products are critical to the efficient operation of gas turbine power plants and steam turbine systems and are custom engineered to meet customer-specific requirements.

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

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

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

- *Selective Catalytic Emission Reduction Systems*. Selective catalytic emission reduction systems (commonly referred to as SCR) are used in simple cycle gas turbine facilities and are focused on removing oxides of nitrogen and carbon monoxide from the exhaust gas.

Energy, Parts and Control Solutions. We provide the following comprehensive range of products critical to the operation of gas turbine power plants, steam turbines, oil and gas pipelines as well as transmission and distribution infrastructure:

- *Packaged Control Houses*. Packaged control houses contain mission critical control equipment, motor controls and switchgear in a self-contained, transportable pre-wired control house.

- *Packaged Skids, Precision Parts and Specialty Fabrications*. Packaged skids in various configurations support the operation of gas turbines and other equipment. Precision parts and specialty fabrications are used in both new gas and steam turbine equipment and in aftermarket applications.

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

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

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

Services Division

Our Services Division provides a comprehensive range of modification, maintenance and construction support services to a wide range of utilities and industrial customers, including nuclear, fossil-fuel and hydroelectric power plants and pulp and paper mills. We provide these services in a general contracting capacity where we manage multiple subcontractors in some cases and in other cases we are retained as a subcontractor on the project. Williams primarily services U.S. based nuclear power plants and performs tasks designed to improve or sustain operating efficiencies.

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The services we provide our customers are designed to improve or sustain operating efficiencies and extend the useful lives of process equipment in these facilities. We provide these services both on a constant presence basis and for discrete projects. Our service offerings include the following:

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

Fossil-fuel and Hydroelectric Power Plant Modification and Construction. We provide routine maintenance, repair and capital project services designed to extend plant life cycles.

Other Specialty Services. We provide the following specialty services to both our nuclear and industrial customers:

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

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

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

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

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

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

All of our Services Division revenue is from operations in the U.S. We contract for approximately 91% of the services we provide on a cost-plus basis under contracts that provide for reimbursement of costs incurred plus an amount of profit in the form of a mark-up. We contract for approximately 9% of the services we provide on a fixed-price basis. We bid against other contractors based on customer specifications. Fixed-price contracts present certain inherent risks, including the possibility of ambiguities in the specifications received, problems with new technologies and economic and other changes that may occur over the contract period. Alternatively, because of efficiencies that may be realized during the contract term, fixed-price contracts may offer greater profit potential than other cost-plus contracts.

Subcontractor Relationships. We often serve as the primary contractor for our customers on projects. For capital projects and facility upgrades, we manage multiple subcontractors including firms that provide nuclear engineering and design capabilities. We believe that we maintain solid relationships with multiple engineering firms and believe that we can obtain these services from more than one firm.

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Customers, Marketing and Seasonality

Products. Our Products customers include OEMs, EPC firms, utilities and independent operators of power generation facilities, owners and operators of oil and gas pipelines and firms engaged across several process related industries. The end users of most of our products sold to OEMs and EPC firms are owners and operators of gas turbine power plants, process plants and refineries. We focus our sales and marketing efforts on gas turbine OEMs and EPC firms engaged by end users of our products, including the developers and operators of gas turbine power plants. We also market our products globally through a sales network consisting of employees and independent representatives in various countries including China, The Netherlands, Egypt, Italy and the U.S. Our sales initiatives focus on highly engineered solutions, excellent performance on existing projects and on-time deliveries that we believe differentiate us from our competitors.

Services. Our Services customers include major private and government owned utilities throughout the U.S. as well as leaders in the U.S. paper and industrial sectors. We market our services using dedicated sales and marketing personnel as well as our experienced on-site operations personnel. We use our safety and service track record with long-term renewable contracts to expand our services and supplement the existing contracts with small to medium sized capital projects. Our Services sales initiatives directly seek to apply operational strengths to specific facilities within the targeted industries and customers throughout the U.S.

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

Engineering, Design and Maintenance Capabilities

Products. We believe the design and engineering expertise of our Products Division makes us an industry leader in the products we manufacture. We provide original design, retrofit and upgrade engineering and after-sales maintenance and repair of our products. Our products are custom-designed and engineered to meet the specifications of our customers. We employ a number of degreed engineers specializing in structural, electrical/controls, mechanical, acoustical, industrial and other technical areas. Our engineers and designers use a PC-based network and engineering and drafting programs such as AutoCAD , ANSYS , STAAD , Solidworks and several internally developed proprietary programs.

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

Materials and Suppliers

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

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Competition

Products. We compete with a large number of U.S. and international companies along all of our major product lines. We compete based on the price, quality, reliability and reputation of our products and our ability to engineer and design products to meet each customer s unique specifications. Our competitors, some of which are significantly larger than we are and have significantly greater financial resources than we do, vary with respect to each product category we offer. We believe that no single competitor offers our breadth of auxiliary products to the gas turbine power generation, process and cogeneration industries.

Services. The barriers to entry in nuclear industrial services where our Services Division is focused are generally high due to NRC qualifications and safety standards. Our competitors vary depending on plant geography and scope of services to be rendered. Several national vendors, which are significantly larger than we are and have significantly greater financial resources than we do, will often compete for larger maintenance and capital project opportunities that become available. Additionally, smaller vendors that operate on a regional basis often compete for smaller opportunities associated with open shop labor sources. We believe that the key competitive factors in industrial services are reputation, safety record, price, service, quality, breadth of service capabilities and the ability to identify and retain qualified personnel. We believe our project management capabilities including oversight of other nuclear subcontractors, service diversity, long-term customer relationships, safety standards and performance differentiate us from our competitors. We also believe that the fact that we maintain a constant presence at many of our customers sites is a key competitive advantage because it provides us with an intimate understanding of these facilities which allows us to better identify our customers service needs.

Employees

We had 931 full and part-time employees, excluding temporary Services Division staff and craft labor, as of December 31, 2012. Of these, 178 were employed at our facility in Mexico under a collective bargaining agreement, which is amended annually, and 49 were employed at our Koontz-Wagner business unit under a collective bargaining agreement which will expire on May 31, 2013. The number of employees in our Services Division can vary greatly, depending on the timing and requirements for craft labor. Many of our Services Division craft labor employees are contracted through various union agreements. As of December 31, 2012, there were 506 Services Division craft labor employees, of which 385 were under collective bargaining agreements. We believe that our relationships with our employees, both permanent and temporary, are satisfactory. We are not aware of any circumstances that are likely to result in a work stoppage at any of our facilities.

Insurance and Warranty

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

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

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

Intellectual Property

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

Compliance with Government Regulations

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

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

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

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

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

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

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Available Information

We file reports with the Securities and Exchange Commission (the SEC), including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished to the SEC pursuant to the requirements of the Securities Exchange Act of 1934. The general public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room located at 100 F Street N.E., Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

You may also obtain copies of our annual reports at our website at www.globalpower.com under the heading Investor Relations. The information disclosed on our website is not incorporated by this reference and is not a part of this Annual Report on Form 10-K. We make available on our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports, as soon as reasonably practicable after we electronically file with or furnish the reports to the SEC. The following corporate governance related documents are also available free on our website:

- Code of Business Conduct and Ethics
- Corporate Governance Guidelines
- Related Party Transactions Policy
- Audit Committee Charter
- Compensation Committee Charter
- Nominating and Corporate Governance Committee Charter
- Contact the Board Whistleblower and Ethics Hotline Procedures

Corporate History

Global Power Equipment Group Inc. was incorporated in 1998 under the laws of the State of Delaware under the name GEEG, Inc. We and all of our U.S. subsidiaries filed voluntary Chapter 11 petitions under the United States Bankruptcy Code on September 28, 2006 and successfully emerged from bankruptcy pursuant to an approved Plan of Reorganization on January 22, 2008. Upon emergence, we issued 5,266,885 shares of our new common stock to pre-petition equity holders in exchange for stock held before the bankruptcy. On that same date, pursuant to a rights offering, a private placement and related backstop, and our Management Incentive Co-Investment Plan, we issued an additional 9,589,138 shares of our new common stock in exchange for $72.5 million in new capital. The applicable price of our common stock in the rights offering was $7.65 per share. As part of the plan, we also entered into a $150 million exit financing package comprised of a $90 million term loan and a $60 million revolver facility. In June 2011, we received a court order for final decree closing the Chapter 11 Filing.

Executive Officers of the Registrant

The following sets forth information regarding our current executive officers. Executive officers are appointed by, and hold office at the discretion of, our Board of Directors, subject to the terms of any employment agreements.

Name	Position
Luis Manuel Ramírez	President, Chief Executive Officer and Director
David L. Willis	Senior Vice President and Chief Financial Officer
Tracy D. Pagliara	General Counsel, Secretary, and Vice President of Business Development
Dean J. Glover	Senior Vice President, President of Products Division
Kenneth W. Robuck	Senior Vice President, President of Services Division
Gene F. Schockemoehl	Senior Vice President and President of Braden Manufacturing, LLC

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Luis Manuel Ramírez, 46, has served as our President, Chief Executive Officer (CEO) and Director since July 1, 2012. Mr. Ramírez previously served 12 years with General Electric (GE), most recently as Chief Executive Officer of GE Energy Industrial Solutions, a more than $3 billion global electrical products and services business operating in over 60 countries. In 2012, he was named one of the Top 100 Movers and Shakers of the Smart Grid by Greentechmedia.com, and has also held a variety of leadership roles in industry associations. Prior to his employment with GE, Mr. Ramírez worked for more than a decade in a number of technology, financial and business roles with Siemens. Mr. Ramírez received his Bachelor s degree in Computer Information Systems, with a minor in Business Administration, from DeVry Institute of Technology, Atlanta, GA, and participated in the Executive Advanced Management Certificate Program at Duke University, Durham, NC.

David L. Willis, 41, has been our Senior Vice President and Chief Financial Officer since January 2008. Mr. Willis has a broad range of leadership experience across a range of industries: restructuring advisory services, telecommunications, energy companies and public accounting. From October 2001 to January 2008, he was with the restructuring practice of Alvarez & Marsal LLC, a global professional services firm, where he served clients in advisory and interim management capacities in connection with the clients restructurings, overseeing the development and implementation of initiatives to improve operational and financial performance.

Prior to Alvarez & Marsal, Mr. Willis held positions with The Williams Communications Group and Ernst & Young. Mr. Willis received his Bachelor of Business Administration degree from the Price College of Business at the University of Oklahoma and holds an M.B.A. from the University of Tulsa. He is a Certified Public Accountant and has a Certified Insolvency and Restructuring Advisor certification (inactive).

Tracy D. Pagliara, 50, has served as our General Counsel, Secretary, and Vice President of Business Development since April 2010. Prior to joining the Company, Mr. Pagliara served as the Chief Legal Officer of Gardner Denver, Inc., a leading global manufacturer of highly engineered compressors, blowers, pumps and other fluid transfer equipment, from August 2000 through August 2008. He also had responsibility for other roles during his tenure with Gardner Denver, including Vice President of Administration, Chief Compliance Officer, and Corporate Secretary.

Prior to joining Gardner Denver, Mr. Pagliara held positions of increasing responsibility in the legal departments of Verizon Communications/GTE Corporation from August 1996 to August 2000 and Kellwood Company from May 1993 to August 1996, ultimately serving in the role of Assistant General Counsel for each company. Mr. Pagliara has a B.S. in Accounting and a J.D. from the University of Illinois. He is a member of the Missouri and Illinois State Bars and a Certified Public Accountant.

Dean J. Glover, 46, is Senior Vice President and President of the Products Division of Global Power Equipment Group Inc. Mr. Glover joined Braden in December 2005 as Chief Operating Officer and was promoted to his positions at Global Power in September 2008. Mr. Glover also holds positions in a number of our subsidiaries, serving as the Chief Executive Officer of Braden, Chief Executive Officer of Braden Construction Services, Inc., the Managing Director of Braden-Europe, B.V., the Chairman of Braden Power Equipment (Shanghai) Co., Ltd. and the President of Steam Enterprises, L.L.C.

Mr. Glover has extensive international experience having lived in various international locations for most of his career. Mr. Glover has over 20 years of commercial and technical experience in the power industry. Prior to joining Global Power, Mr. Glover led the global supply chain, including manufacturing for Diebold Inc. Prior to this, Mr. Glover spent 13 years with GE in various managerial and technical roles and is a certified Six Sigma Master Blackbelt. Mr. Glover holds a Bachelor s Degree in Mechanical Engineering from the University of Nebraska and an M.B.A. from the Kellogg Graduate School of Management, Northwestern University.

Kenneth W. Robuck, 53, is Senior Vice President and President of the Services Division of Global Power Equipment Group, Inc. Mr. Robuck originally joined the Williams Group in 1995 as Vice President of Fossil and

Nuclear for Williams Power Corp. He was promoted to President in 1997. Mr. Robuck left Williams Power Corp. in 2000 and joined Alberici Constructors, Inc., a major North American construction firm as Vice President of Energy and Chemical. He returned to the Williams Group in 2005 as President of Williams Plant Services, LLC, the largest of the Williams subsidiaries which is responsible for all major maintenance and construction services work. In early 2006, Mr. Robuck was promoted to Chief Operating Officer of Williams Industrial Services Group and was subsequently appointed as President in 2007. Mr. Robuck has over 32 years of experience in the nuclear power, fossil-fuel power, petrochemical and related industrial industries. Mr. Robuck is a graduate of Auburn University with a B.S. in Civil Engineering.

Gene F. Schockemoehl, 63, is Senior Vice President of Global Power Equipment Group Inc., and President of Braden. Mr. Schockemoehl has served as President of Braden since January 1994 and as Vice President of Global Power since June 1998. Mr. Schockemoehl began his employment at Braden in September 1968, progressing through the plant production area into management positions, and became Vice President of Operations in 1990. He served as Vice President of Sales from 1991 until his appointment as President in January 1994. Mr. Schockemoehl has a manufacturing and general business education background, having attended both Tulsa Community College and Rogers State College.

Item 1A. Risk Factors.

Our business, financial condition and results of operations may be impacted by one or more of the following factors, any of which could cause actual results to vary materially from historical and current results or anticipated future results.

Risk Factors Related to Our Operations

A substantial portion of our Services Division revenue deals directly with nuclear power. The cost of operating a nuclear power plant could cause utilities to consider less costly power generation options. The shutdown of nuclear power plants could have a material adverse effect on our operations.

The demand for our nuclear services in the Services Division depends on the continued operation of nuclear power plants. If nuclear power plants do not remain cost competitive compared to other power generation options, utilities could choose to shut down operations at nuclear power plants. The cost competitiveness of operating a nuclear power plant could be affected by factors such as an adverse change in U.S. policy, increased maintenance costs and continued low natural gas prices.

The U.S. government has been supportive of increased investment in nuclear power as it represents approximately 20% of the total power generating capacity in the U.S. However, if the U.S. government changed its policy or if public acceptance of nuclear technology declines, demand for nuclear power could be negatively affected and potentially increase the regulation of the nuclear power industry.

Because our Services Division deals directly with nuclear power, utilities opting to replace costly nuclear power plants with less costly power generation options could have a material effect on our operations.

If our costs exceed the estimates we use to set the fixed-prices of our contracts, our earnings will be reduced.

The majority of our product sales contracts and a portion of our nuclear and industrial services contracts are entered into on a fixed-price basis. These fixed-price contracts have a limited ability to recover any cost overruns. Contract prices are established based in part on our projected costs, which are subject to a number of assumptions. The costs that we incur in connection with each contract can vary, sometimes substantially, from our original projections. Because of the large scale and complexity of our contracts, unanticipated changes may occur, such as customer budget decisions, design changes, delays in receiving permits and cost increases, as well as delays in delivery of our products. We often are contractually subject to liquidated damages for late delivery. Unanticipated cost increases or delays may occur as a result of several factors, including:

- increases in the cost of commodities (primarily steel plate), labor or freight;
- unanticipated technical problems;
- suppliers or subcontractors failure to perform, requiring modified execution plans or re-work; and
- decreases in labor efficiency realized.

Cost increases or overruns that we cannot pass on to our customers or our payment of liquidated damages under our contracts will lower our earnings. Increases in commodity prices may adversely affect our gross margins.

If we are unable to control the quality or timely production of products manufactured or services provided by our subcontractors, our reputation could be adversely affected and we could lose customers. If we are unable to recover any advance progress payments made to subcontractors, our profitability would be adversely affected.

We rely on subcontractors to manufacture and assemble a substantial portion of our products as well as provide some specialty services. Subcontractors account for a significant percentage of our manufacturing costs. The quality and timing of production by our subcontractors is not totally under our control. Our subcontractors may not always meet the level of quality control and the delivery schedules required by our customers. The failure of our subcontractors to produce quality products in a timely manner could adversely affect our reputation and result in the cancellation of orders for our products, significant warranty and repair costs and the loss of customers. Alternatively, we could be required to move subcontract manufacturing to other locations, resulting in increased costs.

In addition, we make advance progress payments to subcontractors in anticipation of their completion of our orders. We may be unable to recover those advances if a subcontractor fails to complete an order, which may adversely affect our profitability.

Our future revenue and operating results may vary significantly from reporting period to reporting period.

Our quarterly and annual revenue and earnings have varied in the past and are likely to vary in the future. Our product sales contracts stipulate customer-specific delivery terms that, coupled with other factors beyond our control, may result in uneven recognition of revenue and earnings over time. Customer-imposed delays can significantly impact the timing of revenue recognition. Due to our relatively large average contract size, our product sales volume during any given period may be concentrated in relatively few orders, intensifying the magnitude of these fluctuations. Furthermore, some of our operating costs are fixed. As a result, we may have limited ability to reduce our operating costs in response to unanticipated decreases in our revenue or the demand for our products in any given reporting period. Therefore, our operating results in any reporting period may not be indicative of our future performance. Because we must make significant estimates related to potential costs when we recognize revenue on a percentage-of-completion basis, these costs may change significantly from reporting period to reporting period based on new project information. For example, if labor efficiency experienced on a project is lower than we estimated at the outset of the project, the costs incurred on the project will increase and the percentage of completion may be reduced from earlier estimates. In addition, most of our product revenue is based on fixed-price contracts, and the relative profitability can vary significantly between contracts. As a result, our profitability can vary from reporting period to reporting period based on the specific contract mix.

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We may not be able to maintain or expand our business outside the U.S. because of numerous factors outside our control.

Our international operations are subject to a number of risks inherent in doing business outside the U.S. including:

- labor unrest;
- regional economic uncertainty;
- sovereign debt issues including the European debt crisis;
- political instability including unrest in the Middle East;
- restrictions on the transfer of funds into or out of a country;
- currency exchange rate fluctuations;
- export duties and quotas;
- expropriations;
- U.S. and international customs and tariffs;
- current and changing regulatory environments;
- potentially adverse tax consequences;
- availability of financing;
- unfavorable commercial terms and conditions; and
- potential for adverse dispute resolution outcomes.

These factors may impact our ability to meet product delivery commitments in foreign countries that could result in a decline in revenue or profitability and could adversely affect our ability to maintain or expand our business outside the U.S.

We conduct our manufacturing operations on a worldwide basis and are subject to risks associated with doing business outside the U.S.

We have manufacturing facilities and subcontractors in many countries outside of the U.S. including China, Poland, Romania, the Middle East and Mexico, and increasing our manufacturing footprint to localize in emerging markets is an important element of our strategy. There are a number of risks associated with doing business internationally, including (a) exposure to local economic and political conditions, (b) social unrest such as risks of terrorism or other hostilities, (c) currency exchange rate fluctuations and currency controls, (d) export and import restrictions, and (e) the potential for shortages of trained labor. In particular, there has been social unrest in the Middle East and Mexico and any increased violence in or around our manufacturing facilities could impact our business by disrupting our supply chain, and the delivery of products to customers. In addition, the increased violence in or around our manufacturing facilities could present several risks to our employees who may be directly affected by the violence and may result in a decision by them to relocate from the area, or make it difficult for us or our subcontractors to recruit or retain talented employees. The likelihood of such occurrences and their potential effect on us is unpredictable and vary from country to country. Any such occurrences could be harmful to our business and our financial results.

A substantial portion of our revenue is from sales of equipment for gas turbine power plants. During periods of declining construction of new gas turbine power plants, the market for our products is significantly diminished.

The demand for our products depends on the continued construction of gas turbine power generation plants. The power generation equipment industry has experienced cyclical periods of slow growth or decline. In periods of decreased demand for new gas turbine power plants, our customers may be more likely to decrease expenditures on the types of products and systems that we supply and, as a result, our future revenue may decrease. These projects typically require funding from a healthy credit market as well. As long as credit markets are tight, funding could be difficult to obtain therefore delaying or even cancelling these types of projects entirely. A rise in the price or a shortage in the supply of natural gas could affect the profitability or operations of gas turbine power plants, which could adversely affect our future revenue. These and other factors may temper demand for our products. If in a particular geographic area prices of natural gas are so high or the supply of natural gas is so limited as to make the construction of new gas turbine power plants uneconomical in that geographic area, we may not derive any future revenue from projects in that geographic region unless and until those factors are reversed.

Environmental laws and regulations have played a part in the increased use of gas turbine technology in various jurisdictions. These laws and regulations may change or other jurisdictions may not adopt similar laws and regulations. Changes in existing laws and regulations could result in a reduction in the building and refurbishment of gas turbine power plants. In addition, stricter environmental regulation could result in our customers seeking new ways of generating electricity that do not require the use of our products. Furthermore, although gas turbine power plants have lower carbon dioxide emissions per unit of electricity provided than coal-fired power plants, emissions from gas turbine power plants remain a concern and attempts to reduce or regulate emissions could increase the cost of gas turbine power plants and result in our customers switching to alternative sources of power.

Other current power technologies, improvements to these technologies and new alternative power technologies that compete or may compete in the future with gas turbine power plants could affect our sales and profitability. Any change in the power generation industry that results in a decline in the construction of new combined cycle and simple cycle power plants or a decline in the upgrading of existing simple cycle power plants to combined cycle power plants could materially adversely affect our sales.

A small number of major customers account for a significant portion of our revenue, and the loss of any of these customers could negatively impact our business.

We depend on a relatively small number of customers for a significant portion of our revenue. In 2012, four customers accounted for approximately 61% of our consolidated revenue and approximately 67% of our backlog at the end of the year. In 2011, three customers accounted for approximately 50% of our consolidated revenue and approximately 46% of our backlog at the end of the year. In 2010, three customers accounted for approximately 60% of our consolidated revenue and approximately 36% of our backlog at the end of the year. For a listing of our major customers, see Note 16 *Major Customers and Concentration of Credit Risk* included in our consolidated financial statements beginning on page F-1. Other than their obligations under firm orders placed in our backlog, none of our customers have a long-term contractual obligation to purchase any material amounts of products or services from us. All of our firm orders contain cancellation provisions, which permit us to recover only our costs and a portion of our anticipated profit if a customer cancels its order. If a customer elects to cancel, we would not realize the full amount of future revenue included in our backlog. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenue. Because our major customers represent a large part of our business, the loss of any of our major customers could negatively impact our business and results of operations. Several of our customers have the ability to internally source some of the products we manufacture. Any increase in this activity could reduce our sales.

Our business volumes with each of our largest customers are highly dependent on power generation capacity additions for our Products Division and on operations and maintenance budgets for U.S. utilities for our Services Division. Fluctuations in any of these factors could materially adversely impact our results.

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The dollar amount of our backlog, as stated at any time, is not necessarily indicative of our future revenue.

