GLOBAL POWER EQUIPMENT GROUP INC/
Form 10-K/A
May 14, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 27, 2003

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 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.)**

6120 South Yale, Suite 1480, Tulsa, Oklahoma

(Address of principal executive offices)

74136

(Zip Code)

(918) 488-0828

(Registrant s telephone number, including area code)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $.01 par value	New York Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act: None

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 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨

The aggregate market value of the voting stock held by non-affiliates (affiliates being directors, officers and holders of more than 5% of the Company s common stock), based on the closing price of the Common Stock on June 27, 2003, the last business day of the registrant s most recently completed second quarter, as reported by the New York Stock Exchange, was approximately $151.9 million.

The number of shares of the Registrant s common stock, $.01 par value, outstanding at March 3, 2004 was 46,184,294.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement for the annual meeting of stockholders to be held May 26, 2004 are incorporated by reference into Part III.

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GLOBAL POWER EQUIPMENT GROUP INC.

FORM 10-K/A

December 27, 2003

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EXPLANATORY NOTE

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the Company is filing an amendment on Form 10-K/A to amend certain items in our Annual Report on Form 10-K for the fiscal year ended December 27, 2003 that was originally filed on March 9, 2004 (the Annual Report).

The specific items amended in the Annual Report are Items 6, 7 and 8 of Part II and Item 15 of Part IV. The changes to items 6, 7 and 8 relate to the restatement of our 2001 and 2000 consolidated financial statements and certain other financial information to reclassify losses on extinguishment of debt from an extraordinary loss to continuing operations as required by Statement of Financial Accounting Standards (SFAS) No. 145, Rescission of FASB Statements No. 4, 44, 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS No.145). The provisions of SFAS No. 145, related to the rescission of SFAS No. 4 Reporting Gains and Losses from Extinguishment of Debt, require the Company to reclassify prior period items into continuing operations that do not meet the extraordinary classification. These restatements had no effect on the Company s reported net income, financial position or cash flows. The Exhibit Index in Item 15 is amended to reflect the inclusion of updated certifications of certain executive officers and consent letter from PricewaterhouseCoopers LLP. In this Form 10-K/A, the Company included all other Items that were part of the Annual Report, which were not specifically amended.

This Form 10-K/A does not reflect events occurring subsequent to the filing of the Annual Report.

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PART I.

ITEM 1. BUSINESS

Overview

Global Power Equipment Group Inc. (referred to herein as we, us, our, GPEG and the Company) is a global designer, engineer and fabricato a comprehensive portfolio of equipment for gas turbine power plants and power-related equipment for industrial operations, with over 30 years of power generation industry experience. We believe that we are a leader in our industry, offering one of the broadest ranges of gas turbine power plant and other power-related equipment in the world. We hold the number one or number two market position by sales in a majority of our product lines. Our equipment is installed in power plants and in industrial operations in more than 40 countries on six continents. We believe that we have one of the largest installed bases of equipment for power generation in the world. In addition, we provide our customers with value-added services including engineering, retrofit and upgrade, and maintenance and repair.

We sell our products to the gas turbine power generation market. Our products are critical to the efficient operation of gas turbine power plants and are highly engineered to meet customer-specific requirements. Our products include:

- heat recovery steam generators;
- filter houses;
- inlet systems;
- gas turbine, steam turbine, and generator enclosures;
- exhaust systems;
- diverter dampers; and
- specialty boilers and related products

We market and sell our products globally under the *Deltak, Braden* and *Consolidated Fabricators* brand names through our worldwide sales network.

We fabricate our equipment through a combination of in-house manufacturing and extensive outsourcing relationships. Our network of high-quality subcontractors, located throughout 17 countries, allows us to manufacture equipment for power plant projects and power-related equipment worldwide at competitive prices. Our subcontractors enable us to meet increasing demand without being restricted by internal manufacturing capacity limitations, thus minimizing our capital expenditure requirements. Using subcontractors also allows us to minimize our fixed costs, thereby providing a significant benefit during times of decreased demand.

