

ARGAN INC  
Form 10-K  
April 14, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**For the Fiscal Year Ended January 31, 2011**

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 **001-31756**

**ARGAN, INC.**

(Exact Name of Registrant as Specified in its Charter)

Delaware

13-1947195

(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

One Church Street, Suite 201, Rockville, Maryland

20850

(Address of Principal Executive Offices)

(Zip Code)

(301) 315-0027

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$0.15 par value

NYSE Amex

Securities registered under Section 12(g) of the Exchange Act: None

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$19,222,441 on July 31, 2010 (the last business day of the Registrant's second fiscal quarter), based upon the closing price on the NYSE Amex stock exchange as reported for that date. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common shares have been excluded because such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of common stock outstanding as of April 1, 2011: 13,601,994 shares

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the 2011 Annual Meeting of Stockholders to be held on June 21, 2011 are incorporated by reference in Part III.

**ARGAN, INC. AND SUBSIDIARIES**  
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**Table of Contents****PART I****ITEM 1. BUSINESS.**

Argan, Inc. ( Argan ) conducts operations through its wholly-owned subsidiaries, Gemma Power Systems, LLC and affiliates ( GPS ) that were acquired in December 2006 and Southern Maryland Cable, Inc. ( SMC ) that was acquired in July 2003 (together referred to as the Company, we, us, or our ). Through GPS, we provide a full range of development, consulting, engineering, procurement, construction, commissioning, operations and maintenance services to the power generation and renewable energy markets for a wide range of customers including public utilities, independent power project owners, municipalities, public institutions and private industry. Through SMC, we provide telecommunications infrastructure services including project management, construction and maintenance to the federal government, telecommunications and broadband service providers as well as electric utilities. Each of the wholly-owned subsidiaries represents a separate reportable segment power industry services and telecommunications infrastructure services, respectively. The net revenues of GPS represented approximately 96%, of our consolidated net revenues from continuing operations for the fiscal year ended January 31, 2011. Financial information about our business segments is included in Note 18 to the accompanying consolidated financial statements.

**Discontinued Operations**

In December 2010, the Board of Directors of Argan approved management's plan to dispose of the operations of the nutritional products line of business conducted by its wholly-owned subsidiary, Vitarich Laboratories, Inc. ( VLI ). Since 2006, VLI incurred operating results that were consistently below expected results. The loss of certain major customers and the reduction in the amounts of orders received from other large customers caused net revenues to decline and this business segment to report operating losses. We reported an operating loss for VLI of approximately \$2.9 million for the nine months ended October 31, 2010. We reported operating losses for VLI of approximately \$2.2 million, \$6.9 million and \$8.9 million for the fiscal years ended January 31, 2010, 2009 and 2008, respectively, including impairment losses related to the indefinite-lived and long-lived assets of approximately \$2.0 million and \$6.8 million for the fiscal years ended January 31, 2009 and 2008, respectively.

On March 11, 2011, we completed the sale of substantially all of the assets of VLI to an unrelated company. The asset sale was consummated for an aggregate cash purchase price of up to \$3,100,000 and the assumption by the purchaser of certain trade payables, accrued expenses and remaining obligations under VLI's facility leases. Of the cash purchase price, \$800,000 was paid at closing and the remaining \$2,300,000 was placed into escrow. VLI will be paid from the escrow amount (i) the cost of all closing inventory sold, used or consumed within nine months of the closing, and (ii) the amounts of all accounts receivable of VLI that are collected by September 30, 2011. After September 30, 2011, all uncollected accounts receivable will be returned to VLI. At the end of nine months of the closing, all money still held in the escrow account will be returned to the purchaser.

The assets and liabilities of VLI are classified as held for sale and the financial results of VLI have been presented as discontinued operations in the accompanying consolidated financial statements.

**Holding Company Structure**

Argan was organized as a Delaware corporation in May 1961. We intend to make additional acquisitions and/or investments by identifying companies with significant potential for profitable growth. We may have more than one industrial focus. We expect that companies acquired in each of these industrial groups will be held in separate subsidiaries that will be operated in a manner that best provides cash flows for the Company and value for our stockholders. Argan is a holding company with no operations other than its continuing investments in GPS and SMC. At January 31, 2011, there were no restrictions with respect to inter-company payments to Argan by GPS, SMC or VLI.