When we receive a firm order for a project from a customer, it is added to our backlog. However, customers may cancel or delay projects for reasons beyond our control and we may be unable to replace any canceled orders with new orders. To the extent projects are delayed, the timing of our revenue could be affected. If a customer cancels an order, we may be reimbursed for the costs we have incurred. Typically, however, we have no contractual right to the full amount of the revenue reflected in our backlog contracts in the event of cancellation. In addition, projects may remain in our backlog for extended periods of time. Revenue recognition occurs over extended periods of time and is subject to unanticipated delays. Fluctuations in our reported backlog levels also result from the fact that we may receive a small number of relatively large orders in any given reporting period that may be included in our backlog. Because of these large orders, our backlog in that reporting period may reach levels that may not be sustained in subsequent reporting periods. Our backlog, therefore, is not necessarily indicative of our future revenue or of long-term industry trends.

The success of our business is partially dependent upon maintaining our safety record.

Our ability to obtain new business and retain our current business, particularly in our Services Division, is partially dependent on our continuing ability to maintain a safety record that exceeds the industry average. If we fail to maintain superior safety performance, or if serious accidents occur in spite of our safety procedures, our revenue and results of operations could be materially and adversely affected.

Our dependence on suppliers and subcontractors could expose us to the risk of loss in our operations.

We rely significantly on suppliers to obtain necessary materials and subcontractors to perform manufacturing and services. Although we are not dependent on any single supplier or subcontractor, any substantial limitation on the availability of required suppliers or subcontractors could negatively impact our operations. The risk of a lack of available suppliers or subcontractors may be heightened as a result of recent market and economic conditions. To the extent we cannot engage subcontractors or acquire equipment or materials, we could experience losses in the performance of our operations.

Our former operating unit has been named as a defendant in asbestos personal injury lawsuits.

Our former operating unit has been named as a defendant in a limited number of asbestos personal injury lawsuits. Neither we nor our predecessors ever mined, manufactured, produced or distributed asbestos fiber, the material that allegedly caused the injury underlying these actions. The bankruptcy court s discharge order issued upon emergence from bankruptcy extinguished the claims made by all plaintiffs who had filed asbestos claims against us before that time. We believe the bankruptcy court s discharge order should serve as a bar against any later claim filed against us, including any of our subsidiaries, based on alleged injury from asbestos at any time before emergence from bankruptcy. In all of the asbestos cases finalized post-bankruptcy, we have been successful in having such claims dismissed without liability. Moreover, during 2012, we secured insurance coverage that will help to reimburse the defense costs and potential indemnity obligations of our former operating unit relating to these claims. Nonetheless, findings of liability on our part in any of these cases that were filed against us after we emerged from bankruptcy that remain unresolved could have an adverse effect on our financial position, results of operations or liquidity.

Efforts to increase our size through acquisitions will involve risks that could result in a material adverse effect on our business.

We intend to actively pursue additional acquisition opportunities, some of which may be material to our business and financial performance. We may not be able to grow our business in the future through acquisitions for a number of reasons, including:

- acquisition financing not being available on acceptable terms or at all;

- encountering difficulties identifying and executing acquisitions;
- increased competition for targets, which may increase acquisition costs;
- consolidation in our industry reducing the number of acquisition targets; and
- competition laws and regulations preventing us from making certain acquisitions.

In addition, there are potential risks associated with growing our business through acquisitions, including the failure to successfully integrate and realize the expected benefits of an acquisition. For example, with any past or future acquisition, there is the possibility that:

- the business culture of the acquired business may not match well with our culture;
- technological and product synergies, economies of scale and cost reductions may not occur as expected;
- management may be distracted from overseeing existing operations by the need to integrate acquired businesses;
- we may acquire or assume unexpected liabilities;
- unforeseen difficulties may arise in integrating operations and systems;
- we may fail to retain and assimilate employees of the acquired business;
- we may experience problems in retaining customers; and
- problems may arise in entering new markets in which we may have little or no experience.

These risks could have a material adverse effect on our business, financial condition and results of operations.

Compliance with environmental laws and regulations is costly, and our ongoing operations may expose us to environmental liabilities.

Our operations are subject to laws and regulations governing the discharge of materials into the environment or otherwise relating to the protection of the environment or human health and safety. We are subject to various U.S. federal statutes and the regulations implementing them, as well as similar laws and regulations at the state and local levels and in other countries in which we operate.

If we fail to comply with environmental laws or regulations, we may be subject to significant liabilities for fines, penalties or damages, or lose or be denied significant operating permits. For example, if employees of our Services Division accidentally release hazardous substances while working at a customer s facility, we may be subject to fines and costs of clean up as well as lawsuits by third parties. In addition, some environmental laws impose liability for the costs of investigating and remediating releases of hazardous substances without regard to fault and on a joint and several basis, so that in some circumstances, we may be liable for costs attributable to hazardous substances released into the environment by others.

A defect in our products could result in unanticipated warranty costs or product liability not covered by our insurance, which could adversely affect our financial condition or results of operations.

We generally provide warranties for terms of three years or less on our products. These warranties require us to repair or replace faulty products. Warranty claims could result in significant unanticipated costs. The need to repair or replace products with design or manufacturing defects could also temporarily delay the sale of new products and adversely affect our reputation.

In addition, we may be subject to product liability claims involving claims of personal injury or property damage. The sale and servicing of complex, large scale equipment used in a variety of locations and climates, and

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integrating a variety of manufactured and purchased components entails an inherent risk of disputes and liabilities relating to the operation and performance of the equipment and the health and safety of the workers who operate and come into contact with the machinery. Because our products are used primarily in power plants, claims could arise in different contexts, including the following:

- fires, explosions and power surges that can result in significant property damage or personal injury; and
- equipment failure that can result in personal injury or damage to other equipment in the power plant.

For example, a failure of a filter house provided by us could result in significant damage to costly precision components of the gas turbine generator that takes in conditioned air from the filter house. This, in turn, could cause the owner of the gas turbine to seek to recover significant damages from us. The insurance policies we maintain to cover claims of this nature are subject to deductibles and recovery limitations as well as limitations on contingencies covered, and we may, therefore, suffer losses from these claims for which no insurance recovery is available.

Expiration of the Price-Anderson Act s indemnification authority could have adverse consequences on our Services Division.

We provide services to the nuclear industry through our Services Division. The Price-Anderson Act promotes the nuclear industry by offering broad indemnification to commercial nuclear power plant operators and the DOE for liabilities arising out of nuclear incidents at power plants licensed by the NRC and at DOE nuclear facilities. That indemnification protects not only the NRC licensee or DOE prime contractor, but also others like us who may be doing work under contract or subcontract for a licensed power plant or under a DOE prime contract. To date, there has been no occasion for a determination of whether the Price-Anderson Act s indemnification provisions apply to all nuclear liabilities that might be incurred by a radioactive materials cleanup contractor. The Energy Policy Act of 2005 extended the period of coverage to include all nuclear power reactors issued construction permits through December 31, 2025. A problem related to our provision of services at a nuclear facility could lead to a damage claim against us for which we might not be entitled to indemnification. In addition, any well-publicized problem with those services, whether actual or perceived, could adversely affect our reputation and reduce demand for our services.

Our revenue would be adversely affected if our patents and other intellectual property rights are unable to protect our proprietary products.

Our success depends significantly on our ability to protect our intellectual property rights to the technologies and know-how used in our proprietary products and software programs. We rely on patent protection, as well as a combination of trade secret, unfair competition and similar laws and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary rights. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. We also rely on unpatented proprietary technology. We cannot provide assurance that we can meaningfully protect all of our rights in our unpatented proprietary technology, or that others will not independently develop substantially equivalent proprietary products or processes or otherwise gain access to our unpatented proprietary technology.

If we were required to commence legal actions to enforce our intellectual property or proprietary rights or to defend ourselves against claims that we are infringing on the intellectual property or proprietary rights of others, we could incur substantial losses and/or costs and divert management s attention from operations.

Our failure to attract and retain qualified personnel, including engineers, skilled workers and key officers, could have an adverse effect on us.

Our ability to attract and retain qualified professional and/or skilled personnel in accordance with our needs, either through direct hiring, subcontracting or acquisition of other firms employing such professionals, is an important factor in determining our future success. The market for these professionals is competitive, and there can be no assurance that we will be successful in our efforts to attract and retain needed personnel. Our ability to successfully execute our business strategy depends, in part, on our ability to attract and retain highly qualified, experienced mechanical, design, structural and software engineers, service technicians, marketing and sales personnel in our Products and Services Divisions. Demand for these workers can at times be high and the supply extremely limited. Our success is also highly dependent upon the continued services of our key officers, and we do not maintain key employee insurance on any of our executive officers.

If we are unable to retain qualified personnel, the roles and responsibilities of those employees will need to be filled, which may require that we devote time and resources to identifying, hiring and integrating new employees. In addition, the failure to attract and retain key employees, including officers, could impair our ability to sustain or expand our operations, to provide services to our customers and conduct our business effectively.

Demand for our products and services is cyclical and vulnerable to economic slowdowns and reductions in private industry and government spending. In times of general economic contraction, our revenue, profits and our financial condition may be adversely affected and will not necessarily rise in tandem with general economic expansion.

The industries we serve historically have been, and will likely continue to be, cyclical in nature and vulnerable to general slowdowns in U.S. and international economies. Consequently, our results of operations have fluctuated and may continue to fluctuate depending on the demand for products and services from these industries.

Orders for new electrical power generation capacity are placed by our customers with long lead times. Consequently, our bookings and revenue may rise or fall sharply as total industry orders tend to follow pronounced cycles of general expansion and contraction. During a contraction phase, limited investment in new projects, deferrals of planned projects and project cancelations may significantly reduce our potential recognition of revenue and profits. At the end of an expansion phase, the existence of excess capacity will negatively affect power prices which results in a reduction in new orders. In addition to being cyclical in nature, our revenue does not correlate precisely with changes in actual or forecasted new capacity due to timing differences in revenue recognition.

During periods of declining demand for power, many of our customers may face budget shortfalls or may delay capital spending that may decrease the overall demand for our products and services. Our customers may find it more difficult to obtain project financing due to limitations on the availability of credit and other uncertainties in the global credit markets. In addition, our customers may demand better pricing terms and their ability to timely pay our invoices may still be affected by the recent economic slowdown. If private industry and government spending are reduced, then our revenue, net income and overall financial condition may be adversely affected.

Systems and information technology interruption could adversely impact our ability to operate.

We depend on our information technology systems for many aspects of our business. Our business may be adversely affected if our systems are disrupted by security breaches or if we are unable to improve, upgrade, integrate or expand our systems to meet our changing needs. A failure to successfully implement new systems could adversely affect our business. Any damage, delay or loss of critical data associated with our systems may delay or prevent certain operations and may materially adversely affect our financial condition, results of operations and cash flows.

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The supply and cost of materials we use in manufacturing our products fluctuates and could increase our operating costs.

Steel is a significant portion of the raw materials used in our products. Local shortages of steel plate sometimes arise and it is possible that an adequate supply of steel will not continue to be available in all locations on terms acceptable to us. The materials we use in our products are subject to price fluctuations that we cannot control. Changes in the cost of raw materials can have a significant effect on our gross margins. Rapid increases in material prices are difficult to pass through to customers. If we are unable to pass on these higher costs, our results of operations and financial condition could be negatively impacted.

Our participation in multiemployer pension plans could adversely impact our liquidity and results of operations.

We contribute to over 150 multiemployer pension plans throughout the U.S. We believe that our responsibility for potential withdrawal liabilities associated with participating in multiemployer pension plans is limited because the building and construction trades exemption should apply to the substantial majority of our plan contributions. However, pursuant to the Pension Protection Act of 2006 and other applicable law, we are exposed to other potential liabilities associated with plans that are underfunded. As of December 31, 2012, we had been notified that certain pension plans were in critical funding status. Currently, certain plans are developing, or have developed, a rehabilitation plan that may call for a reduction in participant benefits or an increase in future employer contributions. Therefore, in the future, we could be responsible for potential surcharges, excise taxes and/or additional contributions related to these plans which could impact our liquidity and results of operations. Additionally, market conditions and the number of participating employers remaining in each plan may result in a reorganization, insolvency or mass withdrawal that could materially affect the funded status of multiemployer plans and our potential withdrawal liability, if applicable. We continue to actively monitor, assess and take steps to limit our potential exposure to any surcharges, excise taxes, additional contributions and/or withdrawal liabilities.

Foreign exchange risks may affect our ability to realize a profit from certain projects or to obtain projects.

We generally attempt to denominate our contracts in U.S. Dollars or in the currencies of our expenditures. However, we do enter into contracts that subject us to foreign exchange risks, particularly to the extent contract revenue are denominated in a currency different than the contract costs. We may seek to minimize our exposure from foreign exchange risks by limiting foreign currency contracts to those currencies where we have ongoing operating expenditures or entering into hedge contracts if there are limited ongoing expenditures in the same currencies. However, these actions may not always eliminate all foreign exchange risks.

New legislation and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays to our customers and our operations.

Members of the U.S Congress and the U.S. Environmental Protection Agency (EPA) are reviewing more stringent regulation of hydraulic fracturing, a technology which involves the injection of water, sand and chemicals under pressure into rock formations to stimulate oil and natural gas production. Both the U.S. Congress and the EPA are studying whether there is any link between hydraulic fracturing and soil or ground water contamination or any impact on public health or the environment. Legislation has been introduced before Congress to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the fracturing process. In addition, some states have adopted and others are considering adopting regulations that could restrict hydraulic fracturing. Any new laws, regulation or permitting requirements regarding hydraulic fracturing could lead to delays in the construction of new gas turbine power plants and/or increased operating costs for existing gas turbine power plants which could negatively impact demand for our products.

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We are subject to anti-bribery laws in the countries in which we operate. Failure to comply with these laws could result in our becoming subject to penalties and the disruption of our business activities.

Many of the countries in which we transact business have laws that restrict the offer or payment of anything of value to government officials or other persons with the intent of gaining business or favorable government action. We are subject to these laws in addition to being governed by the U.S. Foreign Corrupt Practices Act restricting these types of activities. In addition to prohibiting certain bribery-related activity with foreign officials and other persons, these laws provide for recordkeeping and reporting obligations.

Any failure by us, our subcontractors, agents or others who work for us on our behalf to comply with these legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties. The failure to comply with these legal and regulatory obligations could also result in the disruption of our business activities.

A change in tax laws, treaties or regulations, or their interpretation, of any country in which we operate could increase our tax burden and otherwise adversely affect our financial condition, results of operations and cash flows.

A change in tax laws, treaties or regulations, or their interpretation, of any country in which we operate could result in a higher tax rate on our earnings, which could result in a significant negative impact on our earnings and cash flows from operations. We continue to assess the impact of various legislative proposals, including U.S. federal and state proposals, and modifications to existing tax treaties, that could result in a material increase in our taxes. We cannot predict whether any specific legislation will be enacted or the terms of any such legislation. However, if such proposals were to be enacted, or if modifications were to be made to certain existing treaties, the consequences could have a materially adverse impact on us, including increasing our tax burden, increasing costs of our tax compliance or otherwise adversely affecting our financial condition, results of operations and cash flows.

Work disruptions resulting from the expiration of our collective bargaining agreements or otherwise could result in increased operating costs and affect our operating performance.

Certain of our temporary Services Division craft employees, Koontz-Wagner employees and Mexico employees are represented by labor unions with which we have collective bargaining agreements. There can be no assurance that we will not experience labor disruptions associated with a lengthy strike or the expiration or renegotiation of collective bargaining agreements or other work stoppage at our Mexico facility or at our customer locations, which could adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

New regulations related to conflict minerals may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.

On August 22, 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted new requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties. We are currently evaluating whether these requirements apply to us. Companies that are subject to the rules must conduct due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. The implementation of these new requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of certain components incorporated in our products. In addition, to the extent the rules apply to us, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the diligence procedures that we implement, which may harm our reputation.

In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free.

We may incur additional healthcare costs arising from federal healthcare reform legislation.

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the U.S. This legislation extends health care coverage to many uninsured individuals and expands coverage to those already insured. The changes required by this legislation could cause us to incur additional healthcare and other costs.

Risk Factors Related to Our Liquidity and Capital Resources

Volatility and uncertainty of the credit markets may negatively impact us.

We intend to finance our existing operations and initiatives with existing cash and cash equivalents, investments, cash flows from operations and potential borrowings under our Revolving Credit Facility entered into on February 21, 2012. If adverse national and international economic conditions continue or deteriorate further, it is possible that we may not be able to fully draw upon our Revolving Credit Facility and we may not be able to obtain new financing on favorable terms. In addition, deterioration in the credit markets could adversely affect the ability of many of our customers to pay us on time and the ability of many of our suppliers to meet our needs on a competitive basis. If we cannot access necessary additional funds on acceptable terms, our business and operations may be negatively impacted.

Our inability to obtain adequate surety bonding or letters of credit could reduce our ability to bid on new work, which could have a material adverse effect on our future revenue and business prospects.

In line with industry practice, we are often required to provide performance and surety bonds to customers and may be required to provide letters of credit. These bonds and letters of credit provide credit support for the client if we fail to perform our obligations under the contract. If security is required for a particular project and we are unable to obtain a bond or letter of credit on terms commercially acceptable to us, we may not be able to pursue that project. In addition, bonding may be more difficult to obtain in the future or may only be available at significant additional cost as a result of general conditions that affect the insurance and bonding markets. Surety bonds and letters of credit may cease to be available to us on commercially reasonable terms.

The limitations and covenants contained in our Revolving Credit Facility could constrain our ability to borrow additional money, sell assets and make acquisitions. Compliance with these restrictions and covenants may limit our ability to fully implement elements of our business strategy.

Our Revolving Credit Facility contains a number of limitations and covenants that could limit our ability and that of our subsidiaries to:

- borrow money or make capital expenditures;
- incur liens;
- pay dividends or make other restricted payments;
- merge or sell assets;
- enter into transactions with affiliates; and

make acquisitions.

In addition, our Revolving Credit Facility contains other covenants, including covenants that require us to maintain specified financial ratios, including total leverage and interest coverage.

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If we are unable to remain in compliance with our financial covenants currently in effect under our Revolving Credit Facility or obtain additional amendments or waivers from our lenders, we may be forced to reduce or delay capital expenditures and business acquisitions, restructure or refinance our indebtedness, decline certain business opportunities from customers or seek additional capital.

If we were required to write down our goodwill or other indefinite lived long-term assets, our results of operations and stockholders equity could be materially adversely affected.

We have approximately $126.6 million of goodwill and indefinite lived long-term assets recorded on our consolidated balance sheet as of December 31, 2012. We are required to review goodwill and indefinite lived long-term assets for impairment at least annually in accordance generally accepted accounting principles in the U.S. If our results of operations decline, an impairment may be triggered. If we were required to write down our goodwill or long-lived assets, our results of operations and financial position could be materially adversely affected.

We are exposed to market risks from changes in interest rates and foreign currency exchange rates.

We are subject to market risk exposure related to changes in interest rates and from fluctuations in foreign currency exchange rates. Portions of our operations are located in foreign jurisdictions and a portion of our billings is paid in foreign currencies. Changes in foreign currency exchange rates or weak economic conditions in foreign markets could therefore cause fluctuations in revenue derived from foreign operations. For example, a decrease in the value against the U.S. dollar of the foreign currency we receive for a project as to which a significant portion of our costs are incurred in U.S. dollars would adversely affect our revenue, as expressed in U.S. dollars, and our net income from that project. In addition, sales of products and services are affected by the value of the U.S. dollar relative to other currencies. Changes in foreign currency rates can also affect the costs of our products purchased or manufactured outside the U.S. Changes in interest rates or foreign currency exchange rates could materially adversely affect our results of operations and financial position.

Risk Factors Related to Our Common Stock

Our common stock, which is listed on the NASDAQ Stock Market, may from time to time experience significant price and volume fluctuations and our stockholders may not be able to resell their shares of common stock at or above the purchase price paid.

The market price of our common stock may change significantly in response to various factors and events beyond our control, including the following:

- the risk factors described in this Item 1A;
- the significant concentration of ownership of our common stock in the hands of a small number of institutional investors;
- a shortfall in operating revenue or net income from that expected by securities analysts and investors;
- changes in securities analysts estimates of our financial performance or the financial performance of our competitors or companies in our industry;
- general conditions in our customers industries; and
- general conditions in the security markets.

Some companies that have volatile market prices for their securities have been subject to security class action suits filed against them. If a suit were to be filed against us, regardless of the outcome, it could result in substantial costs and a diversion of our management s attention and resources. This could have a material adverse effect on our business, results of operations and financial condition.

Future sales of our common stock may depress our stock price.

Sales of a substantial number of shares of our common stock in the public market or otherwise, either by us, a member of management or a major stockholder, or the perception that these sales could occur, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

The limited liquidity for our common stock could affect your ability to sell your shares at a satisfactory price.

Our common stock is relatively illiquid. As of December 31, 2012, we had 16,804,826 shares of common stock outstanding. The average daily trading volume in our common stock, as reported by the NASDAQ Global Select Market, for the 50 trading days ending on December 31, 2012 was less than 72,000 shares. A more active public market for our common stock may not develop, which could adversely affect the trading price and liquidity of our common stock. Moreover, a thin trading market for our stock could cause the market price for our common stock to fluctuate significantly more than the stock market as a whole. Without a larger float, our common stock is less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile. In addition, in the absence of an active public trading market, stockholders may be unable to liquidate your shares of our common stock at a satisfactory price.

There can be no assurance that we will continue to declare cash dividends or repurchase stock.

On May 30, 2012, our Board of Directors adopted a dividend policy pursuant to which we would pay quarterly dividends on our common stock and authorized the repurchase of up to two million shares of our common stock. Whether we continue these programs and the amount and timing of such dividends and/or stock repurchases are subject to capital availability and periodic determinations by our Board of Directors that cash dividends and/or stock repurchases are in the best interest of our stockholders and are in compliance with all respective laws and agreements of the Company applicable to the declarations and payment of cash dividends and the repurchase of stock. Future dividends and stock repurchases, their timing and amount, as well as the relative allocation of cash between dividends and stock repurchases, may be affected by, among other factors: our views on potential future capital requirements for organic initiatives and strategic transactions, including acquisitions; debt service requirements; our credit rating; changes to applicable tax laws or corporate laws; and changes to our business model. In addition, the amount we spend and the number of shares we are able to repurchase under our stock repurchase program may further be affected by a number of other factors, including the stock price and blackout periods in which we are restricted from purchasing shares. Our dividend payments and/or stock repurchases may change from time to time, and we cannot provide assurance that we will continue to declare dividends and/or repurchase stock in any particular amounts or at all. A reduction in or elimination of our dividend payments and/or stock repurchases could have a negative effect on our stock price.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

Our corporate office is currently located in Irving, Texas. We have ten other U.S. facilities, as well as facilities in The Netherlands, Mexico and China. The following table sets forth information about our principal facilities as of December 31, 2012:

Location	Owned/Leased (Expiration Date)	Approximate Sq. Footage	Principal Uses
Irving, Texas	Leased (8/31/17)	11,000	Administrative office (corporate headquarters)
Products Division			
Tulsa, Oklahoma	Leased (8/31/16)	41,000	Manufacturing and administrative office
South Bend, Indiana	Leased [(1)]	110,000	Manufacturing and administrative office
Auburn, Massachusetts	Owned / Leased (3/31/15)	110,000	Manufacturing and administrative office
North Adams, Massachusetts	Leased (11/30/13)	24,000	Manufacturing and administrative office
Heerlen, The Netherlands	Leased (10/31/14)	53,000	Administrative office
Monterrey, Mexico	Owned	135,000	Manufacturing and administrative office
Services Division			
Atlanta, Georgia	Leased (10/31/17)	24,000	Administrative office

(1) We lease two facilities in South Bend, Indiana. These leases expire on July 26, 2019 and September 24, 2020.