We believe our design and engineering capabilities differentiate us from our competitors. By providing high-quality products on a timely basis and offering a broad range of equipment, we have forged longstanding relationships with the leading power industry participants, including General Electric, Mitsubishi Heavy Industries, Siemens-Westinghouse, ExxonMobil, Southern Companies, Tenaska and Bechtel.

Forward-Looking Statements

In addition to historical information, this Annual Report on Form 10-K includes certain forward-looking statements. Forward looking statements represent our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside of our control. These forward-looking statements include, in particular, the statements about our plans, strategies and prospects. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, these forward-looking statements rely on assumptions and are subject to risks and uncertainties that may prevent us from achieving our plans, intentions or expectations. When used in this report, the words expect, may, intend, plan, anticipate, believe, seek and similar expressions, as well as statements regarding our fo the future, are generally intended to identify forward-looking statements.

Important factors that could cause actual results to differ materially from the forward-looking statements we make in this Form 10-K are set forth in Item 1. Business, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K. These forward-looking statements involve risks and uncertainties, including those discussed under Risk Factors included in Item 1. All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements found in the sections mentioned above. These cautionary statements identify important factors that could cause actual results to differ materially from those predicted in any forward-looking statements. Accordingly, undue reliance should not be placed on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation to update or revise the forward-looking statements.

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Fiscal 2003 Developments

During 2003, approximately 87 percent of our revenues were from sales of equipment and services for gas turbine power plants. The remaining 13 percent of our revenues were derived from the sale of specialty boiler systems for co-generation applications and for process industries. Approximately 69 percent of our revenues in 2003 were from sales in North America.

Beginning in late 2001 and continuing through 2003, the health of the U.S. merchant electrical generation industry deteriorated significantly as falling power prices, coupled with rising natural gas costs and reduced access to capital gave rise to postponements and cancellations of planned new power generation capacity inside the United States. The cancellation of new electrical generation projects inside the United States during 2002 and 2003 affected our order bookings during 2003. Our bookings from U.S. customers during 2003 declined to $65 million compared to approximately $205 million in 2002, representing a decline of 68 percent. In addition, approximately $35 million of orders were removed from our firm backlog during 2003 due to cancellations by customers. Bookings from international customers were relatively unchanged between 2002 and 2003 at $108 million and $105 million, respectively.

The Company is directly affected by the overall trend in new power plant construction, inside the United States as well as on a global basis. The significant decline in the profitability of U.S.-based merchant energy firms has weighed and, in our opinion, will continue to weigh on the revenues and profitability for our Company and for other firms that supply products for power generation to the United States market, particularly those which produce their products primarily inside the United States.

Supply and Demand Trends

United States

According to the Energy Information Administration (EIA), an arm of the U.S. Department of Energy, an estimated 45 gigawatts of new generation capacity was added in the United States during 2003, down approximately 37 percent from the 72 gigawatts of new capacity that was added during 2002. The EIA expects new generation capacity additions in the United States will continue to trend downward in the near-term, until the 2006 to 2010 timeframe, at which time the EIA estimates retirements of older generation capacity will significantly outpace new additions. Given the extended lead-times required for developing new electrical power generation capacity for a particular market, our bookings and revenues can rise or fall sharply prior to the actual commissioning of new capacity. Limited development, deferral of planned projects and cancellations will reduce the potential recognition of revenues and profits for us. In market economies such as the United States, the lags between price signals and the construction of new power plants can cause boom-and-bust cycles for the suppliers of equipment for power generation. Given this situation, the Company s revenues will not necessarily correlate precisely with changes in reported actual or forecasted new capacity. A copy of the EIA s latest assessment of electrical generation supply and demand trends for the United States can be found on the Internet at www.eia.doe.gov/oiaf/forecasting.html.

International Markets

According to the International Energy Agency (IEA), in its *World Energy Investment Outlook 2003,* approximately $10 trillion will be required over the next three decades to expand and upgrade the global electricity sector. This estimated level of spending is approximately three times the level of spending in real terms than was invested in the electricity sector in the prior thirty years. Approximately one-half, or $5 trillion, will be spent in developing countries, two-thirds, or approximately $3 trillion, of which in developing Asia alone. The IEA estimates that the greatest investment in new generating and transmission capacity will be made in China and will approach $2 trillion.

The IEA estimates that 4,700 gigawatts of new generation capacity will be required worldwide by 2030 and the importance of natural gas-based generating plants will rise from 17 percent in 2000 to 31 percent by 2030 requiring over 2,000 gigawatts of new natural gas turbine based capacity. Most of this new gas turbine capacity will employ combined cycle technology. The IEA s latest assessment of worldwide generation supply and demand trends, along with the expected investment through 2030 can be found on the Internet at www.iea.org.

Our Strategy

Given the EIA s assessment of supply and demand trends, and the existing merchant industry conditions inside the United States, we believe the market opportunities inside the United States for us over the next several years will remain subdued. In view of this

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outlook, as well as the IEA s outlook for international supply and demand, we intend to take a number of initiatives to maximize shareholder value and enhance our market position in the global power generation industry. We intend to:

Leverage our presence and experience in international power markets. We have a successful record of selling our products to customers in over 40 countries during the past two decades. Through our large international network of manufacturing relationships and direct sales channels, we are uniquely positioned to undertake power generation projects throughout the world.

Recognizing the market opportunities for gas turbine generating capacity additions globally, we continued to expand our presence in a number of regions outside of the United States during 2003, particularly in China. During the fourth quarter of 2003, we booked a significant volume of business with the gas turbine manufacturers that are supplying the initial tranche of new gas turbines into China. We also expanded our base of manufacturing partners inside China during the year to supply equipment to Chinese customers, as well as for export from China, for the future. In early 2004, we also expanded our sales and customer support infrastructure in China by significantly expanding our office in Shanghai.

With manufacturing partnerships secured in 17 countries outside of the United States, our global supply capability, close proximity to key markets, breadth of products and experience allows us to serve our multinational customers needs in a timely and efficient manner and are critical prerequisites for obtaining project awards.

Leverage our design and engineering capabilities to expand our product lines. We intend to expand our product lines to capture a larger share of our customers equipment purchases. Through our design and engineering capabilities and experience in gas turbine technology, we have developed a number of complementary product lines, including inlet cooling systems, pulse filters, air filter elements and diverter dampers. Throughout our history, we have successfully introduced new end-use applications for our underlying technologies, including products for the process, marine, pulp and paper and pharmaceutical industries.

Position the Company to be the preferred supplier in the U.S. market for the long-term. Our design and engineering expertise positions us to bid on and execute virtually any major gas turbine power plant project, as well as specific applications incorporating our specialty boilers, which are frequently installed for co-generation projects. Since 2001, the downturn in U.S. power generation markets has negatively impacted several of our competitors to the point where some have been forced to exit the market or, are, in our opinion, less viable going forward. Our low-cost sourcing and manufacturing capability enhances our competitive market position and enables us to participate in virtually every location where new power projects will be added.

Pursue strategic acquisitions. We will continue to evaluate select acquisitions, which could increase our market share in existing product lines, broaden our overall product and service offerings, penetrate difficult markets more easily or expand our geographic reach. The power generation equipment industry is highly fragmented, comprised largely of small companies or corporate divisions with relatively limited product lines. The fragmented nature of the industry provides us with numerous acquisition opportunities.

Gas Turbine Technology

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 period;

improved operating efficiency;

lower environmental impact;

ability to expand plant capacity; and

rapid start-up and shutdown time.