We consider each of our facilities to be in good operating condition and sufficient for our current use. Our U.S. real property is encumbered by liens under our Revolving Credit Facility. We have entered into a commitment to acquire in 2014 our office in Heerlen, The Netherlands for $0.9 million in U.S. Dollars, based on the exchange rate as of December 31, 2012.

Item 3. Legal Proceedings.

For a description of our material pending legal and regulatory proceedings and settlements, see Note 15 *Commitments and Contingencies* included in our consolidated financial statements beginning on page F-1.

Item 4. Mine Safety Disclosures.

Not applicable.

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Part II

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

Market Price of Our Common Stock

Our common stock is listed on the NASDAQ Stock Market under the trading symbol GLPW. The following table sets forth the high and low sale prices for our common stock based on intra-day high and low prices during the periods indicated:

2012 Quarter Ended	High	Low
December 31, 2012	$ 18.57	$ 13.55
September 30, 2012	$ 22.30	$ 17.47
June 30, 2012	$ 28.17	$ 16.18
March 31, 2012	$ 28.98	$ 22.14
2011 Quarter Ended	**High**	**Low**
December 31, 2011	$ 28.58	$ 20.89
September 30, 2011	$ 27.23	$ 22.08
June 30, 2011	$ 30.18	$ 24.96
March 31, 2011	$ 29.03	$ 20.59

As of March 4, 2013, the closing price of our common stock was $16.66 per share. There were 16,831,129 shares of our common stock outstanding and there were approximately 98 holders of record of our common stock. We believe that the number of beneficial holders of our common stock is substantially greater than the number of holders of record.

Dividends

In May 2012, our Board of Directors approved a dividend policy pursuant to which it plans to make, subject to subsequent declaration, quarterly dividends. The dividends declared during each of the second, third and fourth quarters of 2012 were $0.09 per share and dividends paid totaled approximately $1.5 million in each of the second, third and fourth quarters of 2012. The terms of our Revolving Credit Facility limit the amount of cash dividends we can pay and such terms are defined in the Revolving Credit Facility agreement. The timing and amounts of any future dividends are subject to determination and approval by our Board of Directors.

Securities Authorized for Issuance Under Equity Compensation Plans

The information called for by this item is incorporated by reference from our Proxy Statement relating to our 2013 Annual Meeting of Stockholders, which we will file with the SEC within 120 days after our December 31, 2012 fiscal year end.

Warrant Exercises

As of December 31, 2012, all of the originally issued warrants to purchase 1,807,236 shares had been exercised. The warrants were exercised from 2009 to 2012 for both cash and in cashless transactions, and as a result, we issued 1,218,461 shares of common stock in connection with such exercises. In connection with exercises in cashless transactions, shares of common stock were withheld and such shares are held by us as treasury shares.

Recent Sales of Unregistered Securities

All prior sales of unregistered securities have been previously reported either on a Current Report on Form 8-K or a Quarterly Report on Form 10-Q.

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Issuer Purchase of Equity Securities

The following table presents information regarding share repurchases of our common stock on a monthly basis during the fourth quarter of 2012.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plan (2)
October 1-31, 2012	166,733	$ 18.05	166,230	1,797,969
November 1-30, 2012	200,000	$ 14.09	200,000	1,597,969
December 1-31, 2012	19,700	$ 16.83	19,700	1,578,269
Total	386,433	$ 15.93	385,930	1,578,269

(1) Total number of shares purchased during the fourth quarter of 2012 included 503 shares that were not purchased pursuant to a publicly announced plan, but were surrendered to satisfy statutory minimum tax withholding obligations in connection with the vesting of restricted stock awards issued to employees under our stockholders-approved long-term incentive plan.

(2) Our share repurchase program was approved by the Board on May 30, 2012 and allows for repurchase of up to two million shares of our common stock until the earlier of June 30, 2014 or a determination by the Board of Directors to discontinue the repurchase program. The repurchase program does not obligate us to acquire any specific number of shares.

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Item 6. Selected Financial Data.

Selected Financial Data

The following table provides selected consolidated financial data for the periods shown. The data for the last five years has been derived from our audited consolidated financial statements. Our results are not necessarily indicative of future performance or results of operations. All of the data in the table should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, in Item 7, and our consolidated financial statements and related notes included in this Annual Report on Form 10-K.

	Years Ended December 31,				
($ in thousands, except per share data)	**2012**	**2011**	**2010**	**2009**	**2008**
Statement of Operations [1]					
Total revenue	$ 462,828	$ 456,839	$ 482,470	$ 499,633	$ 486,937
Gross profit	83,054	77,117	87,281	78,744	84,723
Gross profit percentage	18%	17%	18%	16%	17%
Selling and administrative expenses	62,608	50,561	47,662	41,131	44,370
Reorganization expense (income)		17	(1,477)	1,030	23,574
Operating income	20,446	26,539	41,096	36,583	16,779
Interest expense, net	1,563	1,119	7,052	9,667	11,667
Other expense (income), net	282	(98)	(1,026)	(57)	(33)
Income from continuing operations before income tax	18,601	25,518	35,070	26,973	5,145
Income tax expense (benefit)	1,031	(37,538)	5,964	4,645	2,536
Income from continuing operations	17,570	63,056	29,106	22,328	2,609
Income from discontinued operations [2]	24	13,802	11,529	5,559	32,229
Net income	$ 17,594	$ 76,858	$ 40,635	$ 27,887	$ 34,838
Earnings Per Share from continuing operations:					
Basic	$ 1.04	$ 3.95	$ 1.91	$ 1.49	$ 0.18
Diluted	$ 1.02	$ 3.70	$ 1.78	$ 1.43	$ 0.18
Common shares outstanding:					
Weighted-average shares outstanding					
Basic	16,885	15,981	15,254	14,972	14,267[3]
Diluted	17,248	17,024	16,321	15,591	14,593[3]
Balance Sheet					
Current assets	$ 190,102	$ 200,542	$ 158,439	$ 211,803	$ 184,800
Total assets	$ 344,818	$ 316,150	$ 265,725	$ 326,011	$ 301,039
Current liabilities	$ 70,140	$ 51,593	$ 64,555	$ 145,601	$ 115,132
Long-term debt (including current portion)	$	$	$	$ 65,325	$ 85,000
Stockholders equity	$ 269,998	$ 258,654	$ 179,056	$ 136,478	$ 105,273
Cash dividends declared per common share	$ 0.27	$	$	$	$

(1) Operating results include the 2012 Acquisitions beginning in the third quarter of 2012.

(2) Discontinued operations includes the results of our discontinued operations related to the sale of the Deltak business unit in 2011, the winding down of the Deltak large-scale HRSG operations and the 2009 receipt of proceeds from funds held in escrow from the 2007 sale of Global Power Asia, Ltd.

(3) Pursuant to our Bankruptcy Plan of Reorganization, all outstanding equity interests in Global Power were cancelled as of January 22, 2008. Each holder of an equity interest as of November 6, 2007 received a non-transferable, non-certificated right to purchase up to its pro rata share of the new common stock in a rights offering that commenced on November 6, 2007 and expired on December 13, 2007. As a result, on January 22, 2008, we issued 14,744,009 shares of new common stock.

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

The following discussion provides an analysis of the results for each of our business segments, an overview of our liquidity and capital resources and other items related to our business. It contains forward-looking statements about our future revenue, operating results and expectations. See Cautionary Statement Regarding Forward-Looking Statements and Part I, Item 1A Risk Factors for a discussion of the risks, assumptions and uncertainties affecting these statements. This discussion and analysis should be read in conjunction with Part I of this Annual Report on Form 10-K as well as our consolidated financial statements and notes thereto included in this Annual Report on Form 10-K.

Industry Trends and Outlook

Products Division. Demand for our product lines has historically fluctuated with industrial demand for new power generating capacity and energy infrastructure. Our products are sold globally and there is generally about nine to 12 months from when the order is booked until it is shipped for our Braden business unit and the production cycle is generally four months or less for our Consolidated Fabricators, TOG and Koontz-Wagner business units. Demand for our products is based on worldwide economic growth and long-term views regarding natural gas as an energy source.

With forecasted long-term growth in global energy demand and an increased focus on shale gas development in North America and other markets, we believe that demand for gas-fired power generation plants is likely to strengthen over time due to their relatively quick construction times, low capital costs and low carbon emissions as compared to other forms of fossil-fueled power plants. While renewable energy sources could reduce future gas-fired power additions, we believe gas-fired power generation is likely to continue to be the preferred choice for stand-by capacity to complement intermittent forms of renewable energy. We also believe that renewable energy sources have a higher cost when compared to traditional forms of power generation. Economic recovery has typically been accompanied by a rise in commodity prices.

We expect the demand for power generating capacity additions in certain emerging markets will out-pace growth in developed markets over the near term. In regions where natural gas is plentiful, we expect that gas-fired power generation is likely to be the preferred fuel source for baseload power. Various developed and emerging markets are making capital investments in natural gas pipelines and related infrastructure. These investments could contribute to more stabilized natural gas pricing which is generally favorable to the gas-fired power generation market as a whole.

U.S. and international markets have been slow to recover since the global financial crisis that began in 2008. Growth of the world economy has weakened during 2012, and is expected to remain subdued in 2013. During the first half of 2012, we saw increases in certain markets, led by the Middle East and the U.S. However, new orders in the second half of 2012 slowed considerably in response to a slowing recovery in the U.S., a prolonged recovery in Europe, and slowing growth in the global economy. Continued political and social unrest in the Middle East and North Africa could result in supply disruptions, order delays or both, which could adversely affect our financial results. Within Europe, we expect demand for new power projects to remain low principally as a result of the European sovereign debt crisis which may also impact global infrastructure investment. While we believe that our contract terms, procurement procedures and global customer base make it less likely that a change in foreign currency rates could have a significant impact on operating results, there remains significant uncertainty regarding the Euro in 2013. Should the European economic or sovereign debt crisis result in heightened volatility, our results of operations could be affected.

Our overall long-term outlook remains positive as demand increases for global power generation capacity additions, but has been affected by short-term headwinds resulting from continued macro-economic uncertainties and a slowing global recovery. Natural gas power generation remains a less expensive and a lower emission alternative to coal-fired power generation, and we are in a strong position to take advantage of this once a sustainable recovery takes hold for utility-scale turbine projects.

In the third quarter of 2012, we expanded our OEM offerings with the acquisition of Koontz-Wagner and our repair and replacement parts product line with the acquisition of TOG. These acquisitions allow us to broaden our product and service offerings to the power generation market as well as to expand into the oil and gas pipeline infrastructure market. Currently, orders from the oil and gas pipeline infrastructure market are robust and we anticipate this market to be a source of revenue growth in 2013 for our business. We expect our Products Division revenue in 2013 to remain flat with 2012 as the increase in revenue from our new Koontz-Wagner and TOG businesses will offset a decline in our Braden business. We expect the near-term market to be challenging due to a limited number of new gas turbine installations putting pressure on gross margins in 2013.

Services Division. Demand for plant upgrades, modification and maintenance services in the U.S. has been positively impacted by the aging infrastructure of nuclear power generation facilities and the tendency of plant owners electing to outsource these services as a means of reducing fixed costs. Our level of plant modification and maintenance work performed at nuclear power plants trended downward in 2012 and is expected to return to normalized levels in 2013 with period-to-period fluctuations resulting from the timing of particular outages within our customer base.

Within our modification and maintenance services, our customers have experienced lower demand for power as a result of current economic conditions and the mild winter in 2011. Our customers are also experiencing increased competition due to low natural gas prices. As a result, some of our customers reduced the scope of elective maintenance projects. Capital spending constraints and deferred maintenance requirements negatively impacted revenues in 2012 but we expect an increased volume of bid activity in 2013.

In addition to our traditional modification and maintenance services, we are seeking to align with complementary service providers to provide turn-key EPC services for larger capital and maintenance projects. We see this alignment as an area of continued future growth that would allow us to reach new customers and markets and would provide cyclical offsets to the timing of refueling outages in our traditional modification and maintenance business. We also expanded our service offerings with other complementary offerings including valve maintenance and repair services and unique coating applications that enhance the value of the coatings to allow customers to obtain a longer coating life.

While we provide most of our specialty services as an addendum to our traditional modification and maintenance services at power plants, we also service customers in other segments of the market including pulp and paper and conventional power. As a result of economic conditions in those segments, the growth opportunities for our specialty services are focused on niche service offerings, typically within our existing customer base.

We participated in all of the U.S. new and re-start nuclear plant projects in 2012. Our performance in 2012 has positioned us to increase our level of participation in 2013. We also made investments through workforce additions in 2012 to position us for additional nuclear work as well as expand our end markets. These investments increased our operating costs slightly in 2012, but will provide resources that will develop opportunities for long-term growth.

In connection with the Fukushima, Japan incident in March 2011, the NRC has issued preliminary guidance related to certain modifications on the U.S. nuclear fleet, but the timing and scope of such modifications remain uncertain as U.S. utilities evaluate how these preliminary guidelines will apply to their nuclear sites. We do anticipate some projects to begin to materialize by the second half of 2013 from this guidance.

Our overall long-term outlook remains positive as we believe the U.S. nuclear industry will continue to utilize third-party contractors to service the aging infrastructure under an increasing regulatory environment that drives baseline maintenance and capital investments.

Executing our Business Strategy and other costs. As we seek to execute our business strategy we anticipate an increase in selling and administrative expenses as we invest in technologies and develop our team. In addition, the potential effects of implementing and compliance with the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 act on our selling and administrative expenses are uncertain.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions and conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements included under page F-1 of this Annual Report on Form 10-K.

Revenue Recognition. We are organized in two reportable segments; the Products Division and the Services Division. Substantially all of our revenue within the Products Division are derived from fixed-priced contracts. Within the Services Division, we enter into a variety of contract structures including cost plus reimbursements, time and material contracts and fixed-price contracts. The determination of the contract structure within the Services Division is based on the scope of work, complexity and project length and customer preference and contract terms. We expense pre-contract costs as incurred. Change orders are included in total estimated contract revenue when they can be reliably estimated and it is probable that the change order will be approved by the customer or realized. Costs related to change orders are recognized when they are incurred. In our Products Division, revenue for gas turbine auxiliary and control house equipment is recognized on the completed contract method, typically when the unit is delivered and title and risk of loss have transferred to the customer. Revenue for the Selective Catalytic Emission Reduction (SCR) product line in the Products Division and the fixed-price contracts in the Services Division are recognized on the percentage-of-completion method.

The percentage-of-completion method generally results in the recognition of reasonably consistent profit margins over the life of a contract since management has the ability to produce reasonably dependable estimates of contract billings and contract costs. We use the level of profit margin that is most likely to occur on a contract. If the most likely profit margin cannot be precisely determined, the lowest probable level of profit in the range of estimates is used until the results can be estimated more precisely. Our estimate of the total contract costs to be incurred at any particular time has a significant impact on the revenue recognized for the respective period. Changes in job performance, job conditions, estimated profitability, final contract settlements and resolution of claims may result in revisions to costs and income, and the effects of such revisions are recognized in the period that the revisions are determined. Estimated losses on uncompleted contracts are recognized in the period in which they first become apparent. Under percentage-of-completion accounting, management must also make key judgments in areas such as the percentage-of-completion, estimates of project revenue, costs and margin, estimates of total and remaining project hours and liquidated damages assessments. Any deviations from estimates could have a significant positive or negative impact on our results of operations.

Products Division revenue for gas turbine auxiliary and control house equipment is recognized on the completed contract method, typically when the unit is shipped. Certain of these contracts specify separate delivery dates of

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individual equipment units or require customer acceptance of a product. In circumstances where separate delivery dates of individual equipment units exist, we recognize revenue when the customer assumes the risk of loss and title for the equipment, which is generally the date the unit is shipped, and corresponding costs previously deferred are charged to expense. In circumstances where the contract requires customer acceptance of a product in addition to transfer of title and risk of loss to the customer, revenue is either recognized (i) upon shipment when we are able to demonstrate that the customer specific objective criteria have been met or (ii) upon customer acceptance. Once title and risk of loss have transferred and, where applicable, customer acceptance is complete, we have no further performance obligations. Our SCR product line follows percentage-of-completion method based on cost-to-cost input measures. Regardless of contract provisions, we require that the customer assumes risk of loss and title, and the installation is operating according to specifications or is an uninstalled unit that has been accepted by the customer for revenue to be recognized. Changes in job performance, job conditions, estimated profitability, final contract settlements and resolution of claims may result in revisions to job costs and income amounts that are different than amounts originally estimated.

Cost plus and time and material contracts represent the majority of the contracts in the Service Division. For these contract types, we recognize revenue when services are performed based upon an agreed-upon price for the completed services or based upon the hours incurred and agreed-upon hourly rates. Some of our contracts include provisions that adjust contract revenue for safety, schedule or other performance measures. On cost reimbursable contracts, revenue is recognized as costs are incurred and includes applicable mark up earned through the date services are provided. Fixed price contracts are recognized under the percentage-of-completion method using cost-to-cost measures.

We may incur costs subject to change orders, whether approved or unapproved by the customer, and/or claims related to certain contracts. We determine the probability that such costs will be recovered based upon evidence such as past practices with the customer, specific discussions or preliminary negotiations with the customer or verbal approvals. We treat items as a cost of contract performance in the period incurred and will recognize revenue if it is probable that the contract price will be adjusted and can be reliably estimated.

Revenue and cost of revenue for the discontinued Deltak business unit were recognized on the percentage-of-completion method based on the percentage of actual hours incurred to date in relation to total estimated hours for each contract. This method was used because management considered expended labor hours to be the best available measure of progress on these contracts.

Long-Lived Assets. In accordance with Accounting Standards Codification (ASC) 360-10-35 *Subsequent Measurement Impairment or Disposal of Long-Lived Assets,* we group long-lived assets at the lowest level for which cash flows are largely independent. Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable according to ASC 360-10-05 *Impairment or Disposal of Long-Lived Assets*. If circumstances require a long-lived asset be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. We have determined that no events or change in circumstances have occurred that indicate that the carrying amount of any of our long-lived assets may not be recoverable.

Goodwill. Goodwill represents the excess of costs over fair value of net assets of businesses acquired. In accordance with ASC 350-20 *Intangibles-Goodwill*, we evaluate goodwill for impairment annually and when an event occurs or circumstances change to suggest that the carrying value may not be recoverable. In September 2011, the Financial Accounting Standards Board (FASB) issued guidance on the testing of goodwill impairment giving entities an option of performing a qualitative assessment before having to calculate the fair value of a reporting unit; however, we did not choose the qualitative assessment only option. Consequently, we executed a quantitative based impairment test as of December 31, 2012.

During 2012, 2011 and 2010, we performed our annual impairment review of goodwill and concluded that the estimated fair value of each reporting unit substantially exceeded the related carrying value and therefore no impairment was recorded. We also assess goodwill at the end of a quarter if a triggering event occurs. In determining whether an interim triggering event has occurred, management monitors (i) the actual performance of the business relative to the fair value assumptions used during our annual goodwill impairment test and (ii) significant changes to future expectations. In connection with the 2012 Acquisitions, we increased the Products Division goodwill by $15.3 million. In connection with the sale of the Deltak business unit in 2011, we reduced the Products Division goodwill by $6.4 million on August 31, 2011 and performed an assessment as of the transaction date of the reporting unit affected and concluded that the estimated fair value of the affected reporting unit substantially exceeded the related carrying value and therefore no impairment was recorded.

We estimate a portion of the fair value of our reporting units under the income approach by utilizing a discounted cash flow model based on several factors including balance sheet carrying values, historical results, our most recent forecasts, and other relevant quantitative and qualitative information. We discount the related cash flow forecasts using the weighted-average cost of capital at the date of evaluation. We also use the market approach to estimate the remaining portion of our reporting unit valuation. This technique utilizes comparative market multiples in the valuation estimate. While the income approach has the advantage of utilizing more company specific information, the market approach has the advantage of capturing market based transaction pricing.

Preparation of forecasts and the selection of the discount rate involve significant judgments that we base primarily on existing firm orders, expected future orders, and general market conditions. Significant changes in these forecasts, the discount rate selected, or the weighting of the income and market approach could affect the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period.

The combined estimated fair value of all of our reporting units from the weighted total of the market approach and income approach often results in a premium over our market capitalization, commonly referred to as a control premium. The calculated control premium percentage is evaluated and compared to an estimated acceptable midpoint percentage. In the event that the calculated control premium is above this midpoint, a portion of the excess control premium is allocated to reduce the fair value of each reporting unit in order to further assess whether any reporting units have incurred goodwill impairment. Assessing the acceptable control premium percentage requires judgment and is impacted by external factors such as observed control premiums from comparable transactions derived from the prices paid on recent publicly disclosed acquisitions in our industry.

Income Taxes. We account for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. We measure deferred tax assets and liabilities using enacted tax rates expected to be applied to taxable income in the years in which those differences are expected to be recovered or settled. We recognize in income the effect of a change in tax rates on deferred tax assets and liabilities in the period that includes the enactment date.

Under ASC 740 *Income Taxes* (ASC 740), FASB requires companies to assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available positive and negative evidence, and utilizing a more likely than not standard. In making such assessments, significant weight is given to evidence that can be objectively verified. A company s current or previous operating history are given more weight than its future outlook, although we do consider future taxable income projections, ongoing tax planning strategies and the limitation on the use of carryforward losses in determining valuation allowance needs. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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In the fourth quarter of 2012, we did not place valuation allowances against foreign tax credits generated in 2012 in accordance with ASC 740. Based on the Company s future strategy, its recent utilization of net operating loss (NOL) carryforwards, the scheduled reversal of deferred tax liabilities, historical operating income, projected future taxable income, and projected foreign source income, it is reasonably possible that certain foreign tax credit valuation allowances may be released in the near term in accordance with ASC 740. The potential range of foreign tax credit valuation allowance releases are projected to be between $0 and $5.7 million.

We recognized future cash tax benefits in the fourth quarter of 2012 of $3.9 million related to the increase of deferred tax assets. We also recognized non-recurring, non-cash tax benefits in the fourth quarter of 2012 of $1.8 million related to the release of ASC 740 liabilities for uncertain tax positions as of December 31, 2012.

In the second quarter of 2011, we significantly reduced our valuation allowances against deferred tax assets for intangible assets, accruals and U.S. NOL carryforwards in accordance with ASC 740. Management s assessment in 2012 and 2011 included consideration of all available positive and negative evidence including, among other evidence, the scheduled reversal of deferred tax liabilities (including the impact of available carry back and carry forward periods), recent utilization of NOL carryforwards, historical operating income, projected future taxable income, including foreign source income, customer concentration, tight credit markets, and tax planning strategies. Based on the weight of the available evidence, we determined that it was more likely than not that the U.S. and foreign NOL carryforwards and foreign tax credit carryforwards generated during 2012 were realizable based on the guidance provided in ASC 740. Based on expectations of taxable income, foreign source income and the ten year carryforward, foreign tax credits generated in 2012 are expected to be realized and did not require a valuation allowance. Because the U.S. NOL carryforwards were expected to be realized due to 2011 and future year s income, only the portion attributable to future year s income was released as a discrete event during the second quarter of 2011. The remainder was allocated to subsequent interim periods in 2011 as income was realized and would have adjusted the estimated annual effective tax rate.