Gas turbine power plants can have either a simple-cycle or combined-cycle configuration, both of which utilize a gas turbine and a generator to produce electricity. A simple-cycle gas turbine plant incorporates many of the products we manufacture, including filter houses, inlet and exhaust systems and turbine enclosures. A simple-cycle plant converts approximately 33% of the fuel s energy

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content into electricity. A combined-cycle plant has the same components as a simple-cycle plant, with the addition of a heat recovery steam generator, or HRSG. In a combined-cycle plant, the hot exhaust from the gas turbine is routed through the HRSG where steam is generated which is used to power a steam turbine and produce more electricity. Like the simple-cycle plant, the combined-cycle plant also incorporates many of the products that we manufacture. A combined-cycle power plant converts up to 58% or more of the fuel s energy content into electricity. As a result of the general availability of natural gas supplies, lower capital costs, environmental factors and increased efficiency, the EIA projects that gas-fired technology will outpace all other competing technologies through 2030. As a leading provider of equipment for simple- and combined-cycle power plants, we are well positioned to benefit from these trends.

Products and Services

We conduct our business through two operating segments: our heat recovery equipment segment and our auxiliary power equipment segment. We offer a broad range of products that are integral parts of gas turbine power plants as well as power-related equipment for industrial operations. We also provide advanced engineering, retrofit and upgrade, maintenance and repair services to the power generation industry. For more information regarding our revenues, profitability and total assets by segment, see Note 13 to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Form 10-K.

Heat Recovery Equipment Segment

Our heat recovery equipment segment is a leader in the production of HRSGs and specialty boilers. Our products in this segment are marketed under the *Deltak* brand name.

Heat Recovery Steam Generators. An HRSG is a boiler that creates steam in a combined-cycle power plant using the hot exhaust emitted by a gas turbine. This steam generates additional electricity by driving a steam turbine in a combined-cycle power plant. Each HRSG is custom designed and engineered to meet the specifications of the customer, taking into account the type of gas turbine and environmental locale. We design and manufacture HRSGs for all size applications for both new combined-cycle and retrofitted simple-cycle power plants. We believe we are the overall market leader with the largest installed base of gas turbine HRSGs in the world.

Specialty Boilers and Related Products. Specialty boilers are a highly customized class of equipment that capture waste heat and convert it into steam. We produce specialty boilers used in process heat recovery and incineration systems, small power generation systems and marine co-generation systems. Our specialty boilers, which require creative engineering solutions, are used in a wide range of markets, including oil and gas, pulp and paper, chemicals, petrochemical, marine and food industries. We have an installed base of more than 600 specialty boilers in over 30 countries. In addition, we design and manufacture catalytic recovery systems for gas turbine exhaust systems which reduce emissions.

Auxiliary Power Equipment Segment

Our auxiliary power equipment segment includes a variety of products and services critical to the operation of gas turbine power plants. These products are marketed under the *Braden* and *Consolidated Fabricators* brand names.

Filter Houses. A filter house cleans debris, dirt and other contaminants from the air that enters the turbine, using either a barrier filter or a pulse filter. Barrier filters use a series of filter elements contained in a large filter house to remove airborne contaminants. Pulse filters are self-cleaning filters that use a blast of air to expel dirt or ice from the filter element. In addition, a filter house may include evaporative coolers, chiller coils, fog cooling systems, anti-icing systems and a broad range of other equipment that treats the air that is pulled through the turbine.

Inlet Systems. Inlet systems are large air intake ducts that connect the filter house to the gas turbine and provide silencing for the noise emanating from the gas turbine through the inlet. The major components of an inlet system are inlet silencers, expansion joints and inlet ductwork.

Gas and Steam Turbine Enclosures. Gas and steam turbine enclosures protect the turbines from the environment. In addition, they provide acoustical treatment to reduce the noise produced by gas and steam turbines. Fire suppression systems are also an integral feature of most enclosures.