We recognized a non-recurring, non-cash tax benefit in the second quarter of 2011 for continuing operations of $40.0 million related to the release of valuation allowances as of June 30, 2011. Our 2011 income allowed interim period decreases to the valuation allowance of $4.6 million and $1.3 million for third quarter and fourth quarter of 2011, respectively. Additionally, there were partially offsetting increases to valuation allowances in the second and fourth quarters of 2011 of $0.5 million and $0.3 million, respectively, for state NOL modifications. During the fourth quarter of 2011, we determined it was more likely than not that a portion of the foreign tax credit carryforwards were realizable and released the valuation allowance recorded against the portion of foreign tax credit carryforwards deemed realizable. Accordingly, we recognized a non-recurring, non-cash tax benefit at December 31, 2011 of $3.4 million related to the partial release of the valuation allowance in regards to foreign tax credit carryforwards.

We continue to record valuation allowances against a portion of foreign tax credit carryforwards and certain state NOL carryforwards based on our assessment that it is more likely than not that taxable income of the appropriate character will not be recognized in the appropriate jurisdictions before the carryforwards expire. As of December 31, 2012, we have valuation allowances of $6.3 million and $0.2 million recorded against foreign tax credit carryforwards and state NOL carryforwards, respectively.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize the tax benefit from uncertain tax positions only if it is more likely than not to be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. We believe that our benefits and accruals recognized are appropriate for all open audit years based on our assessment of many factors including past experience and interpretation of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is determined to be different than the amounts recorded, those differences will impact income tax expense in the period in which the determination is made. We anticipate we will release $0.1 million of accruals of uncertain tax positions as the statute of limitations related to these liabilities will lapse in 2013.

Warranty Costs. We estimate warranty costs based on past warranty claims, specific identification method, sales history and applicable contract terms. Our warranty terms vary by contract but generally extend for no more than three years after delivery or completion of services. We manage our exposure to warranty claims by having our field service and quality assurance personnel regularly monitor projects and maintain ongoing and regular communications with our customers.

Insurance. We self-insure a portion of our risk for health benefits and workers compensation. We maintain insurance coverage for other business risks including general liability insurance. We retain exposure to potential losses based on deductibles, coverage limits, and self-insured retentions. We charged approximately $6.6 million, $6.6 million and $6.0 million to expense during the years ended December 31, 2012, 2011 and 2010, respectively, with respect to health benefits, general liability and workers compensation claims incurred and related insurance premiums for excess claim coverage for continuing operations. Our reserves as of December 31, 2012 and 2011 consisted of estimated amounts unpaid for reported and unreported claims incurred. Our accrual for all self-insured risk retention as of December 31, 2012 and 2011 was $4.0 million and $4.7 million, respectively. As of December 31, 2012, we had $3.4 million in letters of credit outstanding as security for possible workers compensation claims.

Recent Accounting Guidance. For a discussion of recent accounting guidance and the expected impact that the guidance could have on our consolidated financial statements, see Note 2 *Summary of Significant Accounting Policies* included in our consolidated financial statements included in this Annual Report on Form 10-K.

Year 2012 Results

Selected financial and operating data for our reportable business segments for the most recent three years is summarized below. This information, as well as the selected financial data provided in Item 6 and our Consolidated Financial Statements and related notes included in this Annual Report on Form 10-K, should be referred to when reading our discussion and analysis of results of operations below.

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Our summary financial results during the years ended 2012, 2011 and 2010 are as follows ($ in thousands):

	Years Ended December 31,		
	2012	2011	2010
Products revenue	$ 193,676	$ 157,880	$ 105,009
Services revenue	269,152	298,959	377,461
Total revenue	462,828	456,839	482,470
Cost of products revenue	150,642	121,363	76,323
Cost of services revenue	229,132	258,359	318,866
Cost of revenue	379,774	379,722	395,189
Gross profit	83,054	77,117	87,281
Selling and administrative expenses	62,608	50,561	47,662
Reorganization expense (income)		17	(1,477)
Operating income	20,446	26,539	41,096
Interest expense, net	1,563	1,119	7,052
Other expense (income), net	282	(98)	(1,026)
Income from continuing operations before income tax	18,601	25,518	35,070
Income tax expense (benefit)	1,031	(37,538)	5,964
Income from continuing operations	17,570	63,056	29,106
Discontinued operations:			
Income from discontinued operations, net of tax	284	2,624	11,529
(Loss) gain on disposal, net of tax	(260)	11,178	
Income from discontinued operations	24	13,802	11,529
Net income	$ 17,594	$ 76,858	$ 40,635

Products:

Operating results for our Products Division reflect higher shipment volumes for our Braden and Consolidated Fabricators business units compared to the prior year period primarily due to increased activity in the Middle East and the U.S. Gross margins realized during the year ended December 31, 2012 were materially similar to those realized in 2011.

During 2012, we also expanded our OEM offerings with the acquisition of Koontz-Wagner and our repair and replacement parts product line with the acquisition of TOG; both acquisitions closed during the third quarter of 2012.

Services:

Volumes in our Services Division depend in significant part upon our customers scheduling of refueling outages and timing of capital project work, which historically has varied from year to year and within each calendar year. As a result, the volume of outage work in any calendar year may vary as compared to prior years and during the course of the year as projects are commenced and completed. During 2012, we experienced a reduction in refueling outage work at nuclear power plants as a result of capital spending constraints and deferred maintenance requirements in response to lower electricity demand and two consecutive mild winters in 2011 and 2012. Offsetting the reduction in refueling outage work was a higher level of capital project work compared to 2011 related to our participation on new build and re-start nuclear project sites in the U.S. Our margins realized during 2012 have improved from 2011 due to operational execution and efficient project management on capital projects.

Backlog:

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

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

The following table shows our backlog, by segment, as of December 31, 2012, 2011 and 2010 ($ in thousands):

	Backlog as of December 31,		
	2012	**2011**	**2010**
Products Backlog	$ 113,193	$ 130,614	$ 100,700
Services Backlog	280,561	213,433	229,913
Total	$ 393,754	$ 344,047	$ 330,613

Our Products Division backlog as of December 31, 2012 decreased from December 31, 2011 by $17.4 million. Included in our Products Division backlog as of December 31, 2012 was $24.5 million related to the 2012 Acquisitions. Excluding the 2012 Acquisitions, Products Division backlog decreased by $42.1 million from December 31, 2011. This decrease was primarily driven by heavy volume shipments during the fourth quarter outpacing new orders. Proposal activity is robust for oil and gas pipeline infrastructure projects, and power generation project proposals remain steady with a heavier mix expected to ship in 2014 or later. Excluding the effects of the 2012 Acquisitions, the ratio of orders booked to orders shipped was 0.8-to-1 during the year ended December 31, 2012.

Our Services Division backlog as of December 31, 2012 increased from December 31, 2011 by $67.1 million. The increase in backlog from December 31, 2011 was primarily due to the renewal of a multi-year maintenance and modification contract as well as scope expansion on multi-year new build and re-start nuclear project sites. The build in backlog from new project bookings more than offset the impact of lower backlog from our core maintenance and modification services due to customer budget constraints. Of the $280.6 million in Services Division backlog as of December 31, 2012, we expect an estimated $74.3 million to convert to revenue beyond 2013. The ratio of project awards added to backlog to services rendered was 1.3-to-1 during the year ended December 31, 2012.

Year ended December 31, 2012 compared to year ended December 31, 2011

Revenue

($ in thousands)			Variance	
	2012	**2011**	**$**	**%**
Products revenue	$ 193,676	$ 157,880	$ 35,796	22.7%
Services revenue	269,152	298,959	(29,807)	-10.0%
Total	$ 462,828	$ 456,839	$ 5,989	1.3%

Products Revenue. The composition of our Products Division revenue varies from period to period based on our product mix, the strength of various geographic markets we serve and our ability to address those markets. The geographic dispersion of where products were shipped during the years ended 2012 and 2011 was as follows:

($ in thousands)			Variance	
	2012	**2011**	**$**	**%**
United States	$ 56,009	$ 42,489	$ 13,520	31.8%
Canada	4,306	5,800	(1,494)	-25.8%
Europe	8,583	5,513	3,070	55.7%
Mexico	4,091	4,568	(477)	-10.4%
Asia	14,920	19,028	(4,108)	-21.6%
Middle East	82,596	62,353	20,243	32.5%
South America	17,182	10,289	6,893	67.0%
Other	5,989	7,840	(1,851)	-23.6%
Total	$ 193,676	$ 157,880	$ 35,796	22.7%

The $35.8 million or 22.7% increase in Products Division revenue during the year ended December 31, 2012, compared to the corresponding period in 2011, was primarily due to increased shipments to the Middle East and the U.S. and incremental revenue of $13.9 million associated with the 2012 Acquisitions as compared to the year ended December 31, 2011. Project shipments delayed by customer requests during the first half of 2012 shipped in the second half of 2012. Project delivery dates often change after a project is added to our backlog due to project site logistics or customer driven change orders among other reasons including transportation logistics.

Services Revenue. The decrease in Services Division revenue of $29.8 million or 10.0% during the year ended December 31, 2012, was primarily due to an approximate $24.7 million in net revenue reduction from outage work in the year ended December 31, 2012 as compared to the same period in 2011. The decline in outage work was primarily related to two fewer planned outages in 2012 as compared to 2011 as well as decreases in scope due to deferred maintenance and customer spending constraints. In addition, $27.5 million in revenue recognized in 2011 was attributable to a contract that has since expired. The impact of these volume reductions was partially offset by approximately $15.2 million from increased construction support work at new build and re-start nuclear reactor sites and approximately $7.2 million of increased capital project work.

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Gross Profit / Margin %

($ in thousands)			Variance	
	2012	2011	$	%
Gross Profit Products	$ 43,034	$ 36,517	$ 6,517	17.8%
Gross Margin %	*22.2%*	*23.1%*		
Gross Profit Services	$ 40,020	$ 40,600	$ (580)	-1.4%
Gross Margin %	*14.9%*	*13.7%*		
Total Gross Profit	$ 83,054	$ 77,117	$ 5,937	7.7%
Gross Margin %	*17.9%*	*17.0%*		

Products. The increase in Products Division gross profit during the year ended December 31, 2012 of $6.5 million compared to the corresponding period in 2011, was primarily due to increases in revenue associated with higher shipment volumes, which impacted gross profit dollars by approximately $5.1 million. In addition, the 2012 Acquisitions favorably impacted gross profit dollars by approximately $3.5 million. The effect of the volume increase was partially offset by a decrease in realized gross margin percentage. Contributing to the decrease in gross margin percentage were increased warranty costs of $0.9 million and unfavorable absorption of $0.9 million related to expansion for our parts manufacturing capacity.

Services. The decrease in Services Division gross profit during the year ended December 31, 2012 of $0.6 million compared to the corresponding period in 2011, was primarily due to the decrease in revenue, which impacted gross profit dollars by approximately $4.1 million. The effect of the volume reduction was partially offset by an increase in gross margin percentage primarily due to $2.2 million related to improved operational execution, efficient project management on capital projects in 2012 and a $1.1 million favorable insurance retention reserve adjustment based on an updated actuarial estimate due to continued improvements in our safety record.

Selling and Administrative Expenses

($ in thousands)			Variance	
	2012	2011	$	%
Selling and administrative expenses	$ 62,608	$ 50,561	$ 12,047	23.8%

Consolidated selling and administrative expenses include the costs associated with conducting our business, including general management, compensation and benefits of employees that are not direct costs of active projects, officers and directors, legal and professional fees and other general expenses.

Consolidated selling and administrative expenses increased by $12.0 million during the year ended December 31, 2012 as compared to the corresponding period in 2011. The increase was primarily due to $5.5 million in incremental expenses associated with the 2012 Acquisitions. Those costs included $2.9 million of transaction and integration costs as well as $1.0 million of non-cash intangible amortization expense. Also impacting the increase was $1.5 million in expenses related to CEO transition and other severance costs, $1.0 million increase in professional fees for strategic planning and tax projects and $0.6 million in higher non-cash stock compensation expense in 2012. Higher wages and benefits for the effect of a full 12 months of division and corporate management hires made in 2011 and 2012 also contributed $1.4 million to the increase in 2012. Additionally, within our Products Division, we incurred $1.3 million of incremental expenses related to product development, facility costs and expansion of our parts manufacturing capacity and $1.2 million related to the Enterprise Resource Planning (ERP) system implementation and incremental non-cash depreciation expense. These increases were partially offset by $0.5 million of non-cash intangible amortization expense that was fully amortized in 2011.

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Operating Income

($ in thousands)			Variance	
	2012	**2011**	**$**	**%**
Operating Income Products	$ 9,271	$ 10,865	$ (1,594)	-14.7%
Operating Income Services	11,175	15,674	(4,499)	-28.7%
Total	$ 20,446	$ 26,539	$ (6,093)	-23.0%

Products. Products Division operating income of $9.3 million during the year ended December 31, 2012 decreased $1.6 million or 14.7% compared to operating income of $10.9 million during the corresponding period in 2011. This was primarily due to $2.2 million of higher allocated corporate costs due to higher overall corporate costs. The increased corporate costs were impacted by the CEO transition, other severance costs, strategic planning and tax projects, higher wages and benefits for the effect of a full 12 months of corporate management hires made in 2011 and non-cash stock compensation expense. Also impacting the $1.6 million decrease was losses related to the acquisitions of $1.0 million primarily due to $1.9 million of business combination transaction costs. This was partially offset by higher organic profitability within the Products Division of $1.6 million primarily due to increases in revenue.

Services. Services Division operating income of $11.2 million during the year ended December 31, 2012 decreased $4.5 million or 28.7% compared to operating income of $15.7 million during the corresponding period in 2011. Operating margins were 4.2% and 5.2% during the years ended December 31, 2012 and 2011, respectively. This was primarily due to $3.2 million of higher allocated corporate costs due to higher overall corporate costs discussed above. Also impacting the decrease was a decline in gross profit of $0.6 million primarily due to lower revenue.

Interest Expense, net

($ in thousands)			Variance	
	2012	**2011**	**$**	**%**
Interest expense, net	$ 1,563	$ 1,119	$ 444	39.7%

Interest expense, net consists of interest on outstanding letters of credit, interest on our unused commitment and amortization of debt issuance costs offset by interest income earned on cash balances.

Interest expense, net increased $0.4 million or 39.7% during the year ended December 31, 2012, compared to the corresponding period in 2011. The increase was primarily attributable to extinguishing our Previous Credit Facility, resulting in a $1.1 million charge to write-off the remaining portion of unamortized debt issuance costs. Additionally, we incurred $0.1 million of interest expense related to borrowings on the Revolving Credit Facility during the fourth quarter of 2012. There were no borrowings during 2011. These increases were partially offset by $0.4 million in reduced amortization of debt issuance costs as well as lower interest expense of $0.4 million during 2012 due to lower rates on our unused commitments and outstanding letters of credit.

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Other Expense (Income), net

($ in thousands)			Variance	
	2012	**2011**	**$**	**%**
Other expense (income), net	$ 282	$ (98)	$ 380	-387.8%

The increase in other expense, net during the year ended December 31, 2012 compared to the corresponding periods in 2011, was primarily due to the impact of remeasuring U.S. dollars held in Europe to the functional Euro currency. We did not have a U.S. dollar cash balance in Europe during 2011.

Income Tax Expense (Benefit)

($ in thousands)			Variance	
	2012	**2011**	**$**	**%**
Income tax expense (benefit)	$ 1,031	$ (37,538)	$ 38,569	-102.7%

The increase in income tax expense during 2012 as compared to the income tax benefit during 2011 was primarily related to our large 2011 valuation allowances releases and increases to deferred tax assets and releases from uncertain tax positions which were larger than the 2012 releases from uncertain tax positions and increases to deferred tax assets.

The 2012 tax provision reflects increases to deferred tax assets and reductions in uncertain tax positions. In 2012, we realized deferred tax benefits resulting in future cash-tax savings of $3.9 million. We also released $1.8 million of accruals for uncertain tax positions due to lapsed statutes of limitations and for tax positions recognized during 2012.

The 2012 and 2011 valuation allowance releases on deferred tax assets for intangible assets, accruals, foreign tax credits and U.S. federal and state NOL carryforwards were calculated in accordance with ASC 740. Management s 2012 and 2011 assessments included consideration of all available positive and negative evidence including, among other evidence, the scheduled reversal of deferred tax liabilities (including the impact of available carry back and carry forward periods), recent utilization of NOL carryforwards, historical operating income, projected future taxable income, customer concentration, tight credit markets, and tax planning strategies. Based on results of the 2012 assessment, we determined that it was more likely than not that certain state and foreign NOL carryforwards were realizable based on the guidance provided in ASC 740. Based on results of the 2011 assessment, we determined that it was more likely than not that the applicable U.S. NOL carryforwards were realizable based on the guidance provided in ASC 740.

Our effective tax rate was 5.5% during 2012, compared to a negative 147.1% during 2011. The increase in our 2012 effective tax rate was primarily due to a fluctuation in the valuation allowance we used in connection with deferred tax assets that occurred during 2011. Other contributing factors included permanent differences between book and tax treatment of certain items, and mix of earnings in various tax jurisdictions. Increases to NOL carryforwards reduced our effective tax rate by 19.7% in 2012. Reductions to the valuation allowance reduced our effective tax rate by approximately 189.8% during 2011. Permanent differences between book and tax treatment of certain items increased our effective tax rate by approximately 2.1% during 2012 and 5.6% during 2011.

As of December 31, 2012, we would need to generate approximately $100.7 million of future financial taxable income to realize our deferred tax assets.

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Income from Discontinued Operations, Net of Tax

($ in thousands)			Variance	
	2012	2011	$	%
Income from discontinued operations, net of tax	$ 284	$ 2,624	$ (2,340)	-89.2%

Income from discontinued operations, net of tax during the year ended December 31, 2012 and 2011 were fully comprised of the Deltak business unit, divested on August 31, 2011. Income from discontinued operations, net of tax in 2012 consisted primarily of the expiration of warranty periods partially offset by costs incurred on the wind-down of in-process contracts and legal and professional fee expenses.

(Loss) Gain on Disposal of Discontinued Operations, Net of Tax

($ in thousands)			Variance	
	2012	2011	$	%
(Loss) gain on disposal, net of tax	$ (260)	$ 11,178	$ (11,438)	-102.3%

The loss on disposal of discontinued operations, net of tax of $0.3 million in 2012 was due to the final settlement with Hamon. In 2011, the gain on disposal of discontinued operations, net of tax of $11.2 million resulted from our August 2011 sale of the Deltak business unit.

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenue

($ in thousands)			Variance	
	2011	2010	$	%
Products revenue	$ 157,880	$ 105,009	$ 52,871	50.3%
Services revenue	298,959	377,461	(78,502)	-20.8%
Total	$ 456,839	$ 482,470	$ (25,631)	-5.3%

Products Revenue. The composition of our Products Division revenue varies from period to period based on our product mix, the strength of various geographic markets we serve and our ability to address those markets. The geographic dispersion of where products were shipped during the years ended 2011 and 2010 was as follows:

($ in thousands)			Variance	
	2011	2010	$	%
United States	$ 42,489	$ 49,562	$ (7,073)	-14.3%
Canada	5,800	983	4,817	490.0%
Europe	5,513	10,700	(5,187)	-48.5%
Mexico	4,568	372	4,196	1128.0%
Asia	19,028	6,980	12,048	172.6%
Middle East	62,353	13,311	49,042	368.4%
South America	10,289	14,679	(4,390)	-29.9%
Other	7,840	8,422	(582)	-6.9%
Total	$ 157,880	$ 105,009	$ 52,871	50.3%

The increase in Products Division revenue during 2011 as compared to 2010 was attributable to improved economic conditions as demand for gas turbine auxiliary equipment returned during 2011 following the global recession crisis which reduced industrial demand for and constricted project funding during 2010. Products destined for the Middle East led the recovery for our product offerings in 2011.

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Services Revenue. The composition of our Services Division revenue varies from period to period based on contract mix (lump-sum versus fixed-price and capital versus maintenance) and the number and scope of outages for our nuclear maintenance contracts. The decline in Services Division revenue during 2011 as compared to 2010 resulted from an approximate $105.6 million reduction in revenue from a large capital project that began in 2009 and was substantially completed in the first quarter of 2011. This decrease was partially offset by scheduled plant outage work and capital projects with other customers performed during 2011.

Gross Profit / Margin %

($ in thousands)			Variance	
	2011	**2010**	**$**	**%**
Gross Profit Products	$ 36,517	$ 28,686	$ 7,831	27.3%
Gross Margin %	*23.1%*	*27.3%*		
Gross Profit Services	$ 40,600	$ 58,595	$ (17,995)	-30.7%
Gross Margin %	*13.7%*	*15.5%*		
Total Gross Profit	$ 77,117	$ 87,281	$ (10,164)	-11.6%
Gross Margin %	*17.0%*	*18.1%*		

Products. Products Division gross-profit of $36.5 million increased by $7.8 million during 2011 as compared to 2010. This was primarily driven by higher revenue as discussed in the year-over-year revenue comparison. The $52.9 million revenue increase contributed approximately $14.4 million in additional gross profit dollars based on the 2010 gross profit margin percentage. The impact of the volume increases was partially offset by a 4.2% decrease in gross profit margin percentage causing a reduction of approximately $6.6 million of gross profit dollars. Gross margin percentage fluctuates based on many factors including engineering and design requirements for the equipment, the project location and gas turbine manufacturing capacity as compared to the level of demand for new power capacity additions. The lower gross margins realized in 2011 is the result of competitive market pressure on as sold margins due to weaker economic conditions when the projects were booked in 2010. Also impacting the decrease in 2011 gross profit margin were favorable warranty reserve adjustments of $1.8 million during 2010 that did not occur in 2011. This was partially offset by a $2.7 million increase in overhead absorption during 2011 resulting from increased project activity.

Services. The gross profit for Services Division decreased during 2011 by $18.0 million as compared to 2010. The reduction was primarily driven by revenue declines as well as approximately $1.5 million of non-recurring warranty and change in estimate on workers compensation reserves resulting from improved safety performance and engagement of an actuarial specialist to enhance our estimation process during the year ended December 31, 2010 that did not recur during the year ended December 31, 2011.

Selling and Administrative Expenses

($ in thousands)			Variance	
	2011	**2010**	**$**	**%**
Selling and administrative expenses	$ 50,561	$ 47,662	$ 2,899	6.1%

Selling and administrative expenses include the costs associated with conducting our business, including general management, compensation and benefits of employees that are not direct costs of active projects, officers and directors, legal and professional fees and other general expenses.

Selling and administrative expenses increased by $2.9 million during 2011 compared to 2010, primarily attributable to an increase in non-cash stock compensation, which was $6.4 million in 2011 as compared to $3.8 million in 2010. Also impacting the comparative increase were the relocation of corporate headquarters from

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Tulsa, OK to Irving, TX, higher costs for personnel, system upgrades within our Products Division, and merger and acquisition costs. The comparative increase was partially offset by non-recurring costs in 2010 related to our efforts to become a public company including costs associated with the preparation of our Registration Statement on Form 10.

Reorganization Expense (Income)

($ in thousands)			Variance	
	2011	**2010**	**$**	**%**
Reorganization expense (income)	$ 17	$ (1,477)	$ 1,494	-101.2%

Reorganization expenses historically consisted of professional fees and changes in liabilities subject to compromise incurred in connection with our 2008 bankruptcy proceedings.

During 2011, we incurred an immaterial amount of reorganizational expenses as the bankruptcy activity wound down. During 2010, our estimated liabilities subject to compromise significantly decreased in large part due to a July 2010 U.S Bankruptcy Court settlement. As a result of the settlement and our related compromise of our own claim against the fund that had been established pursuant to our Plan of Reorganization, we received a cash payment of $2.8 million during 2010. The settlement received more than offset professional fees incurred during 2010.

Operating Income

($ in thousands)			Variance	
	2011	**2010**	**$**	**%**
Operating Income Products	$ 10,865	$ 7,599	$ 3,266	43.0%
Operating Income Services	15,674	33,497	(17,823)	-53.2%
Total	$ 26,539	$ 41,096	$ (14,557)	-35.4%

Products. Products Division operating income of $10.9 million during the year ended December 31, 2011 increased $3.3 million or 43.0% compared to operating income of $7.6 million during the corresponding period in 2010. Operating margins were 6.9% and 7.2% during the years ended December 31, 2011 and 2010, respectively. The increase in the Products Division operating income was primarily due to increased gross profit of $7.8 million stemming primarily from revenue increases offset by lower gross margins as a result of competitive market pressure on as sold margins due to weaker economic conditions when the projects were booked in 2010 and favorable warranty reserve adjustments of $1.8 million during 2010 that did not occur in 2011 as well as additional expenses related to system upgrades. These increases were partially offset by a $0.3 million decrease in the allocation to the Products Division of its proportionate share of corporate selling and administrative expenses, which was driven by our internal allocation methodology of corporate headquarters costs to the segments.

Services. Services Division operating income of $15.7 million during the year ended December 31, 2011 decreased $17.8 million or 53.2% compared to operating income of $33.5 million during the corresponding period in 2010. Operating margins were 5.2% and 8.9% during the years ended December 31, 2011 and 2010, respectively. The decrease was primarily due to reduced gross profit of $18.0 million stemming primarily from revenue declines and favorable warranty and insurance reserve adjustments in 2010. Additionally, allocation to the Services Division of its proportionate share of corporate selling and administrative expenses decreased by approximately $1.0 million, which was driven by our internal allocation methodology of corporate headquarters costs to the segments.

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Interest Expense, net

($ in thousands)			Variance	
	2011	**2010**	**$**	**%**
Interest expense, net	$ 1,119	$ 7,052	$ (5,933)	-84.1%

Interest expense, net consists of term loan interest, interest on outstanding letters of credit, interest on our unused commitment and amortization of debt issuance costs offset by interest income earned on cash balances.

Interest expense, net decreased $5.9 million during 2011 as compared to 2010. The decline was attributable to repayment of the term loan facility in November 2010, resulting in a $3.2 million reduction in interest expense and a $2.7 million reduction in amortization of debt issuance costs. From November 2010 through September 2012, there were no borrowings.

Other Income, net

($ in thousands)			Variance	
	2011	**2010**	**$**	**%**
Other income, net	$ (98)	$ (1,026)	$ 928	-90.4%

Other income, net consists mainly of a gain on foreign exchange contracts recognized in 2010.

Income Tax (Benefit) Expense

($ in thousands)			Variance	
	2011	**2010**	**$**	**%**
Income tax (benefit) expense	$ (37,538)	$ 5,964	$ (43,502)	-729.4%

The decrease in income tax expense from 2010 to the income tax benefit in 2011 was primarily related to our second and fourth quarter 2011 assessments of our valuation allowances against deferred tax assets for intangible assets, accruals, foreign tax credits and U.S. NOL carryforwards in accordance with ASC 740. Management s assessment included consideration of all available positive and negative evidence including, among other evidence, the scheduled reversal of deferred tax liabilities (including the impact of available carry back and carry forward periods), recent utilization of NOL carryforwards, historical operating income, projected future taxable income, customer concentration, tight credit markets, and tax planning strategies. Based on results of the assessment, we determined that it was more likely than not that the U.S. NOL carryforwards are realizable based on the guidance provided in ASC 740.

Because the U.S. NOL carryforwards are expected to be realized due to 2011 and future year s income, only the portion attributable to future year s income was released as a discrete event during the second quarter of 2011. The remainder was properly allocated to subsequent interim periods as current year activity as income was realized and would have adjusted the estimated annual effective tax rate accordingly. Therefore, we recognized a non-recurring, non-cash tax benefit in the second quarter of 2011 for continuing operations of $40.0 million related to the release of valuation allowances, which significantly impacted the income tax expense during 2011. Our 2011 income allowed interim period decreases to the valuation allowance of $4.6 million and $1.3 million for third quarter and fourth quarter of 2011, respectively. Additionally, there were partially offsetting increases to valuation allowances in the second and fourth quarters of 2011 of $0.5 million and $0.3 million, respectively, for state NOL modifications. Additionally, we recognized a non-recurring, non-cash tax benefit in the fourth quarter of 2011 of $3.4 million for the partial release of valuation allowances on some of the foreign tax credit carryforwards. We did not reverse valuation allowances against remaining foreign tax credit carryforwards and certain state NOL carryforwards.

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Our effective tax rate was a negative 147.1% during 2011, compared to 17.0% during 2010. The decrease in our effective tax rate was primarily due to a fluctuation in the valuation allowance we used in connection with deferred tax assets. Other contributing factors included permanent differences between book and tax treatment of certain items, and mix of earnings in various tax jurisdictions. Reductions to the valuation allowance reduced our effective tax rate by approximately 189.8% during 2011 and 33.2% during 2010. Permanent differences between book and tax treatment of certain items increased our effective tax rate by approximately 5.6% during 2011 and 8.0% during 2010.

Income from Discontinued Operations, Net of Tax

($ in thousands)			Variance	
	2011	**2010**	**$**	**%**
Income from discontinued operations, net of tax	$ 2,624	$ 11,529	$ (8,905)	-77.2%

Discontinued operations was comprised of (i) Deltak business unit, divested on August 31, 2011, which was primarily involved with the specialty boiler product lines and (ii) Deltak large-scale HRSG operations, divested during 2006.

During 2011, the $2.6 million of income from discontinued operations, net of tax was fully comprised of the Deltak business unit sold in 2011. During 2010, the $11.5 million of income from discontinued operations, net of tax was comprised of (i) $3.0 million from the Deltak large-scale HRSG operations from the recognition of excess billing deferred until the earnings process was considered completed upon the satisfaction of the performance milestones set forth in the completion agreements and (ii) $8.5 million from the Deltak business unit sold in 2011.

Gain on Disposal of Discontinued Operations, Net of Tax

($ in thousands)			Variance	
	2011	**2010**	**$**	**%**
Gain on disposal, net of tax	$ 11,178	$	$ 11,178	100.0%

Gain on disposal of discontinued operations, net of tax was comprised of $11.2 million during 2011, resulting from our August 2011 sale of Deltak for $31.0 million in cash, less a $4.9 million working capital adjustment. No comparable gain was recognized during 2010.

Liquidity and Capital Resources

Overview

As of December 31, 2012, our unrestricted cash and cash equivalents totaled $32.0 million, comprised of $10.5 million of U.S. cash and $21.5 million of non-U.S. cash. The net decrease in unrestricted cash and cash equivalents of approximately $67.5 million from December 31, 2011, was impacted by the following activity:

We spent $44.5 million of cash to fund the 2012 Acquisitions.

We spent $4.6 million of cash on dividends.

We spent $6.8 million on share repurchases.

We received $6.1 million in connection with a settlement agreement with Hamon.

We spent $37.5 million of cash to fund working capital needs in 2012 as compared to $2.9 million in 2011.

In addition to our unrestricted cash and cash equivalents, the amount available under our Revolving Credit Facility as of December 31, 2012 was $87.1 million. Our ability to access the maximum amount of availability is dependent upon certain conditions as defined in the Revolving Credit Facility agreement.

Cash generated by operations and borrowings available under our Revolving Credit Facility represent our primary sources of short-term liquidity. We believe our existing cash and cash equivalents, cash flow from operations and our available borrowings will be adequate to satisfy our working capital needs, general corporate purposes, capital expenditures, interest payments on our unused borrowing capacity, common stock repurchases, dividends on our common stock and other liquidity requirements associated with our existing operations over the next 12 months. Additionally, we may use U.S. or non-U.S. cash on hand or may borrow against our Revolving Credit Facility to support growth initiatives either organically or through additional acquisitions of complementary businesses.

Included in our total unrestricted cash and cash equivalents was approximately $21.5 million maintained in our non-U.S. operations and subsidiaries. In general, these resources are not available to fund our U.S. operations unless the funds are repatriated to the U.S., which would expose us to taxes we presently have not accrued in our results of operations. We presently have no plans to repatriate these funds to the U.S. as we believe the liquidity generated by our U.S. operations and our unused borrowing capacity are sufficient to meet the cash requirements of our U.S. operations.

The primary elements of our working capital accounts are accounts receivable, costs and estimated earnings in excess of billings, other assets, accounts payable, billings in excess of costs and estimated earnings and other accrued liabilities. We continually monitor our accounts receivable and manage our operating cash flows by managing the working capital accounts in total, rather than by the individual elements. This comprehensive view of working capital, taking into account each of the six primary elements listed, is both common and useful in our project-based industry, as it facilitates reviews of cash flow information at the total working capital level.

Our ability to generate sufficient cash depends on numerous factors beyond our control. We cannot be assured that our business will generate sufficient cash flow from operations or that future borrowings in addition to our Revolving Credit Facility will be available to us in an amount sufficient to enable us to fund our liquidity needs. There can be no assurance that additional financing above our Revolving Credit Facility will continue to be available in the future or that it will be available under terms acceptable to us. Failure to obtain sufficient capital could materially hinder our future expansion strategies.

Restricted Cash

In accordance with the Deltak sale agreement, we set aside $6.9 million in escrow, of which $3.1 million was recorded in short-term restricted cash and $3.8 million, that was subject to a five year escrow term, was recorded in other long-term assets. This escrow was a funding mechanism for settlement of warranty claims and other possible contractual claims. During the third quarter of 2012, the Deltak buyer asserted claims preventing the release of the short-term portion of the escrow that was due for release on August 31, 2012. These claims were settled in December 2012 and resulted in the release of escrow funds of $6.1 million to us and $0.4 million to the Deltak buyer. The remaining $0.4 million will remain in escrow to cover future contingencies. See Note 15 *Commitments and Contingencies* to these consolidated financial statements for more information regarding the claims.

Dividend and Stock Repurchases

In May 2012, our Board of Directors approved a dividend policy related to our common stock. The dividends declared during each of the second, third and fourth quarters of 2012 were $0.09 per share and dividends paid totaled approximately $1.5 million in each of the second, third and fourth quarters of 2012. We anticipate the cash used for future dividends and the repurchase program will come from current U.S. cash and from on-going

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U.S. operating activities and the cash generated from such activities. The timing and amounts of any future dividends are subject to determination and approval by our Board of Directors.

Additionally, in May 2012, our Board of Directors authorized a program to repurchase up to two million shares of our common stock until the earlier of June 30, 2014 or a determination by the Board of Directors to discontinue the repurchase program. The repurchase program does not obligate us to acquire any specific number of shares. Through December 31, 2012, we had repurchased 421,731 shares for an aggregate cost of approximately $6.8 million since the inception of the repurchase program announced on June 1, 2012. As of December 31, 2012, we had 1,578,269 shares remaining to be repurchased under the current authorization.

Liquidity Outlook

Aside from normal recurring operational and financing cash flows, expectation of sources and uses of cash and our liquidity for 2013 includes:

- We expect to utilize a combination of NOL carryforwards and other deferred tax assets in 2013. As such, we do not expect to pay U.S. federal income taxes in 2013.

- We expect to spend between $6.0 million to $8.0 million in capital expenditures to upgrade manufacturing facilities, machinery and equipment and information technology infrastructure.

- We could have additional acquisitions during 2013, which we may elect to, or may be required to, borrow under our Revolving Credit Facility.

- We expect to continue to pay dividends and repurchase shares under the share repurchase program; although the timing and amounts will be reviewed during each quarter in 2013.

Changes in cash and cash equivalents during the years ended December 31, 2012, 2011 and 2010 were as follows ($ in thousands):

	Years Ended December 31,		
	2012	**2011**	**2010**
Statement of cash flow data:			
Cash flows provided by (used in):			
Operating activities	$ (8,650)	$ 31,161	$ 20,296
Investing activities	(44,201)	16,557	(681)
Financing activities	(15,392)	(3,077)	(65,955)
Effect of exchange rate changes on cash	703	(624)	(1,406)
Change in cash and cash equivalents	$ (67,540)	$ 44,017	$ (47,746)

2012 as compared to 2011

Operating Activities

Cash flows used in operating activities during the year ended December 31, 2012 were $8.7 million and was primarily impacted by the following:

Net income of $17.6 million, adjusted by non-cash expenses of $7.0 million for stock-based compensation, $3.7 million of depreciation and amortization on plant, property and equipment and intangible assets, $1.2 million of amortization of deferred financing costs and $0.4 million from a pre-tax gain on the Deltak sale. This was partially offset by a $0.9 million increase in net deferred income taxes.

Net accounts receivable increased by $34.6 million reducing operating cash flows. This change included unfavorable increases in accounts receivable from both our Products and Services Divisions.

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A decrease in cash due to a total of $11.0 million of additional working capital deployed (the sum of the changes in costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings) to jobs in progress as of December 31, 2012. This change was primarily driven by a higher level of project activity in our Products Division and also impacted by the timing of billings in our Services Division.

An increase in cash from accounts payable of $11.2 million due to the favorable timing of disbursements. This was primarily driven by the Products Division as payables as of December 31, 2012 were incurred related to the large volume of projects in progress during the year.

A decrease in cash of $1.7 million for accrued and other liabilities primarily due to month-end payroll cut off dates and lower incentive compensation accruals.

A decrease in cash of $1.2 million for accrued warranties primarily due to the settlement of warranties in the Products Division.

Cash flows provided by operating activities during the year ended December 31, 2011 were $31.2 million and were primarily impacted by the following:

Net income of $76.9 million, reduced by two significant non-cash items including a $34.8 million increase in net deferred income taxes (which was impacted by the valuation allowance release) as well as the $17.3 million pre-tax gain on the Deltak sale. This was partially offset by $6.4 million of non-cash stock compensation expense as well as $2.4 million of depreciation and amortization of property, plant, equipment and software.

Net accounts receivable decreased by $3.3 million contributing to higher operating cash flows. This was primarily driven by a favorable reduction of receivables in the Services Division due to the completion of a large capital project in 2011 including the collection of receivables in 2011, partially offset by an increase in receivables in the Products Division driven by an increase in revenue during 2011.

An increase in cash due to a $10.8 million reduction of working capital deployed (the sum of the changes in costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings) to jobs in progress as of December 31, 2011. This change was primarily driven by the completion of a large capital project in the Services Division in 2011.

A decrease in cash of $2.0 million due to an increase in other current assets primarily due to an increase in prepaid insurance and prepaid taxes during 2011.

A decrease in cash of $5.5 million from accounts payable due to the unfavorable timing of disbursements. This was primarily driven by the Services Division as payables declined from December 31, 2010 as transaction activity volume was lower due to the completion of a large capital project during 2011.

A decrease in cash from the reduction in accrued and other liabilities of $7.2 million. Approximately $3.2 million of the decrease related to reductions in accrued compensation and benefits due to the timing of payroll cut-off dates in the Services Division and lower incentive compensation accruals

A decrease in cash of $1.3 million for accrued warranties primarily due to the settlement of warranties in the Products Division.

Investing Activities

Cash flows used in investing activities of $44.2 million during the year ended December 31, 2012 consisted primarily of $44.5 million of cash paid for the 2012 Acquisitions and $6.1 million from the 2012 release of escrow funds related to the sale of the Deltak business unit in the third quarter of 2011 offset by $5.8 million of purchases of property, plant and equipment.

Cash flows provided by investing activities of $16.6 million during the year ended December 31, 2011 consisted primarily of $19.4 million of cash proceeds from the sale of the Deltak business unit in the third quarter of 2011.

Financing Activities

Cash flows used in financing activities of $15.4 million during the year ended December 31, 2012 consisted primarily of cash expenditures of $6.8 million utilized to repurchase shares, $4.6 million related to cash dividends paid in the second, third and fourth quarters of 2012, $3.0 million of cash paid for the repurchase of stock-based awards for payment of statutory taxes due on stock-based compensation and $0.9 million for costs associated with the issuance of our Revolving Credit Facility.

Cash flows used in financing activities of $3.1 million during the year ended December 31, 2011 consisted primarily of cash expenditures of $3.1 million for the repurchase of stock-based awards for payment of statutory taxes due on stock-based compensation.

Effect of Exchange Rate Changes on Cash

The effect of exchange rate changes increased cash by $0.7 million during the year ended December 31, 2012. The increase was primarily driven by the strengthening of the Euro against the U.S. Dollar from December 31, 2011 to December 31, 2012. The effect of exchange rate changes decreased cash by $0.6 million during the year ended December 31, 2011. The decrease was primarily driven by the weakening of the Euro against the U.S. Dollar from December 31, 2010 to December 31, 2011.

2011 as compared to 2010

Operating Activities

Cash flows provided by operating activities during the year ended December 31, 2011 were $31.2 million and were primarily impacted by the items stated above.

Cash flows provided by operating activities during the year ended December 31, 2010 were $20.3 million and was primarily impacted by the following:

- Net income of $40.6 million, adjusted by non-cash expenses of $3.8 million for stock-based compensation, $7.2 million of depreciation and amortization on plant, property and equipment and intangible assets and $3.2 million of amortization of deferred financing costs.

- Net accounts receivable decreased by $3.4 million reducing operating cash flows. This change included favorable contributions from our Services Division and our discontinued Deltak business unit partially offset by an increase in receivables in the Products Division.

- A decrease in cash due to a total of $23.4 million of additional working capital deployed (the sum of the changes in costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings) to jobs in progress as of December 31, 2010. This change was primarily driven by our Products Division and our discontinued Deltak business unit and also impacted by the timing of billings in our Services Division.

- A decrease in cash from accounts payable of $12.6 million due to the unfavorable timing of disbursements. This was primarily driven by the Services Division as payables as of December 31, 2010 were incurred related to the large volume of projects in progress during the year.

Investing Activities

Cash flows provided by investing activities of $16.6 million during the year ended December 31, 2011 consisted primarily of $19.4 million of cash proceeds from the sale of the Deltak business unit in the third quarter of 2011.

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Net cash used in investing activities for 2010 was $0.7 million, primarily applied to the purchase of fixed assets, partially offset by cash provided by a decrease in restricted cash.

Financing Activities

Cash flows used in financing activities of $3.1 million during the year ended December 31, 2011 consisted primarily of cash expenditures of $3.1 million for the repurchase of stock-based awards for payment of statutory taxes due on stock-based compensation.

Net cash used in financing activities for 2010 was $66.0 million, primarily resulting from the repayment of our term loan facility in full related interest.

Effect of Exchange Rate Changes on Cash

The effect of exchange rate changes decreased cash by $0.6 million during the year ended December 31, 2011. The effect of exchange rate changes decreased cash by $1.4 million during the year ended December 31, 2010. These decreases were primarily driven by the weakening of the Euro against the U.S. Dollar from December 31, 2009 to December 31, 2011.

Discontinued Operations

Cash flows provided by operating activities included operating cash flows from discontinued operations of $0.3 million, $1.1 million and $1.0 million during the years ended December 31, 2012, 2011 and 2010, respectively.

Financing

Revolving Credit Facility. On February 21, 2012, we entered into a Revolving Credit Facility, which replaced our previous $150 million Credit Facility. As of December 31, 2012, we had no debt outstanding and we were in compliance with all financial and other covenants under the Revolving Credit Facility. During the fourth quarter of 2012, we borrowed $15.0 million on our Revolving Credit Facility which we repaid by December 31, 2012. Prior to the fourth quarter of 2012, we had not borrowed funds since the November 2010 payoff of the term loan on our Previous Credit Facility.

The Revolving Credit Facility allows for borrowings up to $100 million, subject to outstanding standby letters of credit and other restrictions, with an accordion feature for up to $50 million of additional borrowing capacity. The facility has a $75 million revolving letter of credit facility and provides access to multi-currency funds. The Revolving Credit Facility has a maturity date of February 21, 2017.

The Revolving Credit Facility, while structured to support strategic growth initiatives and provide flexibility regarding return on capital alternatives, includes affirmative and negative covenants, including customary limitations on securing additional debt and liens and restrictions on transactions and payments as well as the following two financial covenants:

- Our maximum consolidated leverage ratio cannot exceed specified limits. For these purposes, our consolidated leverage ratio on any date is the ratio of our consolidated funded indebtedness to our consolidated EBITDA for the four most recent quarters. We define EBITDA as net income (loss) plus interest expense, net of interest income, income taxes, and depreciation and amortization.

- Our consolidated interest coverage ratio must be maintained at least at specified minimum levels. For these purposes, our consolidated interest coverage ratio is the ratio of (a) our consolidated EBITDA for the four most recent quarters to (b) our consolidated interest expense (consisting of all Global Power interest) for that period.

We will be in default under the Revolving Credit Facility if we:

- fail to comply with any of these financial covenants;
- fail to comply with certain other customary affirmative or negative covenants;
- fail to make payments when due;
- experience a change of control; or
- become subject to insolvency proceedings.

For these purposes, a change of control will occur if any one person or group obtains control of more than 25% ownership, unless they were an investor on February 21, 2012 in which case the ownership percentage would need to be more than 40% for a change of control to occur, or if continuing directors cease to constitute at least a majority of the members of our Board of Directors.

If we default, the participating banks may restrict our ability to borrow additional funds under the Revolving Credit Facility, require that we immediately repay all outstanding loans with interest and require the cash collateralization of outstanding letter of credit obligations. We have given a first priority lien on substantially all of our assets as security for the Revolving Credit Facility.

We may review from time to time possible expansion and acquisition opportunities relating to our business. The timing, size or success of any acquisition effort and the associated potential capital commitments are unpredictable. We may seek to fund all or part of any such efforts with proceeds from debt and/or equity issuances. Debt or equity financing may not, however, be available to us at that time due to a variety of events, including, among others, credit rating agency downgrades of our debt, industry conditions, general economic conditions, market conditions and market perceptions of us and our industry.

Off-Balance Sheet Transactions

Our liquidity is currently not dependent on the use of off-balance sheet transactions but, in line with industry practice, we are often required to provide performance and surety bonds to customers and may be required to provide letters of credit. If performance assurances are extended to customers, generally our maximum potential exposure is limited in the contract with our customers. We frequently obtain similar performance assurances from third party vendors and subcontractors for work performed in the ordinary course of contract execution. However, the total costs of a project could exceed our original cost estimates, and we could experience reduced gross profit or possibly a loss for a given project. In some cases, if we fail to meet certain performance standards, we may be subject to contractual liquidated damages.