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Exhaust Systems. Exhaust systems direct the hot exhaust from the turbine to the atmosphere. The main components of an exhaust system are exhaust ductwork, acoustic silencing equipment and the stack. Exhaust systems are highly engineered and very complex due to the severe turbulence and heat exposure that they must endure.

Diverter Dampers. Diverter dampers divert the hot exhaust from the gas turbine into a HRSG when the power plant is operated as a combined-cycle facility or into the exhaust stack in the case of simple-cycle operation. We also design and manufacture various other types of dampers.

Backlog

The time frame between receipt of an order and actual completion or delivery of our products can stretch from a few weeks to a year or more. At the time we receive an order representing a commitment from a customer, that order is added to our backlog. Our backlog consists of firm orders from our customers for projects in progress. Backlog may vary significantly quarter to quarter due to the timing of customer commitments. During fiscal year 2003, we removed bookings of approximately $35 million, with less than $1 million removed in the fourth quarter. Cancellation fees and revenue recognition have normally exceeded our out-of-pocket costs on the projects removed.

Sales and Marketing

We have an extensive sales network consisting of employees and independent representatives worldwide. We have sales offices in Brazil, China, Egypt, the Netherlands, Singapore, South Korea and the United States. Our international sales force allows us to assess local market conditions, utilize local contacts and respond quickly to our customers regional needs. We focus our sales and marketing efforts on end users of our products, including the developers and operators of gas turbine power plants, and on gas turbine original equipment manufacturers (OEM) who may order our products directly or specify the use of our products.

Customers

Customers for both our heat recovery equipment segment and our auxiliary power equipment segment include OEMs, engineering and construction firms, operators of power generation facilities and firms engaged across several process related industries. The end users of most of our products are developers and operators of gas turbine power plants. Our top ten customers vary from year to year due to the relative size and duration of our projects. The Company has certain customers that represent more than 10 percent of consolidated revenues. The revenues for these customers, as well as corresponding accounts receivable, as a percentage of the consolidated revenues and accounts receivable balances, for 2003, 2002 and 2001 are as follows:

	Revenues			Accounts Receivable		
	2003	2002	2001	2003	2002	2001
General Electric	32%	35%	25%	27%	9%	24%
Mitsubishi Heavy Industries	4%	5%	16%	6%	18%	11%

The Southern Company	7%	14%	11%	0%	0%	0%
ExxonMobil	10%	1%	0%	9%	0%	0%

For information with respect to our sales by geographic regions, see Note 13 to the consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Form 10-K.

Engineering and Design Capabilities

Our business is driven by design and engineering expertise, an area in which we believe we are an industry leader. Our products are custom-designed and engineered to meet the precise specifications of our customers, and may require a significant number of engineering hours to design. As of December 27, 2003, we employed 105 degreed engineers specialized in thermal, structural, electrical, mechanical, acoustical, industrial and chemical engineering. Our engineers utilize an extensive PC-based network and engineering programs such as AutoCad, ANSYS, StruCAD and several internally developed proprietary programs. Our proprietary programs enable us to use design elements from previous projects thereby increasing our engineering efficiency on subsequent projects.

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Manufacturing and Outsourcing

Our products are fabricated utilizing a combination of in-house manufacturing and subcontractors. Most of our subcontracting work is performed outside the United States which provides a lower-cost basis for finished goods. Our extensive use of outsourcing relationships provides us the following benefits:

- flexibility to rapidly expand or contract manufacturing capacity which limits our capital expenditure requirements and fixed expenses;
- ability to manufacture in low cost countries, thereby reducing the overall cost of our products; and
- ability to satisfy local content requirements.

In fiscal year 2003, subcontractors accounted for approximately 83% of our manufacturing costs. Our subcontractors manufacture products on a fixed-price basis for each project. Typically, our subcontractors agree not to manufacture competing products. We provide on-site technical advisors at our subcontracted facilities to ensure high levels of quality and workmanship. We are constantly pursuing new international subcontractor relationships to enhance our ability to manufacture equipment at the lowest cost while maintaining high-quality standards and on-time delivery.