As of December 31, 2012, we had a contingent liability for issued and outstanding stand-by letters of credit, generally issued to secure performance on customer contracts. As of December 31, 2012, the balance of stand-by letters of credit totaled approximately $12.9 million for U.S. entities and $12.2 million (U.S. dollars) for non-U.S. entities. Currently, there are no amounts drawn upon these letters of credit. In addition, as of December 31, 2012, we had outstanding surety bonds on projects of approximately $36.9 million. Our subsidiaries provide financial guarantees for certain contractual obligations in the ordinary course of business. As of December 31, 2012, the balance of these financial guarantees was no greater than $10.8 million.

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Contractual Obligations

Our cash requirements as of December 31, 2012 for contractual obligations were as follows ($ in thousands):

	Total	Less than 1 year	1- 3 years	3- 5 years	More than 5 years
Operating Lease Obligations [1]	$ 10,106	$ 2,468	$ 3,956	$ 2,602	$ 1,080
Purchase Obligations [2]	884		884		
Total	$ 10,990	$ 2,468	$ 4,840	$ 2,602	$ 1,080

(1) We enter into operating leases in the normal course of business. Some lease agreements provide us with the option to renew the leases or purchase the leased property. Our future operating lease payments would change if we exercised these renewal options and if we entered into additional operating lease agreements.

(2) Purchase obligations relate to real property.

The table above does not include potential payments relating to our:

commitment fees for unused lines of credit as management believes that our interest expense on thept Times New Roman, Times, Serif; margin: 0pt 0">

- during the last 17 days of the restricted period we issue a release regarding earnings or regarding material news or events relating to us; or

- prior to the expiration of the restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

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Right of First Refusal.

Until twelve months from the effective date of the registration statement, the representative shall have an irrevocable right of first refusal to act as sole investment banker or sole book runner, exclusive placement agent, exclusive financial advisor or in any other similar capacity, on the representative's customary terms and conditions, in the event our company or any subsidiary retains or otherwise uses (or seeks to retain or use) the services of an investment bank or similar financial advisor to pursue a registered, underwritten public offering of, a private placement of securities, or other similar transaction.

Electronic Offer, Sale and Distribution of Shares.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representative may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations. Other than the prospectus in electronic format, the information on these websites is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved or endorsed by us or any underwriter in its capacity as underwriter, and should not be relied upon by investors.

Other Relationships.

Certain of the underwriters and their affiliates have provided, and may in the future provide, various investment banking, commercial banking and other financial services for us and our affiliates for which they have received, and may in the future receive, customary fees; however, except as disclosed in this prospectus, we have no present arrangements with any of the underwriters for any further services.

Stabilization.

In connection with this offering, the underwriters may engage in stabilizing transactions, overallotment transactions, syndicate covering transactions, penalty bids and purchases to cover positions created by short sales.

- Stabilizing transactions permit bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum, and are engaged in for the purpose of preventing or retarding a decline in the market price of the shares while the offering is in progress;
- Overallotment transactions involve sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase. This creates a syndicate short position which may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the overallotment option. In a naked short position, the number of shares involved is greater than the number of shares in the overallotment option. The underwriters may close out any short position by exercising their overallotment option and/or purchasing shares in the open market;
- Syndicate covering transactions involve purchases of shares in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared with the price at which they may purchase shares through exercise of the overallotment option. If the underwriters sell more shares than could be covered by exercise of the overallotment option and, therefore, have a naked short position, the position can be closed out only by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that after pricing there could be downward pressure on the price of the shares in the open market that could adversely affect investors who purchase in the offering; and
- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the shares originally sold by that syndicate member are purchased in stabilizing or syndicate covering transactions to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our shares of common stock or preventing or retarding a decline in the market price of our shares of common stock. As a result, the price of our common stock in the open market may be higher than it would otherwise be in the absence of these transactions. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our common stock. These transactions may be effected on NYSE MKT.

Offer restrictions outside the United States

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

Australia

This prospectus is not a disclosure document under Chapter 6D of the Australian Corporations Act, has not been lodged with the Australian Securities and Investments Commission and does not purport to include the information required of a disclosure document under Chapter 6D of the Australian Corporations Act. Accordingly, (i) the offer of the securities under this prospectus is only made to persons to whom it is lawful to offer the securities without disclosure under Chapter 6D of the Australian Corporations Act under one or more exemptions set out in section 708 of the Australian Corporations Act, (ii) this prospectus is made available in Australia only to those persons as set forth in clause (i) above, and (iii) the offeree must be sent a notice stating in substance that by accepting this offer, the offeree represents that the offeree is such a person as set forth in clause (i) above, and, unless permitted under the Australian Corporations Act, agrees not to sell or offer for sale within Australia any of the securities sold to the offeree within 12 months after its transfer to the offeree under this prospectus.

China

The information in this document does not constitute a public offer of the securities, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong

Special Administrative Region, Macau Special Administrative Region and Taiwan). The securities may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to "qualified domestic institutional investors."

European Economic Area — Belgium, Germany, Luxembourg and Netherlands

The information in this document has been prepared on the basis that all offers of securities will be made pursuant to an exemption under the Directive 2003/71/EC ("Prospectus Directive"), as implemented in Member States of the European Economic Area (each, a "Relevant Member State"), from the requirement to produce a prospectus for offers of securities.

An offer to the public of securities has not been made, and may not be made, in a Relevant Member State except pursuant to one of the following exemptions under the Prospectus Directive as implemented in that Relevant Member State:

(a) to legal entities that are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity that has two or more of (i) an average of at least 250 employees during its last fiscal year; (ii) a total balance sheet of more than €43,000,000 (as shown on its last annual unconsolidated or consolidated financial statements) and (iii) an annual net turnover of more than €50,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);

(c) to fewer than 100 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive) subject to obtaining the prior consent of the Company or any underwriter for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of securities shall result in a requirement for the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

France

This document is not being distributed in the context of a public offering of financial securities (offre au public de titres financiers) in France within the meaning of Article L.411-1 of the French Monetary and Financial Code (Code monétaire et financier) and Articles 211-1 et seq. of the General Regulation of the French Autorité des marchés financiers (“AMF”). The securities have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

This document and any other offering material relating to the securities have not been, and will not be, submitted to the AMF for approval in France and, accordingly, may not be distributed or caused to distributed, directly or indirectly, to the public in France.

Such offers, sales and distributions have been and shall only be made in France to (i) qualified investors (investisseurs qualifiés) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2° and D.411-1 to D.411-3, D. 744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation and/or (ii) a restricted number of non-qualified investors (cercle restreint d’investisseurs) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2° and D.411-4, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in France are informed that the securities cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

Ireland

The information in this document does not constitute a prospectus under any Irish laws or regulations and this document has not been filed with or approved by any Irish regulatory authority as the information has not been prepared in the context of a public offering of securities in Ireland within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 (the “Prospectus Regulations”). The securities have not been offered or sold, and will not be offered, sold or delivered directly or indirectly in Ireland by way of a public offering, except to (i) qualified investors as defined in Regulation 2(l) of the Prospectus Regulations and (ii) fewer than 100 natural or legal persons who are not qualified investors.

Israel

The securities offered by this prospectus have not been approved or disapproved by the Israeli Securities Authority (the ISA), or ISA, nor have such securities been registered for sale in Israel. The shares may not be offered or sold, directly or indirectly, to the public in Israel, absent the publication of a prospectus. The ISA has not issued permits, approvals or licenses in connection with the offering or publishing the prospectus; nor has it authenticated the details included herein, confirmed their reliability or completeness, or rendered an opinion as to the quality of the securities being offered. Any resale in Israel, directly or indirectly, to the public of the securities offered by this prospectus is subject to restrictions on transferability and must be effected only in compliance with the Israeli securities laws and regulations.

Italy

The offering of the securities in the Republic of Italy has not been authorized by the Italian Securities and Exchange Commission (Commissione Nazionale per le Società e la Borsa, “CONSOB” pursuant to the Italian securities legislation and, accordingly, no offering material relating to the securities may be distributed in Italy and such securities may not be offered or sold in Italy in a public offer within the meaning of Article 1.1(t) of Legislative Decree No. 58 of 24 February 1998 (“Decree No. 58”), other than:

- to Italian qualified investors, as defined in Article 100 of Decree no. 58 by reference to Article 34-ter of CONSOB Regulation no. 11971 of 14 May 1999 (“Regulation no. 1197l”) as amended (“Qualified Investors”); and
- in other circumstances that are exempt from the rules on public offer pursuant to Article 100 of Decree No. 58 and Article 34-ter of Regulation No. 11971 as amended.

Any offer, sale or delivery of the securities or distribution of any offer document relating to the securities in Italy (excluding placements where a Qualified Investor solicits an offer from the issuer) under the paragraphs above must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (as amended), Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007 and any other applicable laws; and
- in compliance with all relevant Italian securities, tax and exchange controls and any other applicable laws.

Any subsequent distribution of the securities in Italy must be made in compliance with the public offer and prospectus requirement rules provided under Decree No. 58 and the Regulation No. 11971 as amended, unless an exception from those rules applies. Failure to comply with such rules may result in the sale of such securities being declared null and void and in the liability of the entity transferring the securities for any damages suffered by the investors.

Japan

The securities have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (the “FIEL”) pursuant to an exemption from the registration requirements applicable to a private placement of securities to Qualified Institutional Investors (as defined in and in accordance with Article 2, paragraph 3 of the FIEL and the regulations promulgated thereunder). Accordingly, the securities may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan other than Qualified Institutional Investors. Any Qualified Institutional Investor who acquires securities may not resell them to any person in Japan that is not a Qualified Institutional Investor, and acquisition by any such person of securities is conditional upon the execution of an agreement to that effect.

Portugal

This document is not being distributed in the context of a public offer of financial securities (oferta pública de valores mobiliários) in Portugal, within the meaning of Article 109 of the Portuguese Securities Code (Código dos Valores Mobiliários). The securities have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in Portugal. This document and any other offering material relating to the securities have not been, and will not be, submitted to the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários) for approval in Portugal and, accordingly, may not be distributed or caused to distributed, directly or indirectly, to the public in Portugal, other than under circumstances that are deemed not to qualify as a public offer under the Portuguese Securities Code. Such offers, sales and distributions of securities in Portugal are limited to persons who are "qualified investors" (as defined in the Portuguese Securities Code). Only such investors may receive this document and they may not distribute it or the information contained in it to any other person.

Sweden

This document has not been, and will not be, registered with or approved by Finansinspektionen (the Swedish Financial Supervisory Authority). Accordingly, this document may not be made available, nor may the securities be offered for sale in Sweden, other than under circumstances that are deemed not to require a prospectus under the Swedish Financial Instruments Trading Act (1991:980) (Sw. lag (1991:980) om handel med finansiella instrument). Any offering of securities in Sweden is limited to persons who are "qualified investors" (as defined in the Financial Instruments Trading Act). Only such investors may receive this document and they may not distribute it or the information contained in it to any other person.

Switzerland

The securities may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering material relating to the securities may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering material relating to the securities have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of securities will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This document is personal to the recipient only and not for general circulation in Switzerland.

United Arab Emirates

Neither this document nor the securities have been approved, disapproved or passed on in any way by the Central Bank of the United Arab Emirates or any other governmental authority in the United Arab Emirates, nor has the Company received authorization or licensing from the Central Bank of the United Arab Emirates or any other governmental authority in the United Arab Emirates to market or sell the securities within the United Arab Emirates. This document does not constitute and may not be used for the purpose of an offer or invitation. No services relating to the securities, including the receipt of applications and/or the allotment or redemption of such shares, may be rendered within the United Arab Emirates by the Company.

No offer or invitation to subscribe for securities is valid or permitted in the Dubai International Financial Centre.

United Kingdom

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the securities. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and the securities may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the securities has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to us.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (“FPO”), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together “relevant persons”). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon for us by K&L Gates LLP, Seattle, Washington. Certain legal matters will be passed upon for the underwriters by Loeb & Loeb LLP, New York, New York.

EXPERTS

The consolidated balance sheets of Intellicheck Mobilisa, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2013, have been audited by EisnerAmper LLP, independent registered public accounting firm, as stated in their report which is incorporated herein by reference in reliance on the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the common stock we are offering by this prospectus. This prospectus does not contain all of the information included in the registration statement. For further information pertaining to us and our common stock, you should refer to the registration statement and to its exhibits. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document. You may obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

We are subject to the informational and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with this law, file annual, quarterly and current reports, proxy statements and other information with the SEC. You can read our SEC filings, including the registration statement, over the Internet at the SEC's website at www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facility and the website of the SEC referred to above. We also maintain a website at www.icmobil.com. You may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on our website is not a part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

INTELLICHECK MOBILISA, INC.

Index to Financial Statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,066,968	$ 224,386
Accounts receivable, net of allowance of $0 as of September 30, 2014, and December 31, 2013	2,622,301	1,041,519
Inventory	115,021	54,677
Other current assets	90,796	107,519
Total current assets	5,895,086	1,428,101
PROPERTY AND EQUIPMENT, net	348,919	369,095
GOODWILL	12,308,661	12,308,661
INTANGIBLE ASSETS, net	3,972,812	3,724,354
OTHER ASSETS	72,006	72,006
Total assets	$ 22,597,484	$ 17,902,217
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 637,492	$ 478,588
Accrued expenses	637,898	701,928
Deferred revenue, current portion	1,173,130	967,912
Other current liabilities	505,000	-
Total current liabilities	2,953,520	2,148,428
OTHER LIABILITIES		
Deferred revenue, long-term portion	495,614	233,732
Deferred rent	134,965	163,753
Other long-term liabilities	82,500	0
Total liabilities	3,666,599	2,545,913
STOCKHOLDERS' EQUITY:		
Common stock - $.001 par value; 40,000,000 shares authorized; 4,932,057 and 3,486,557 shares issued and outstanding, respectively	4,932	3,487
Additional paid-in capital	106,264,525	101,008,381
Accumulated deficit	(87,338,572)	(85,655,564)

Total stockholders' equity	18,930,885	15,356,304
Total liabilities and stockholders' equity	$22,597,484	$17,902,217

See accompanying notes to consolidated financial statements

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INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
REVENUES	$ 3,218,344	$ 2,578,863	$ 5,507,434	$ 5,932,239
COST OF REVENUES	(1,202,760)	(797,488)	(2,013,218)	(2,295,871)
Gross profit	2,015,584	1,781,375	3,494,216	3,636,368
OPERATING EXPENSES				
Selling	398,035	257,000	1,106,206	793,908
General and administrative	836,841	1,035,941	2,744,225	3,074,299
Research and development	453,022	472,711	1,327,376	1,592,056
Total operating expenses	1,687,898	1,765,652	5,177,807	5,460,263
Income (loss) from operations	327,686	15,723	(1,683,591)	(1,823,895)
OTHER INCOME (EXPENSE)				
Interest income	7	73	661	88
Interest expense	-	-	(78)	-
Other income (expense)	50	-	-	-
Net income (loss)	$ 327,743	$ 15,796	$ (1,683,008)	$ (1,823,807)
PER SHARE INFORMATION				
Income (loss) per common share -				
Basic	$ 0.07	$ 0.00	$ (0.35)	$ (0.53)
Diluted	$ 0.07	$ 0.00	$ (0.35)	$ (0.53)
Weighted average common shares used in computing per share amounts -				
Basic	4,932,057	3,474,449	4,756,703	3,471,477
Diluted	4,945,807	3,480,170	4,756,703	3,471,477

See accompanying notes to consolidated financial statements

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INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the nine months ended September 30, 2014

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE, January 1, 2014	3,486,557	$ 3,487	$ 101,008,381	$ (85,655,564)	$ 15,356,304
Stock option compensation			10,266		10,266
Issuance of common stock	1,445,500	1,445	5,245,878		5,247,323
Net loss	-	-	-	(1,683,008)	(1,683,008)
BALANCE, September 30, 2014	4,932,057	$ 4,932	$ 106,264,525	$ (87,338,572)	$ 18,930,885

See accompanying notes to consolidated financial statements

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INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (1,683,008)	$ (1,823,807)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	454,971	802,402
Noncash stock-based compensation expense	10,266	27,958
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable	(1,580,782)	(712,613)
Decrease (Increase) in inventory	(60,344)	283,284
(Decrease)Increase in other current assets	16,723	4,430
(Decrease) Increase in accounts payable, accrued expenses	94,874	835,518
(Decrease)Increase in deferred revenue	467,100	(442,310)
(Decrease) Increase in deferred rent	(28,788)	(14,690)
Net cash used in operating activities	$ (2,308,988)	$ (1,039,828)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(95,753)	(73,106)
Net cash used in investing activities	$ (95,753)	$ (73,106)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock from exercise of stock options	5,247,323	70,472
Net cash provided by financing activities	5,247,323	70,472
Net increase in cash and cash equivalents	$ 2,842,582	$ (1,042,462)
CASH AND CASH EQUIVALENTS, beginning of period	224,386	1,685,879
CASH AND CASH EQUIVALENTS, end of period	$ 3,066,968	$ 643,417
Supplemental disclosure of noncash investing activities:		
Covenant not to compete (note 10)	$ 587,500	$ -

See accompanying notes to consolidated financial statements

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INTELLICHECK MOBILISA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. NATURE OF BUSINESS

Business

Intellicheck Mobilisa is a leading technology company providing wireless technology and identity systems for various applications, including mobile and handheld access control and security systems for the government, military and commercial markets. Products include the Fugitive Finder™ system, an advanced ID card access control product currently protecting military bases and secure federal locations; ID Check®, a patented technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issued IDs, designed to improve the Customer Experience for the financial, hospitality and retail sectors; barZapp™, an ID-checking mobile app that allows a user's smartphone to check an ID card. Wireless products include enterprise wireless system installation in rural areas of the country.

Reverse Stock Split

Effective on August 12, 2014 and commencing with the opening of trading on August 13, 2014, the Company effected a reverse stock split of the issued and outstanding common stock, $0.001 par value per share, at a ratio of one-for-eight, with each eight (8) issued and outstanding shares of the common stock automatically combined and converted into one (1) issued and outstanding share of the common stock. The reverse stock split was approved by stockholders holding a majority of the outstanding voting power at a special meeting of stockholders held on August 12, 2014. All information in the consolidated financial statements and the notes thereto regarding share amounts of the common stock and prices per share of the common stock has been adjusted to reflect the application of the reverse stock split on a retroactive basis.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mobilisa, Inc. (“Mobilisa”) and Positive Access Corporation (“Positive Access”). All intercompany balances and transactions have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company’s financial position at September 30, 2014 and the results of its operations for the three and nine months ended September 30, 2014 and 2013, stockholders’ equity for the nine months ended September 30, 2014 and cash flows for the nine months ended September 30, 2014 and 2013. All such adjustments are of a normal and recurring nature. Interim financial statements are prepared on a basis consistent with the Company’s annual financial statements. Results of operations for the nine month period ended September 30, 2014, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2014.

The balance sheet as of December 31, 2013 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements.

References in this Quarterly Report on Form 10-Q to “authoritative guidance” is to the Accounting Standards Codification issued by the Financial Accounting Standards Board (“FASB”).

For further information, refer to the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

In May 2014, the FASB issued a new standard on revenue recognition which outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should 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 those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this standard on the consolidated financial statements.

Recent Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, ASU 2014-15 provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU 2014-14 on the consolidated financial statements and disclosures.

Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Company's financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include impairment of goodwill, valuation of intangible assets, deferred tax valuation allowances, and the fair value of stock options granted under the Company's stock-based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less when purchased. There were no cash equivalents held on September 30, 2014 and December 31, 2013.

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, credit quality of the Company's customers, current economic conditions and other factors that may affect customers' ability to pay.

Inventory

Inventory is stated at the lower of cost or market and cost is determined using the first-in, first-out method. Inventory is primarily comprised of finished goods.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired in business combinations. Pursuant to ASC Topic 350, the Company tests goodwill for impairment on an annual basis in the fourth quarter, or between annual tests, in certain circumstances, such as the occurrence of operating losses or a significant decline in earnings associated with the asset. The Company evaluates goodwill for impairment using guidance under ASU 2011-8, which allows the Company to complete a qualitative analysis to determine whether it is necessary to perform the two step quantitative impairment test.

Intangible Assets

Acquired intangible assets include primarily trade names, patents, developed technology and backlog from the acquisition of Mobilisa and Positive Access. The Company uses the straight line method to amortize these assets over their estimated useful lives. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with ASC Topic 360. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value. There were no impairment charges recognized during the nine months ended September 30, 2014 and 2013.

Income Taxes

The Company accounts for income taxes under in accordance with ASC Topic 740, “Accounting for Income Taxes.” Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carryforwards. Deferred tax assets and liabilities are measured using expected tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The Company has recorded a full valuation allowance for its net deferred tax assets as of September 30, 2014 and December 31, 2013, due to the uncertainty of the realizability of those assets.

Financial Instruments

The Company adheres to the provisions of ASC Topic 820, which requires that the Company to calculate the fair value of financial instruments and include this additional information in the notes to financial statements when the fair value is different than the book value of those financial instruments. The Company’s financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses. At September 30, 2014 and December 31, 2013, the carrying value of the Company’s financial instruments approximated fair value, due to their short-term nature.

Revenue Recognition and Deferred Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. The Company sells its commercial products directly through its sales force and through distributors. Revenue from direct sales of products is recognized when shipped to the customer and title has passed.

Under the provisions of ASC Topic 605-25, "Revenue Arrangements with Multiple Deliverables," for multi-element arrangements that include tangible products containing software essential to the tangible product's functionality and undelivered software elements relating to the tangible product's essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price and (iii) best estimate of the selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

The Company also recognizes revenues from licensing of its patented software to customers. The licensed software requires continuing service or post contractual customer support and performance; accordingly, a portion of the revenue is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Royalties from the licensing of the Company's technology are recognized as revenues in the period they are earned.

Revenue from research and development contracts are generally with government agencies under long-term cost-plus fixed-fee contracts, where revenue is based on time and material costs incurred. Revenue from these arrangements is recognized as time is spent on the contract and materials are purchased. Research and development costs are expensed as incurred.

The Company also performs consulting work for other companies. These services are billed based on time and materials. Revenue from these arrangements is also recognized as time is spent on the contract and materials are purchased.

Subscriptions to database information can be purchased for month-to-month, one, two, and three year periods. Revenue from subscriptions are deferred and recognized over the contractual period, which is typically three years.

The Company offers enhanced extended warranties for its sales of hardware and software at a set price. The revenue from these sales are deferred and recognized on a straight-line basis over the contractual period, which is typically one to four years.

Business Concentrations and Credit Risk

During the three month period ended September 30, 2014, the Company made sales to one customer that accounted for approximately 10% of total revenues. The revenue was associated with a commercial ID Check sale. This customer represented 1% of total accounts receivable at September 30, 2014. There were no significant customers for the nine months ended September 30, 2014. During the three and nine month periods ended September 30, 2013, the Company made sales to one customer that accounted for approximately 23% and 21% of total revenues. The revenue was associated with wireless network installations in Washington State. This customer represented 24% of total accounts receivable at September 30, 2013.

Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method. The calculation of diluted net income (loss) per share excludes all anti-dilutive shares.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator:				
Net income (loss)	$327,743	$15,796	$(1,683,008)	$(1,823,807)
Denominator:				
Weighted average common shares – basic	4,932,057	3,474,449	4,756,703	3,471,477
Dilutive effect of equity incentive plans	13,750	5,721	-	-
Weighted average common shares – diluted	4,945,807	3,480,170	4,756,703	3,471,477
Net income (loss) per share				
Basic	$0.07	$0.00	$(0.35)	$(0.53)

Diluted	$0.07	$0.00	$(0.35)	$(0.53)

The following table summarizes the common stock equivalents excluded from income (loss) per diluted share because their effect would be anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Warrants	64,981	-	64,891	-
Stock options	61,728	141,372	75,478	126,841
	126,709	141,372	140,369	126,841

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

3. INTANGIBLE ASSETS

The following summarizes amortization of acquisition related intangible assets included in the statement of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Cost of sales	$59,163	$192,854	$242,354	$578,562
General and administrative	$28,785	33,952	$96,688	101,855
	$87,948	$226,806	$339,042	$680,417

On September 30, 2014 the Company entered into a non-compete agreement, amounting to $578,500 which has been capitalized as an intangible asset. (Note 10)

4. REVOLVING LINE OF CREDIT

The Company entered into a revolving credit facility with Silicon Valley Bank. On October 15, 2014, this facility was renewed for an additional year. The maximum borrowing under the facility is $2 million. Borrowings under the facility are subject to certain limitations based on a percentage of accounts receivable, as defined in the agreement, and are secured by all of the Company’s assets. The facility bears interest at a rate of U.S. prime (3.25% at September 30, 2014) plus 1.25% - 1.75%, depending on the Company’s cash plus availability. Interest is payable monthly and the principal is due upon maturity on October 15, 2015. At September 30, 2014, there were no amounts outstanding, and unused availability under the facility was approximately $658,000.

The facility contains a tangible net worth covenant requiring that, as of each monthly reporting, total assets minus intangible assets minus capitalized software development costs minus total liabilities plus subordinated debt is at least equal to $1,948,400, starting October 15, 2014, and increasing immediately by 50% for new debt or equity received and 50% of quarterly net income (with no reduction for losses).

5. INCOME TAXES

As of September 30, 2014, the Company had net operating loss carryforwards (NOL’s) for federal and New York state income tax purposes of approximately $41 million. There can be no assurance that the Company will realize any benefit of the NOL’s. The federal and New York state NOL’s are available to offset future taxable income and expire from 2018 through 2030 if not utilized. Under Section 382 of the Internal Revenue Code, these NOL's may be limited due to ownership changes. The Company has not yet completed its review to determine whether or not these NOL's will be limited under Section 382 of the Internal Revenue Code due to the ownership change from the acquisition of Mobilisa, Inc.

The Company has recorded a full valuation allowance against its net deferred assets since management believes that it is more likely than not that these assets will not be realized.

The effective tax rate for the nine months ended September 30, 2014 and 2013 is different from the tax benefit that would result from applying the statutory tax rates primarily due to the recognition of valuation allowances.

6. SHARE BASED COMPENSATION

The Company accounts for the issuance of equity awards to employees in accordance with ASC Topic 718 and 505, which requires that the cost resulting from all share based payment transactions be recognized in the financial statements. These pronouncements establish fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for all share based payment transactions with employees.

All stock-based compensation is included in operating expenses for the periods as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Compensation cost recognized:				
Selling	$ -	$ -	$ -	$ 13,100
General & Administrative	4,928	1,761	6,927	4,923
Research & Development	757	3,538	3,339	9,935
	$ 5,685	$ 5,299	$ 10,266	$ 27,958

Stock option activity under the 1998, 1999, 2001, 2003 and 2006 Stock Option Plans during the periods indicated below were as follows:

	Number of Shares Subject to Issuance	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2013	40,936	$ 18.48	2.42 years	$ 12,100
Granted	43,622	4.58		
Forfeited or expired	(9,080)	$ 11.79		
Exercised				
Outstanding at September 30, 2014	75,478	$ 11.27	3.75 years	$ 11,138
Exercisable at September 30, 2014	21,544	$ 28.70	1.58 years	$ 2,784

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had they all exercised their options on September 30, 2014. This amount changes based upon the fair market value of the Company's stock.

As of September 30, 2014, there was $324,990 of total unrecognized compensation expense, net of estimated forfeitures, related to all unvested stock options and restricted stock, which is expected to be recognized over a weighted-average period of 2.99 years.

As of September 30, 2014, the Company had 438,130 options available for future grants under the Plans. The Company uses the Black-Scholes option pricing model to value the options. The Company issued 34,351 shares of restricted stock units during the quarter ended September 30, 2014.

7. ISSUANCE OF COMMON STOCK

On January 14, 2014, the Company completed a public offering of 1,118,375 shares of common stock at a price to the public of $3.60 per share. The number of shares the Company sold includes the underwriters' full exercise of their over-allotment option of 145,875 shares. Net proceeds to the Company from the offering, before expenses, were approximately $3,644,000. The underwriter received a warrant to purchase 48,625 shares of common stock, at the price of $4.48 (125% of the price of the shares sold in the offering), which will be exercisable one year after the date of the offering and will expire on the fifth anniversary of that offering.

On April 10, 2014, the Company completed a public offering of 327,125 shares of common stock at a price to the public of $6.40 per share. Net proceeds to the Company from the offering, before expenses, were approximately $2,094,000. The underwriter received a warrant to purchase 16,356 shares of common stock, at a price of $8.00 per share (125% of the price of the shares sold in the offering), which will be exercisable one year after the date of the offering and will expire on the fifth anniversary of that offering. The underwriter and certain directors and officers waived the right to exercise an aggregate of 93,407 stock options and warrants until a future date yet to be determined.

8. LEGAL PROCEEDINGS

The Company is not aware of any infringement by the Company’s products or technology on the proprietary rights of others.

The Company is not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on its business.

9. COMMITMENTS AND CONTINGENCIES

In March 2009, the Company entered into an agreement with an investor relations firm. The agreement is automatically renewed for successive twelve month periods unless either party gives written notice no later than 30 days prior to the expiration period. Afterwards, the fee may be subject to change by mutual agreement of the parties. As of April 1, 2011, the fee was reduced to $10,000 per month.

10. RELATED PARTY TRANSACTIONS

Mobilisa leases office space from an entity that is wholly-owned by two former directors, who are also former members of management. The Company entered into a 10-year lease for the office space ending in 2017. The annual rent for this facility is currently $85,498 and is subject to annual increases based on the increase in the CPI index plus 1%. The Company is a guarantor of the leased property. For the three and nine months ended September 30, 2014, total rental payments for this office space were $22,075 and $66,226, respectively. For the three and nine months ended September 30, 2013, total rental payments for this office space were $22,075 and $66,226, respectively.

On September 30, 2014, the CEO and a Senior Vice President (collectively, the “Executives”), who were also board members, retired from the Company and simultaneously resigned from the board of directors. In connection with the separation, the Company entered into a separation and consulting agreement with the Executives. Included as part of the arrangement, the Company committed to payments totaling $587,500 to be made over a period of 15 months. In exchange for the consideration, the Executives agreed not to compete with the Company, solicit any employee, contractor or consultant of the Company to terminate employment or contractual relationship with the Company, as well refrain from other activities, as defined in the agreement. There is a renewal option contained in each agreement, which must be mutually agreed to, for an additional nine month period commencing on January 1, 2015 in exchange for aggregate monthly payments of $27,500. At September 30, 2014, the Company recorded the future payments of the agreement as a liability and as a non-compete intangible asset totaling $587,500. The costs of the non-compete will be amortized over the term of the agreement (15 months). There was no amortization expense recognized for the three or nine months ended September 30, 2014. The Company made a lump sum payment of $87,500 on October 1, 2014, will make a payment of $87,500 January 1, 2015, and will make 15 monthly payments of $27,500 beginning on November 1, 2014 as a result of entering into the agreements with the Executives.

As of September 30, 2014, the Company had $0 in accrued expenses related to board fees for the first three quarters of 2014. The Company and directors entered into an agreement to take restricted stock units and stock options in lieu of a portion of the cash payments.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of

Intellicheck Mobilisa, Inc.

We have audited the accompanying consolidated balance sheets of Intellicheck Mobilisa, Inc. (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intellicheck Mobilisa, Inc. as of December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ EisnerAmper LLP
December 19, 2014
Iselin, NJ

INTELLICHECK MOBILISA, INC.

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$224,386	$1,685,879
Accounts receivable, net of allowance of $0 and $1,613	1,041,519	869,747
Inventory	54,677	337,559
Other current assets	107,519	105,881
Total current assets	1,428,101	2,999,066
PROPERTY AND EQUIPMENT, net	369,095	449,438
GOODWILL	12,308,661	12,308,661
INTANGIBLE ASSETS, net	3,724,354	4,631,577
OTHER ASSETS	72,006	72,006
Total assets	$17,902,217	$20,460,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$478,588	$247,289
Accrued expenses	701,928	556,814
Deferred revenue, current portion	967,912	1,450,923
Total current liabilities	2,148,428	2,255,026
OTHER LIABILITIES		
Deferred revenues, long-term portion	233,732	341,948
Deferred rent	163,753	185,339
Total liabilities	2,545,913	2,782,313
STOCKHOLDERS' EQUITY:		
Common stock – $.001 par value 40,000,000 shares authorized 3,487,183 and 3,465,533 shares issued and outstanding as of 2013 and 2012, respectively	3,487	3,466
Additional paid-in capital	101,008,381	100,906,277
Accumulated deficit	(85,655,564)	(83,231,308)
Total stockholders' equity	15,356,304	17,678,435
Total liabilities and stockholders' equity	$17,902,217	$20,460,748

The accompanying notes are an integral part of these consolidated statements.

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
REVENUES	$7,298,537	$8,803,217
COST OF REVENUES	(2,772,984)	(3,001,997)
Gross profit	4,525,553	5,801,220
OPERATING EXPENSES		
Selling	1,096,486	1,613,819
General and administrative	3,796,735	4,209,385
Research and development	2,056,744	2,239,011
Total operating expenses	6,949,965	8,062,215
Loss from operations	(2,424,412)	(2,260,995)
OTHER INCOME		
Interest income	156	909
Net loss	$(2,424,256)	$(2,260,086)
PER SHARE INFORMATION:		
Net loss per common share		
Basic	$(0.70)	$(0.65)
Diluted	$(0.70)	$(0.65)
Weighted average common shares used in computing per share amounts		
Basic	3,487,183	3,465,533
Diluted	3,487,183	3,465,533

The accompanying notes are an integral part of these consolidated statements.

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INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2013

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE, December 31, 2011	3,432,813	$ 3,433	$ 100,723,185	$ (80,971,222)	$ 19,755,396
Stock based compensation expense (employees and directors)	-	-	52,677	-	52,677
Exercise of stock options	32,720	33	130,415	-	130,448
Net loss	-	-	-	(2,260,086)	(2,260,086)
BALANCE, December 31, 2012	3,465,533	3,466	100,906,277	(83,231,308)	17,678,435
Stock based compensation expense (employees and directors)	-	-	19,053	-	19,053
Exercise of stock options	19,150	19	70,453	-	70,472
Issuance of common stock	2,500	2	12,598	-	12,600
Net loss	-	-	-	(2,424,256)	(2,424,256)
BALANCE, December 31, 2013	3,487,183	$ 3,487	$ 101,008,381	$ (85,655,564)	$ 15,356,304

The accompanying notes are an integral part of these consolidated statements.

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INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(2,424,256)	$(2,260,086)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,068,408	1,094,173
Non cash stock based compensation expense	31,653	52,677
Provision for doubtful accounts	-	(3,271)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(171,772)	2,192,312
Decrease (increase) in inventory	282,882	(325,665)
(Increase) decrease in other current assets	(1,637)	2,888
Increase (decrease) in accounts payable and accrued expenses	376,413	(92,823)
(Decrease) in deferred revenue	(591,227)	(305,200)
(Decrease) in deferred rent	(21,587)	(9,420)
Net cash (used in) provided by operating activities	(1,451,123)	345,585
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(80,842)	(184,303)
Net cash (used in) investing activities	(80,842)	(184,303)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock from exercise of stock options and warrants	70,472	130,448
Net cash provided by financing activities	70,472	130,448
Net (decrease) increase in cash and cash equivalents	(1,461,493)	291,730
CASH AND CASH EQUIVALENTS, beginning of year	1,685,879	1,394,148
CASH AND CASH EQUIVALENTS, end of year	$224,386	$1,685,878

The accompanying notes are an integral part of these consolidated statements.

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INTELLICHECK MOBILELISA, INC,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

Business

Intellicheck Mobilisa, Inc. (the "Company" or "Intellicheck") is a leading technology company that is engaged in developing, integrating and marketing wireless technology and identity systems for various applications including mobile and handheld access control and security systems for the government, military and commercial markets. Products include the Defense ID and Fugitive Finder systems, advanced ID card access control products currently protecting military and federal locations, and ID-Check, a patented technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issue IDs from U.S. and Canadian jurisdictions designed to improve the Customer Experience for the financial, hospitality and retail sectors. Wireless products and services include Aegeus, a wireless security buoy system for the government, military and oil industry. The company is also engaged in the engineering, design and installation of wireless communications systems.

Reverse Stock Split

Effective on August 12, 2014 and commencing with the opening of trading on August 13, 2014, the Company effected a reverse stock split of the issued and outstanding common stock, $0.001 par value per share, at a ratio of one-for-eight, with each eight (8) issued and outstanding shares of the common stock automatically combined and converted into one (1) issued and outstanding share of the common stock. The reverse stock split was approved by stockholders holding a majority of the outstanding voting power at a special meeting of stockholders held on August 12, 2014. All information in the consolidated financial statements and the notes thereto regarding share amounts of the common stock and prices per share of the common stock has been adjusted to reflect the application of the reverse stock split on a retroactive basis.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mobilisa, Inc. ("Mobilisa") and Positive Access Corporation ("Positive Access"). All intercompany balances and transactions have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less when purchased. As of December 31, 2013 and 2012, cash equivalents were $0 and $0, respectively.

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, credit quality of the Company’s customers, current economic conditions and other factors that may affect customers’ ability to pay.

Inventory

Inventory is stated at the lower of cost or market and cost is determined using the first-in, first-out method. Inventory is primarily comprised of finished goods. As of December 31, 2013, the majority of our inventory related to Government and Commercial Identity products for intended near- term sales.

Long-Lived Assets and Impairment of Long-Lived Assets

The Company’s long-lived assets include property and equipment, goodwill and intangible assets.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with SFAS No. 144, “Accounting for Impairment or Disposal of Long-Lived Assets” and SFAS 142, “Goodwill and other Intangible Assets” (ASC Topic 360). To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value. No impairments were recognized during the years ended December 31, 2013 or 2012.

Property and Equipment

Property and equipment are recorded at cost and are depreciated over their estimated useful lives ranging from three to ten-years using the straight- line method. Leasehold improvements are amortized utilizing the straight-line method over the lesser of the term of the lease or estimated useful life of the asset.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired in business combinations. Pursuant to ASC Topic 350, the Company tests goodwill for impairment on an annual basis in the fourth quarter, or between annual tests, in certain circumstances. Under guidance, the Company first assessed qualitative factors to determine whether it was necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price.

The Company determined that a two-step quantitative analysis was necessary for both years ended December 31, 2013 and 2012.See Note 5 and Management’s Discussion and Analysis.

Intangible Assets

Acquired intangible assets include trade names, patents, developed technology and backlog described more fully in Note 5. The Company uses the straight line method to amortize these assets over their estimated useful lives. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with ASC Topic 360. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value. No impairments were recognized during the years ended December 31, 2013 and 2012.

Costs of Computer Software Developed or Obtained for Internal Use

The Company accounts for certain software costs under ASC Topic 350, which provides guidance for determining whether computer software is internal-use software and guidance on accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. It also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use.

Capitalized Software Development Costs

Costs incurred internally in creating a computer software product shall be charged to expense when incurred as research and development until technological feasibility has been established for the product. Software production costs for computer software that is to be used as an integral part of a product or process shall not be capitalized until both (a) technological feasibility has been established for the software and (b) all research and development activities for the other components of the product or process have been completed. The Company has not capitalized any software costs for the years ended December 31, 2013 and 2012.

Deferred Rent

The Company received certain rent abatements and incentives from landlords as an inducement to move into its New York office facility. In accordance with ASC Topic 840, the Company is amortizing these incentives on a straight line basis over the periods of the respective leases.

Revenue Recognition and Deferred Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. The Company sells its commercial products directly through its sales force and through distributors. Revenue from direct sales of products is recognized when shipped to the customer and title has passed.

Under the provisions of ASC Topic 605-25, "Revenue Arrangements with Multiple Deliverables," for multi-element arrangements that include tangible products containing software essential to the tangible product's functionality and undelivered software elements relating to the tangible product's essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price and (iii) best estimate of the selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

The Company also recognizes revenues from licensing of its patented software to customers. The licensed software requires continuing service or post contractual customer support and performance accordingly, a portion of the revenue is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Royalties from the licensing of the Company's technology are recognized as revenues in the period they are earned.

Revenue from research and development contracts are generally with government agencies under long-term cost-plus fixed-fee contracts, where revenue is based on time and material costs incurred. Revenue from these arrangements is recognized as time is spent on the contract and materials are purchased. Research and development costs are expensed as incurred.

The Company also performs consulting work for other companies. These services are billed based on time and materials. Revenue from these arrangements is also recognized as time is spent on the contract and materials are purchased.

Subscriptions to database information can be purchased for month-to-month, one, two, and three year periods. Revenue from subscriptions are deferred and recognized over the contractual period, which is typically three years.

The Company offers enhanced extended warranties for its sales of hardware and software at a set price. The revenue from these sales are deferred and recognized on a straight-line basis over the contractual period, which is typically one to three years.

Research and Development Costs

Research and development costs are charged to expense as incurred.

Shipping Costs

The Company's shipping and handling costs are included in cost of revenues for all periods presented.

Income Taxes

The Company accounts for income taxes under in accordance with ASC Topic 740, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carryforwards. Deferred tax assets and liabilities are measured using expected tax rates in effect for the year in which those temporary differences are expected to be recovered or settledT. he Company has recorded a full valuation allowance for its net deferred tax assets as of December 31, 2013 and 2012, due to the uncertainty of the realizability of those assets.

Fair Value of Financial Instruments

The Company adheres to the provisions of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" (ASC Topic 820). This pronouncement requires that the Company calculate the fair value of financial instruments and include this additional information in the notes to financial statements when the fair value is different than the book value of those financial instruments. The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable.At December 31, 2013 and 2012, the carrying value of the Company's financial instruments approximated fair value, due to their short-term nature.

Business Concentrations and Credit Risk

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. The Company maintains cash between three financial institutions. The cash equivalents consist of money market funds. The Company performs periodic evaluations of the relative credit standing of these institutions.

The Company's sales are principally made to large retail customers, financial institutions concentrated in the United States of America and to U.S. government entities. The Company performs ongoing credit evaluations, generally does not require collateral, and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. During the years ended December 31, 2013 and 2012, the Company had one and three customers that accounted for approximately 17% and 40% of total revenues, respectively. The revenue resulted from wireless network installations in Washington State. These customers represented 12% and 5% of total accounts receivable at December 31, 2013 and 2012, respectively.

As of December 31, 2013, the Company had three suppliers for the production of its input devices. T he Company has modified its software to operate in windows based systems and can integrate with different hardware platforms that are readily available in the marketplace. T he Company does not maintain a manufacturing facility of its own and is not dependent on maintaining its production relationships due to the flexibility of its software to run on multiple existing platforms.

Net Loss and Net Loss Per Share

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method. The calculation of diluted net income (loss) per share excludes all anti-dilutive shares. The following table sets forth the computation of basic and diluted net income (loss) per share for the periods indicated:

The following table summarizes the common stock equivalents excluded from loss per diluted share because their effect would be anti-dilutive:

	2013	2012
Stock options	40,936	93,330
Warrants	-	-
Total	40,936	93,330

<u>Share Based Compensation</u>

The Company accounts for the issuance of equity awards to employees in accordance ASC Topic 715 and 505, which requires that the cost resulting from all share based payment transactions be recognized in the financial statements. This pronouncement establishes fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for all share based payment transactions with employees. Period compensation costs are included in selling, general and administrative and research and development expenses.

The Company recognizes compensation expense related to stock option grants on a straight-line basis over the vesting period.

Options granted to consultants and other non-employees are accounted for in accordance with ASC Topic 505-50. Accordingly, such options are recorded at fair value at the date of grant and subsequently adjusted to fair value at the end of each reporting period until such options vest, and the fair value of the options, as adjusted, is amortized to consulting expense over the related vesting period.

Comprehensive Loss

The Company's comprehensive loss is equal to its net loss for the years ended December 31, 2013 and 2012.

Segment Information

The Company adheres to the provisions of ASC Topic 280, which establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in financial statements issued to shareholders. Management has determined that it has only one reporting segment.

Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Company's financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include impairment of goodwill and intangible assets, deferred tax valuation allowances, allowances for doubtful accounts, revenue allocation of multi-element arrangements and the fair value of options granted under the Company's share based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

Recently Issued Accounting Pronouncements

The Company does not expect the impact of the future adoption of recently issued accounting pronouncements to have a material impact on the Company's consolidated financial statements.

On February 5, 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" The standard requires that entities present information about reclassification adjustments from accumulated other comprehensive income in their annual financial statements in a single note or on the face of the financial statements. Public companies will also have to provide this information in their interim financial statements. The standard requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies would instead cross reference to the related footnote for additional information. The Company adopted ASU 2013-02 on January 1, 2013, and expects no material impact on its financials as a result.

On September 13, 2013, the Internal Revenue Service issued final Tangible Property Regulations (TPR) under Internal Revenue Code (IRC) Section 162 and IRC Section 263(a), which prescribe the capitalization treatment of certain repair costs, asset betterments and other costs which could affect temporary deferred taxes. Although the regulations are not effective until tax years beginning on or after January 1, 2014, certain portions may require an accounting method change on a retroactive basis, thus requiring an IRC Section 481(a) adjustment related to fixed and real asset deferred taxes. Pursuant to U.S. GAAP, as of the date of the issuance, the release of the regulations is treated as a change in tax law. Therefore, we are required to determine whether there will be an impact on our financial statements as of October 31, 2013. We are currently analyzing the expected impact of the new regulations and we do not believe the impact will be material to our financial position or results of operations. We will continue to monitor any future changes in the TPR prospectively.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due from the Company’s customers and are presented net of allowance for doubtful accounts. These balances include revenue recognized in advance of customer billings but do not include unbilled contractual commitments executed under license agreements. The components of accounts receivable, net are as follows:

	2013	2012
Accounts receivable - billed	$975,996	$774,726
Accounts receivable - unbilled	65,523	96,634
Less: Allowance for doubtful accounts	-	(1,613)
Accounts receivable, net	$1,041,519	$869,747

4. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following as of December 31, 2013 and 2012:

	2013	2012

Computer equipment	$743,857	$719,053
Furniture and fixtures	72,480	72,480
Leasehold improvements	169,032	169,032
Office equipment	491,340	435,302
Vehicles	147,310	147,310
	1,624,019	1,543,177
Less - Accumulated depreciation and amortization	1,254,924	1,093,739
	$369,095	$449,438

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Depreciation expense for the years ended December 31, 2013 and 2012 amounted to $161,185 and $174,601, respectively.

5. GOODWILL AND INTANGIBLE ASSETS AND IMPAIRMENT

Goodwill

The carrying value of goodwill was $12,308,661 and $12,308,661 for the years ended December 31, 2013 and 2012.