While a majority of our manufacturing is outsourced, we maintain significant in-house capabilities. Our in-house manufacturing capability allows us to internally develop production methods, train personnel, protect highly sensitive designs and fabricate products whose complexity may preclude their production by subcontractors.

Segment Financial Data and Sales by Geographic Region

See Note 13 to the consolidated financial statements, included in Item 8. Financial Statements and Supplementary Data of this Form 10-K, for detailed financial information regarding each business segment and sales by geographic region.

Raw Materials and Suppliers

The principal raw materials for our products are stainless steel sheet products, carbon steel plate and structural shapes, insulation and finned tubing. We obtain these products from a number of domestic and foreign suppliers. The market for most of the raw materials we use is comprised of numerous participants, and we believe that we can obtain each of the raw materials we require from more than one supplier.

Competition

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. We believe that no single competitor offers our breadth of products to the gas turbine power generation industry.

Employees

As of December 27, 2003, we had 949 employees. Other than 3 of our remaining manufacturing employees located in Tulsa, Oklahoma and 290 of our production employees at our two facilities in Mexico, none of our employees are represented by unions. We believe our employee relations are satisfactory.

Intellectual Property

We depend upon a combination of patents, trademarks and nondisclosure and confidentiality agreements with our employees, customers and others as well as various security measures to protect our proprietary rights. Designs and processes are developed for specific projects and are charged directly to such projects. Due to the unique nature of each project, we typically create new designs specifically for each project. Also, our customers are contractually obligated to treat these designs as confidential and proprietary. For these reasons, we do not generally pursue patent protection. However, we believe that intellectual property protection is less important than our ability to continue to develop new design applications that meet the demands of our customers. As a result, we do not believe that any single patent or trademark is material to our business.

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We typically enter into non-disclosure and confidentiality agreements with our employees and subcontractors with access to sensitive design software and technology. However, this protection does not preclude others from creating programs which perform the same function. In addition, our agreements may be breached and we may not have adequate remedies for any breach.

Environmental Matters

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. These laws include U.S. federal statutes such as the Resource Conservation and Recovery Act of 1976, the Comprehensive Environment Response, Compensation, and Liability Act of 1980, or CERCLA, the Clean Water Act and the Clean Air Act, 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.

Failure to comply with environmental laws or regulations could subject us to significant liabilities for fines, penalties or damages, or result in the denial or loss of significant operating permits. In addition, some environmental laws, including CERCLA, 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.

Our manufacturing facilities use and produce wastes containing various substances classified as hazardous or otherwise regulated under environment laws and regulations, and are subject to ongoing compliance costs and capital expenditure requirements. We believe we are in compliance with applicable environmental laws and regulations and that the costs of compliance are not material to us. However, any newly discovered environmental conditions could result in unanticipated expenses or liabilities that could be material. Moreover, the environmental laws and regulations to which we are subject are constantly changing, and it is impossible to predict the effect of these changes on us. We cannot give any assurances that our operations will comply with future laws and regulations or that these laws and regulations will not significantly adversely affect us.

Available Information

Our Internet address is www.globalpower.com. We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC.

Risk Factors

Our business, financial condition and results of operations may be impacted by a number of factors, including, but not limited to, the following, any of which could cause actual results to vary materially from historical and current results or anticipated future results.

Substantially all of our revenues are 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 and services depends on the continued construction of gas turbine power generation plants. In fiscal year 2003, approximately 87% of our revenues were from sales of equipment and provision of services for gas turbine power 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 revenues may decrease. In addition, the gas turbine power industry depends on natural gas. A rise in the price or a shortage of natural gas could affect the profitability or operations of gas turbine power plants, which could adversely affect our future revenues.

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 emissions 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.

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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. Furthermore, in fiscal year 2003, approximately 45% of our revenues were from sales of heat recovery equipment used in combined-cycle power plants. Any change in the power generation industry which results in a decline in the construction of new combined-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.

Because some of our contracts stipulate that customer progress payments be made in advance of work performed, increases in overall sales volume typically allow us to finance our business through these payments. Conversely, a prolonged decline in new bookings of sales that provide for progress payments, or, if due to competitive market conditions we elect to extend progress payment schedules, our ability to finance work from operating sources may be affected resulting in a reduction in operating cash flows.

A small number of major customers account for a significant portion of our revenues, 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 revenues. In fiscal year 2001, three customers accounted for approximately 52% of our consolidated revenues. In fiscal year 2002, two customers accounted for approximately 49% of our consolidated revenues. In fiscal year 2003, two customers accounted for approximately 42% of our consolidated revenues and approximately 33% of our backlog at the end of the year. In addition, our five largest customers accounted for approximately 62% of our revenues in fiscal year 2003 and approximately 54% of our backlog at the end of the year. 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 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 in the event a customer cancels its order. If a customer elects to cancel, we may not realize the full amount of future revenues included in our backlog. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenues. 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.

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

We enter into nearly all of our contracts on a fixed-price basis. As a result, we benefit from cost savings, but have 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 long duration of our contracts, unanticipated changes may occur, such as customer budget decisions, design changes, delays in receiving permits and cost increases, which may delay delivery of our products. In addition, 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, or shortages, of components, materials or labor;
- unanticipated technical problems;

required project modifications not initiated by the customer; and

suppliers or subcontractors failure to perform.

Given the rapid economic growth in China and Southeast Asia, material prices have increased sharply and may continue to increase in the future. Our ability to recover these cost increases from our customers on our current and future orders may be limited.

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.

Competition could result in decreased sales or decreased prices for our products and services.

We face and will continue to face significant competition for the sale of our products and services. Competition could result in a reduction in the demand for, or the prices that we can charge for, our products and services. Our success is dependent in large part on our ability to:

anticipate or respond quickly to our customers needs and enhance and upgrade our existing products and services to meet those needs;

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continue to price our products and services competitively and find low cost subcontractors that can produce quality products; and

develop new products and systems that are accepted by our customers and differentiated from our competitors offerings.

Our competitors may:

develop more desirable, efficient, environmentally friendly or less expensive products;

be willing to accept lower prices to protect strategic marketing positions or increase market share;

be better able to take advantage of acquisition opportunities; or

adapt more quickly to changes in customer requirements.

As a result of our competitors business practices, we may need to lower our prices and/or devote significant resources to marketing our products in order to remain competitive. Lower prices and/or higher costs would reduce our revenues and our profitability.

If we are unable to control the quality or timely production of products manufactured for us by 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. In fiscal year 2003, subcontractors accounted for approximately 83% of our manufacturing costs. Although we have on-site supervision of our subcontractors to review and monitor their quality control systems, the quality and timing of their production 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 and the loss of customers.

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 in the event a subcontractor fails to complete an order, which may adversely affect our profitability.

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

When we receive a firm order for a project from a customer, that order 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 were delayed, the timing of our revenues could be affected. If a customer cancels an order, we may be reimbursed for the incurred costs. Typically, however, we have no contractual right to the full amount of the revenues that we would have received if the order had not been canceled, which

potential revenues are reflected in our backlog. 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 quarterly backlog levels also result from the fact that we may receive a small number of relatively large orders in any given quarter that may be included in our backlog. Because of these large orders, our backlog in that quarter may reach levels that may not be sustained in subsequent quarters. Our backlog, therefore, is not necessarily indicative of our future revenues.

Our future revenues and operating results may vary significantly from quarter to quarter.