Identifiable intangible assets

The changes in the carrying amount of intangible assets for the year ended December 31, 2013 and 2012 were as follows:

	2013	2012
Balance at beginning of year	$4,631,577	$5,551,149
Amortization expense	(907,223)	(919,572)
Balance at end of year	$3,724,354	$4,631,577

The Company has recorded the fair value of the acquired identifiable intangible assets, which are subject to amortization, using the income approach. The following table sets forth the components of these intangible assets as of December 31, 2013 and 2012:

		As of December 31, 2013		
	Estimated Useful Life	Adjusted Carrying Amount	**Accumulated Amortization**	Net as of **12/31/2013**
Trade name	20 years	$704,458	$ (260,641)	$443,817
Patents and copyrights	17 years	1,117,842	(454,421)	663,421
Non-compete agreements	5 years	310,000	(268,667)	41,333
Developed technology	7 years	3,941,310	(3,295,135)	646,175
Backlog	3 years	303,400	(303,400)	-

Non-contractual customer relationships	15 years	3,268,568	(1,338,960)	1,929,608
		$9,645,578	$(5,921,224)	$3,724,354

	As of December 31, 2012		
	Adjusted Carrying Amount	Accumulated Amortization	Net as of 12/31/2012
Trade name	$704,458	$(229,975)	$474,483
Patents and copyrights	1,117,842	(396,575)	721,267
Non-compete agreements	310,000	(206,667)	103,333
Developed technology	3,941,310	(2,760,370)	1,180,940
Backlog	303,400	(303,400)	-
Non-contractual customer relationships	3,268,568	(1,117,014)	2,151,554
	$9,645,578	$(5,014,001)	$4,631,577

The following summarizes amortization of acquisition related intangible assets included in the statement of operations:

	Years Ended December 31,	
	2013	2012
Cost of sales	$ 771,416	$ 771,416
General and administrative	135,807	148,156
	$ 907,223	$ 919,572

The Company expects that amortization expense for the next five succeeding years will be as follows:

2014	$416,657
2015	$310,458
2016	$310,458
2017	$310,458
2018	$310,458

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These amounts are subject to change based upon the review of recoverability and useful lives that are performed at least annually.

Goodwill and Intangible Asset Impairment

The excess of the purchase consideration over the fair value of the assets of acquired businesses is considered goodwill. Under authoritative guidance, purchased goodwill is not amortized, but rather it is periodically reviewed for impairment. The Company had goodwill of $12,308,661 and $12,308,661 at December 31, 2013 and December 31, 2012. This goodwill resulted from the acquisitions of Mobilisa, Inc. and Positive Access Corporation.

For the years ended December 31, 2013 and 2012, the Company performed its annual impairment test of goodwill and concluded that no impairment charge was required for either year. Under authoritative guidance, the Company can use industry and Company specific qualitative factors to determine whether it is more likely than not that impairment exists, before using a two-step quantitative analysis. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price.

For the years ended December 31, 2013 and 2012, after a review of these qualitative factors, the Company determined that it was necessary to perform a two-step quantitative analysis. The first step is to compare the fair value of the Company’s reporting unit, including goodwill to its carrying value. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired otherwise, there is an indication that goodwill may be impaired and the amount of loss, if any is measured by performing step two. Under step two, the impairment loss, if any, is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of Goodwill.

The Company engaged an outside consulting firm to perform this analysis. This firm appraised the fair value of the Company’s reporting unit is excess of its carrying value as of the reporting date, so no second step was necessary. The firm used the income approach, on a debt-free basis, to perform its analysis, because of the uniqueness of the Company and unrepresentative nature of the Company’s historical performance.

Based on the outside consultant’s report and the Company’s review of its market capitalization and movement in stock price, Management determined that no impairment of Goodwill exists as of December 31, 2013.

The Company also considered whether long-lived assets including intangibles were also impaired. These assets are stated at cost, less accumulated amortization, which is provided for by charges to income on a basis consistent with the utilization of the assets over their useful lives. The carrying value of intangible and long-lived assets is reviewed periodically by the Company for the existence of facts or circumstances that may suggest impairment. If such circumstances exist, the Company would estimate the future, undiscounted cash flows associated with the asset, and compare that to the carrying value. If the carrying value exceeds the estimated cash flows, the asset would be written down to its estimated fair value. As of December 31, 2013 and 2012, the Company determined that there was no impairment of intangible assets.

6. REVOLVING LINE OF CREDIT

On August 17, 2011, the Company entered into a 2-year revolving credit facility with Silicon Valley Bank. On August 15, 2013, it renewed this facility for an additional year. The maximum borrowing under the facility is $2 million. Borrowings under the facility are subject to certain limitations based on a percentage of accounts receivable, as defined in the agreement, and are secured by all of the Company's assets. The facility bears interest at a rate of U.S. prime (3.25% at December 31, 2013) plus 1.25% - 1.75%, depending on the Company's cash plus availability. Interest is payable monthly and the principal is due upon maturity on October 15, 2014. At December 31, 2013, there were no amounts outstanding, the Company is in compliance with its covenants, and unused availability under the facility was approximately $593,575.

The facility contains a tangible net worth covenant requiring that, as of each monthly reporting, total assets minus intangible assets minus capitalized software development costs minus total liabilities plus subordinated debt is at least equal to $(800,000), starting October 31, 2013, and increasing immediately by 50% for new debt or equity received and 50% of quarterly net income (with no reduction for losses).

7. ACCRUED EXPENSES

Accrued expenses are comprised of the following as of December 31, 2013 and 2012:

	2013	2012
Professional fees	$136,152	$186,488
Payroll and related	362,960	345,013
Navy Contract Close-out	117,970	-
Other	84,846	25,313
	$701,928	$556,814

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8. INCOME TAXES

ASC Topic 740-10 created a new recognition threshold and a measurement approach for tax positions recognized in the financial statements. As of December 31, 2013, the Company has no material uncertain tax positions.

As a result of continuing losses for tax purposes, the Company has historically not paid income taxes and has recorded a full valuation allowance against the net deferred tax asset. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. There was no accrued interest related to unrecognized tax benefits at December 31, 2013. The tax years 2010-2013 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets for federal and state income taxes as of December 31, 2013 and 2012 are as follows:

	2013	2012
Deferred tax assets:		
NOL Carryforward	16,473,000	16,024,000
Reserves	-	1,000
Deferred rent	66,000	74,000
Research & development tax credits	139,000	78,000
Total deferred tax assets	16,678,000	16,177,000
Deferred tax liabilities: Intangible assets	(1,355,000)	(1,718,000)
Intangible Assets	(1,355,000)	(1,718,000)
Other	(1,000)	-
Depreciation	(138,000)	(120,000)
Total deferred tax liabilities	(1,494,000)	(1,838,000)
Net deferred tax assets	15,184,000	14,339,000
Less: Valuation allowance	(15,184,000)	(14,339,000)
Deferred tax assets, net of allowance	$-	$-

Realization of deferred tax assets is dependent upon future earnings, if any. The Company has recorded a full valuation allowance against its deferred tax assets since management believes that it is more likely than not that these assets will not be realized.

As of December 31, 2013 the Company had net operating loss carryforwards (NOL's) for federal and New York State income tax purposes of approximately $41.2 million. There can be no assurance that the Company will realize the benefit of the NOL's. The federal and state NOL's are available to offset future taxable income and expire from 2018 through 2030 if not utilized. Under Section 382 of the Internal Revenue Code, these NOL's may be limited due to ownership changes.

The effective tax rate for the years ended December 31, 2013 and 2012 is different from the tax benefit that would result from applying the statutory tax rates primarily due to the recognition of valuation allowances.

9. STOCKHOLDERS' EQUITY

Series A Convertible Preferred Stock

In January 1997, the Board of Directors authorized the creation of a class of Series A Convertible Preferred Stock with a par value of $.01. The Series A Convertible Preferred Stock is convertible into an equal number of common shares at the holder's option, subject to adjustment for anti- dilution. The holders of Series A Convertible Preferred Stock are entitled to receive dividends as and if declared by the Board of Directors.In the event of liquidation or dissolution of the Company, the holders of Series A Convertible Preferred Stock are entitled to receive all accrued dividends, if applicable, plus the liquidation price of $ 1.00 per share. As of December 31, 2013 and 2012, there were no outstanding shares of Series A Convertible Preferred Stock.

Stock Options and Share Based Compensation

In order to retain and attract qualified personnel necessary for the success of the Company, the Company adopted several Stock Option Plans from 1998 through 2004 (and an amendment to the 2004 plan in 2006 pursuant to which the plan was renamed the "2006 Equity Incentive Plan" and amended to provide for the issuance of other types of equity incentives such as restricted stock grants) (collectively, the "Plans") covering up to 781,250 of the Company's common shares, pursuant to which officers, directors, key employees and consultants to the Company are eligible to receive incentive stock options and nonqualified stock options. The Compensation Committee of the Board of Directors administers these Plans and determines the terms and conditions of options granted, including the exercise price. These Plans generally provide that all stock options will expire within ten years of the date of grant. Incentive stock options granted under these Plans must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 10% of the voting stock of the Company. These Plans also entitle non-employee directors to receive grants of non-qualified stock options as approved by the Board of Directors.

Stock option activity under the 1998, 1999, 2001, 2003 and 2006 Stock Option Plans during the periods indicated below is as follows:

	Number of Shares Subject to Issuance	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	**Aggregate Intrinsic Value**
Outstanding at December 31, 2011	155,533	$ 15.44	2.29 years	
Granted	-	-		
Forfeited or expired	(29,483)	24.80		
Exercised	(32,720)	4.00		
Outstanding at December 31, 2012	93,330	$ 16.48	1.66 years	$ 348,352
Granted	16,875	03.12		
Forfeited or expired	(50,119)	15.12		
Exercised	19,150)	3.68		
Outstanding at December 31, 2013	40,936	$ 18.48	2.42 years	$ 12,100
Exercisable at December 31, 2013	26,530	$ 26.64	1.52 years	$ -

There were 135,000 and no options granted in the years ended December 31, 2013 and 2012.

The following is a summary of stock options as of December 31, 2013:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted-average Remaining Life	Weighted average Exercise Price	Number of Options	Weighted-average Exercise Price
$3.12 to $8.00	13,750	1.42 years	$ 1.04	-	$ -
$8.08 to $24.00	13,830	0.27 years	$ 4.00	13,173	$ 5.84
$24.08 to $40.00	3,125	0.32 years	$ 2.24	3,125	$ 3.44
$40.08 to $45.12	10,231	0.40 years	$ 9.12	10,231	$ 17.36
	40,936	2.42 years	$ 17.04	26,529	$ 26.64

The weighted-average fair value of the options granted during the years ended December 31, 2013 and 2012 is $3.12 and $0 respectively.

As of December 31, 2013, the Company had 318,510 options available for future grant under the existing Stock Option and Equity Incentive Plans. As of December 31, 2013, there was $ 41,700 of total unrecognized compensation cost, net of estimated forfeitures, related to all unvested stock options and restricted stock, which is expected to be recognized over a weighted average period of approximately 3.17 years.

Share based compensation expense for the years ended December 31, 2013 and 2012 is as follows:

	Years Ended December 31,	
	2013	2012
Compensation cost recognized:		
Stock options	$ 19,053	$ 52,677
Restricted stock	0	0
	$ 19,053	$ 52,677

	Years Ended December 31,	
	2013	2012
Selling	$ 499	$ 9,216
General and administrative	6,467	16,788
Research and development	12,087	26,673
	$ 19,053	$ 52,677

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The Company capitalized $0 in share-based compensation cost in both years 2013 and 2012.

The Company has a net operating loss carry-forward as of December 31, 2013, and no excess tax benefits for the tax deductions related to share based awards were recognized in the statements of operations. Additionally, no incremental tax benefits were recognized from stock options exercised in 2013 that would have resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities.

All stock options have been issued with an exercise price that is equal or above the fair market value of the Company's Common Stock on the date of grant.

Warrants

All previously granted warrants were issued with an exercise price that was equal to or above the fair market value of the Company's common stock on the date of grant. As of December 31, 2013, the Company had no remaining warrants outstanding. No warrants were exercised in 2013 or 2012.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company has entered into various leases for office space. The Company leases offices in New York and Washington states. Those leases expire in March, 2018 and July, 2017, respectively. The Washington office is owned by a related party and is discussed in Note 12. Future minimum lease payments under these lease agreements are as follows for the years ended December 31:

2014	$520,623
2015	408,030
2016	408,019
2017	379,226
2018	82,327
Total	$1,798,225

Rent expense for the years ended December 31, 2013 and 2012 amounted to $532,081 and $534,047, respectively.

Royalty and License Agreements

The Company entered into an agreement with a former officer of the Company during 1996 to license certain software. The agreement stipulated, among other provisions, that the officer would receive royalties equal to a percentage of the Company's gross sales. This agreement was terminated in May 1999 and was superseded by a new agreement which calls for payment of royalties of .005% on gross sales from $2,000,000 to $52,000,000 and .0025% on gross sales in excess of $52,000,000 pertaining to those patents on which Mr. Messina was identified as an inventor. As of December 31, 2013, total fees paid under this agreement amounted to approximately $1,650.

Consulting Agreements

In March 2009, the Company entered into an agreement with an investor relations firm. The engagement period was for twelve months commencing March 16, 2009. In exchange for its services, the Company paid the firm $13,500 per month for the first 24 months of the agreement. In addition, each month for the first 24 months of the agreement, the Company delivered to the investor relations firm 1,302 shares of restricted stock. The stock is restricted from sale for a period of two years from the date of grant.

The agreement is automatically renewed for successive twelve month periods unless either party gives written notice no later than 30 days prior to the expiration period. Afterwards, the fee may be subject to change by mutual agreement of the parties.

As of April 11, 2011, the fee was reduced to $10,000 per month. No additional shares were issued after February 2011.

Legal Proceedings

The Company is not aware of any infringement by our products or technology on the proprietary rights of others.

The Company is not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on its business.

Severance and Change-in-Control Agreements

On November 16, 2010, the Company entered into an Executive Severance Agreement with Mr. Mundy, the Company's former Chief Financial Officer. Under the agreement, if Mr. Mundy was terminated without cause, if he resigned with "good reason" (as defined in the agreement), or if he was terminated as a result of a change of control, he would have been entitled to 1.99 years of his then base salary, a gross amount equal to any quarterly bonus target applicable during the quarter, accelerated vesting of all outstanding stock options and coverage of health benefits for a period of up to 12 months. The agreement had a term of two years. On April 1, 2012, Mr. Mundy resigned from the Company. In lieu of the above mentioned agreement, the Company entered into a consulting agreement with Mr. Mundy which had a term of nine months at $15,250 per month. The final payment was made pursuant to this agreement on January 4, 2013.

401(k) Plan

The Company has a retirement savings 401(k) plan. The plan permits eligible employees to make voluntary contributions to a trust, up to a maximum of 35% of compensation, subject to certain limitations. The Company has elected to contribute a matching contribution equal to 50% of the first 6%of an eligible employee's deferral election. The Company may also make discretionary contributions, subject to certain conditions, as defined in the plan. The Company's matching contributions were $38,050 and $52,972 for 2013 and 2012, respectively.

12. RELATED PARTY TRANSACTIONS

Mobilisa leases office space from a company ("Lessor Company") that is wholly-owned by two directors, who are members of management. The Company entered into a 10-year lease for the office space ending in 2017. The base annual rent for this facility is currently $ 85,498 and is subject to annual increases based on the increase in the CPI index plus 1%. For the year ended December 31, 2013 and 2012, total rent payments for this office space were $92,046 and $91,780, respectively. This operating lease is referenced in Note 11.

The Lessor Company's entire operations consist of the leased property and related bank debt. The Company is a guarantor of the loans for the leased property. As of December 31, 2013, the Company's maximum exposure to loss was $177,999.

In June 2009, the FASB issued guidance included in ASC Topic 810-10, "Amendments to FASB Interpretation No. 46(R)."This updated guidance requires a qualitative approach to identifying a controlling financial interest in a variable interest entity (VIE), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. Under the FASB guidance, companies are required to consolidate a related variable interest entity ("VIE") when the reporting company is the "primary beneficiary" of that entity and holds a variable interest in the VIE. The determination of whether a reporting company is the primary beneficiary of a VIE ultimately turns on whether the reporting entity will absorb a majority of the VIE's anticipated losses or receive a majority of the VIE's anticipated gains.

The Company analyzed its transactions with and relationship to the Lessor Company and concluded that it had an implicit variable interest in the Lessor Company. However, the primary beneficiaries, based on an assessment of what entity absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, are the common ownersA. ccordingly, the Company is not required to consolidate the operations of the Lessor Company.

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth unaudited financial data for each of the Company's last eight fiscal quarters.

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except per share data)							
Income Statement Data:								
Revenues	$ 1,633	$ 1,720	$ 2,579	$ 1,366	$ 2,711	$ 3,441	$ 2,123	$ 528
Gross profit	895	960	1,781	889	1,958	2,230	1,567	46
Income (loss) from operations	(921)	(919)	16	(601)	15	61	(381)	(1,956)
Net income (loss)	(921)	(919)	16	(600)	$ 15	$ 61	$ (381)	$ (1,955)
Net income (loss) per common share:								
Diluted	$ (0.24)	$ (0.24)	$ 0.00	$ (0.16)	$ 0.00	$ 0.00	$ (0.08)	$ (0.56)

Due to rounding, quarterly net income (loss) per share may not add up to the total net loss for the year.

14. SUBSEQUENT EVENTS

On January 14, 2014, the Company closed a secondary public offering of a previously announced 972,500 shares of its common stock and an over-allotment option of 145,875 additional shares. The stock was offered to the public at $3.60 per share. The offering grossed and netted the Company approximately $4,026,000 and $3,644,000 in cash, respectively. The difference between the two is from the underwriting discount and other offering expenses payable by the Company. Aegis Capital Corp. acted as the sole underwriter for the offering. The Company offered the underwriter 48,625 of common stock warrants, at a price of $4.48, which will be exercisable one year after the date of the offering and will expire on the fifth anniversary of that offering. After the offering, the Company had 4,605,558 shares of common stock outstanding.

Shares

Common Stock

PROSPECTUS

Aegis Capital Corp

PART II

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the fees and expenses, other than underwriting discounts and commissions, payable in connection with the registration of the common stock hereunder. All amounts are estimates except the SEC registration fee and the FINRA filing fee.

SEC registration fee	$ 1,135.85
FINRA filing fee	$ 1,966.25
Printing expenses	$ 6,000.00
Legal fees and expenses	$ 120,000.00
Accounting fees and expenses	$ 35,000.00
Transfer agent and registrar fees and expenses	$ 7,500.00
Miscellaneous	$ 28,377.90
Total	$ 200,000.00

Item 14. Indemnification of Directors and Officers

Intellicheck Mobilisa’s certificate of incorporation limits the liability of directors to the maximum extent permitted by Section 145 of the Delaware General Corporation Law. Delaware law provides that the directors of a corporation will not be personally liable to such corporation or its stockholders for monetary damages for breach of their fiduciary duties as directors, except for liability (i) for any breach of their duty of loyalty to the corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or (iv) for any transaction from which the director derives an improper personal benefit.

The Company provides officers’ and directors’ liability insurance for its officers and directors.

Item 15. Recent Sales of Unregistered Securities

None.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

The exhibits to the registration statement are listed in the Exhibit Index to this registration statement and are incorporated herein by reference.

(b) Financial Statement Schedules

All schedules have been omitted because the information required to be presented in them is not applicable or is shown in the consolidated financial statements or related notes.

Item 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or the Act, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The Registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from a form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this registration statement as of the time it was declared effective; and

(b) For the purpose of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Amendment No. 2 to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Port Townsend, state of Washington, on January 8, 2015.

INTELLICHECK MOBILISA, INC.

By: /s/ William H. ROOF
William H. Roof
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 2 has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ William H. Roof William H. Roof	Chief Executive Officer (Principal Executive Officer)	January 8, 2015
* Bill White	Chief Financial Officer (Principal Financial and Accounting Officer)	January 8, 2015
* Michael D. Malone	Chairman of the Board and Director	January 8, 2015
* Emil R. Bedard	Director	January 8, 2015
* Jack A. Davis	Director	January 8, 2015
* William P. Georges	Director	January 8, 2015
* Guy L. Smith	Director	January 8, 2015

*By: /s/ William H. Roof
Attorney-in-fact

INDEX TO EXHIBITS

Exhibit No.	Description
1.1*	Form of Underwriting Agreement
3.1	Certificate of Incorporation of the Company (1)
3.2	Amendment to the Certificate of Incorporation of the Company (11)
3.3	Amended and Restated By-laws of the Company (14)
3.4	Certificate of Designation of Preferred Stock of Intelli-Check, Inc. (5)
4.1	Specimen Stock Certificate (7)
5.1*	Opinion of K&L Gates LLP
10.1	Agreement of Lease between the Company and JQ1 Associates, LLC, dated as of April 19, 2010 (4)
10.2	Agreement of Lease between Mobilisa and Eagle Coast, LLC, dated as of August 1, 2007. (7)
10.3	Agreement of Lease between the Company and King I, LLC, dated as of February 1, 2010. (7)
10.4	1998 Stock Option Plan (1)
10.5	1999 Stock Option Plan (1)
10.6	2001 Stock Option Plan (2)
10.7	2003 Stock Option Plan (3)
10.8	2006 Equity Incentive Plan (15)
10.9	Memorandum of Understanding between AAMVAnet, Inc. and Intelli-Check, Inc. effective January 29, 2002 (4)
10.10	Merger Agreement dated November 20, 2007 by and among Intelli-Check Inc., Intelli-Check Merger Sub, Inc., Mobilisa, Inc., and the Principal Shareholders of Mobilisa, Inc. (9)
10.11	Agreement and Plan of Merger dated August 31, 2009 by and among Intelli-Check – Mobilisa Inc., PA Acquisition Corporation, Positive Access Corporation, and the Principal Shareholders of Positive Access Corporation (10)
10.12	Executive Severance Agreement dated November 16, 2010 by and between Peter J. Mundy and Intellicheck Mobilisa, Inc. (12) *
10.13	Loan and Security Agreement dated August 17, 2011 by and between the Company and Silicon Valley Bank (13)
10.14	Default Waiver and Fourth Amendment to Loan and Security Agreement, dated as of October 15, 2014, by and between the Company and Silicon Valley Bank (16)
10.15	Executive Employment Agreement by and between the Company and Bill Roof (17)
10.16	Severance Agreement by and between the Company and Billy J. White (17)
14.1	Code of Business Conduct and Ethics (6)
21	List of Subsidiaries (7)
23.1	Consent of EisnerAmper, LLP
23.2*	Consent of K&L Gates LLP (contained in Exhibit 5.1)
24.1*	Power of Attorney (included on signature page hereto).

*Previously filed

(1) Incorporated by reference to Registration Statement on Form SB-2 (File No. 333-87797) filed September 24, 1999.
(2) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed May 31, 2001.
(3) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed June 13, 2003.
(4) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed August 10, 2010.
(5) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 31, 2003.
(6) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 30, 2004.
(7) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 11, 2010.
(8) Incorporated by reference to Registrant's Current Report on Form 8-K filed June 15, 2007.
(9) Incorporated by reference to Registrant's Current Report on Form 8-K filed November 21, 2007.
(10) Incorporated by reference to Registrant's Current Report on Form 8-K filed September 1, 2009.
(11) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 13, 2014.
(12) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 8, 2011.
(13) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 22, 2011.
(14) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 14, 2007.
(15) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 27, 2013.
(16) Incorporated by reference to Registrant's Current Report on Form 8-K filed October 20, 2014.
(17) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed November 4, 2014.