Our quarterly revenues and earnings have varied in the past and are likely to vary in the future. Our contracts stipulate customer-specific delivery terms which, coupled with other factors beyond our control that may occur at any time over a contract cycle of up to a year or more, may result in uneven realization of revenues and earnings over time. Customer-imposed delays can significantly impact the timing of revenue recognition. Due to our large average contract size, our sales volume during any given period may be concentrated in relatively few orders, intensifying the magnitude of these fluctuations. Consequently, our quarterly performance may not be indicative of our success in achieving year-over-year growth objectives. 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 revenues or the demand for our products in any given quarter. Therefore, our operating results in any quarter may not be indicative of our future performance. In addition, because we must make significant estimates related to potential charges when we recognize revenue on a percentage of completion basis, we may have difficulty accurately estimating revenues and profits from quarter to quarter.

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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. As discussed on page 7, Environmental Matters, 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. In addition, some environmental laws, including CERCLA, 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. Moreover, the environmental laws and regulations to which we are subject are constantly changing, and we cannot predict the effect of these changes on us.

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. 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.

If a very large product liability claim were sustained, our insurance coverage might not be adequate to cover our defense costs and the amount awarded. Additionally, a well-publicized actual or perceived problem could adversely affect our reputation and reduce demand for our products.

The restrictions and covenants contained in our amended and restated senior credit facility limit our ability to borrow additional money, sell assets and make acquisitions. Compliance with these restrictions and covenants may limit our ability to implement elements of our business strategy.

Our amended and restated senior credit facility contains a number of significant restrictions and covenants limiting our ability and that of our subsidiaries to:

- borrow more 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 amended and restated senior credit facility contains other restrictive covenants, including covenants that require us to maintain specified financial ratios, including leverage, interest and fixed charge ratios and mandatory repayment provisions that will require us to repay our indebtedness with proceeds from certain asset sales, certain debt issuances and certain insurance casualty events. If we are unable to service our indebtedness, we may be forced to reduce or delay capital expenditures, sell assets, restructure or refinance our indebtedness or seek additional equity capital. Also, compliance with the restrictive covenants of our amended and restated senior credit facility may limit our ability to operate our business or implement elements of our business strategy.

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Our revenues would be adversely affected if we are unable to protect the proprietary design software programs that we use in our business.

We have developed several proprietary software programs to help us design our products. Our ability to protect our proprietary rights to these programs is important to our success. We protect these rights through the use of internal controls and confidentiality and non-disclosure agreements and other legal protections. The legal protections afforded to our proprietary rights and the precautions we have taken may not be adequate to prevent misappropriation of our proprietary rights. We generally enter into non-disclosure and confidentiality agreements with our employees and subcontractors with access to sensitive design software and technology. However, these contractual protections do not prevent independent third-parties from developing functionally equivalent or superior technologies, programs, products or professional services. Third-parties may also infringe upon or misappropriate our proprietary rights and use them to develop competing products. 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 costs and divert management s attention from operations.

The loss of the services of our key executive officers could have a negative effect on our business.

Our success depends to a significant extent on the continued services of Larry Edwards, our chief executive officer, president and chairman of the board, and Monte Ness and Gene Schockemoehl, two of our senior executives. Our failure to retain the services of Messrs. Edwards, Ness or Schockemoehl, or attract highly qualified management in the future, could adversely affect our ability to grow and manage our operations. Although we have employment agreements containing non-competition clauses with Messrs. Edwards, Ness and Schockemoehl, courts are sometimes reluctant to enforce these agreements. In addition, although we carry key man life insurance for Messrs. Edwards and Schockemoehl, the loss of their services could disrupt our operations.

A failure to attract and retain employees who fill key requirements of our business may make it difficult to sustain or expand operations.

We must attract and retain highly qualified experienced mechanical, design, structural and software engineers, service technicians, marketing and sales personnel and other key personnel to expand our operations. If we are unable to attract and retain necessary personnel, we may not be able to sustain or expand our operations.

We may not be able to maintain or expand our business outside the United States because of numerous risk factors outside our control.

Our international operations are subject to a number of risks inherent in doing business outside the United States including:

- labor unrest;
- regional economic uncertainty;