**Acquisition of Gemma Power Systems, LLC and its Affiliates**

We acquired GPS on December 8, 2006. The results of operations of GPS have been included in our consolidated financial statements since the date of the acquisition. The acquisition purchase price was \$33.1 million, consisting of \$12.9 million in cash and \$20.2 million from the issuance of approximately 3,667,000 shares of our common stock. The purchase price was funded, in part, by an \$8.0 million, secured, 4-year term loan. In addition, we raised \$10.7 million through the private offering of approximately 2,853,000 shares of our common stock at a purchase price of \$3.75 per share as discussed below. Pursuant to the acquisition agreement, \$12.0 million in cash was deposited into

an escrow account. Of this amount, \$10.0 million secured a letter of credit supporting the issuance of bonding. Over the past two years, the escrowed amounts have been released to us as the bonding company reduced, and then eliminated, its security requirements. Pursuant to the terms of the acquisition agreement, payment of the remaining escrowed amount of \$2.0 million was subsequently made to the former owners of GPS based on the financial performance of GPS for the twelve months ended December 31, 2007.

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**Financing Arrangements**

We have financing arrangements with Bank of America (the Bank). The financing arrangements, as amended, provide a revolving loan with a maximum borrowing amount of \$4.25 million that is available until May 31, 2011, with interest at LIBOR plus 2.25%. There were no borrowed amounts outstanding under the revolving loan arrangement as of January 31, 2011. We may obtain standby letters of credit from the Bank in the ordinary course of business not to exceed \$10.0 million. We expect that we will succeed in obtaining a renewal of the revolving loan at the expiration of the current term.

The amended financing arrangements also covered term loans in the amounts of \$8.0 million and \$1.5 million, with interest at LIBOR plus 3.25%, that were repaid during the years ended January 31, 2011 and 2010, respectively. We used the funds borrowed from the Bank in the acquisition of GPS and for the retirement of certain debt assumed in connection with the acquisition of VLI.

The Bank requires that the Company comply with certain financial covenants at its fiscal year-end and at each of its fiscal quarter-ends (using a rolling 12-month period) including covenants that (1) the ratio of total funded debt to EBITDA not exceed 2 to 1, (2) the fixed charge coverage ratio be not less than 1.25 to 1, and (3) the ratio of senior funded debt to EBITDA not exceed 1.50 to 1. The Bank's consent is required for acquisitions and divestitures. We have pledged the majority of the Company's assets to secure the financing arrangements. The amended financing arrangements contain an acceleration clause which allows the Bank to declare outstanding borrowed amounts due and payable if it determines in good faith that a material adverse change has occurred in the financial condition of the Company or any of its subsidiaries. We believe that the Company will continue to comply with its financial covenants under the financing arrangements. If the Company's performance does not result in compliance with any of its financial covenants, or if the Bank seeks to exercise its rights under the acceleration clause referred to above, we would seek to modify the financing arrangements. However, there can be no assurance that the Bank would not exercise its rights and remedies under the financing arrangements including accelerating the payment of all outstanding senior debt. At January 31, 2011, the Company was in compliance with the financial covenants of its amended financing arrangements.

**Power Industry Services**

The extensive design, construction, start-up and operating experience of our power industry services business has grown with the completion of projects for more than 70 facilities representing nearly 10,000 megawatts ( MW ) of power-generating capacity. Power projects have included combined-cycle cogeneration facilities, electricity peaking plants, boiler plant construction and renovation efforts, and utility system maintenance. We have also broadened our experience into the growing renewable energy industry by providing engineering, procurement and construction services to the owners of wind plants and other alternative power energy facilities. The durations of our construction projects may extend to three years. During the past two years, we completed construction of a natural gas-fired power plant in California, two biodiesel production plants in Texas and wind-energy farms in Washington and Illinois. The net revenues of GPS, which represent our power industry services business segment, were \$174.9 million for the fiscal year ended January 31, 2011, or approximately 96% of our consolidated net revenues from continuing operations for the year.

GPS has signed an engineering, procurement and construction agreement with Competitive Power Ventures, Inc. ( CPV ) and received a limited notice to proceed on the design and preconstruction planning for the Sentinel Power Project. This project, currently valued in excess of \$220 million, consists of eight simple cycle gas-fired peaking plants with a total power rating of 800 megawatts to be located in Southern California. The project is currently expected to be completed during the fiscal year ending January 31, 2013. We understand that CPV recently completed the negotiation of a power supply agreement with Southern California Edison.

We anticipate sustained demand for engineering and construction services related to the development of new gas-fired power plants because these facilities are more efficient and produce fewer emissions than coal-fired power plants. In addition, climate change and foreign oil dependency concerns are driving an increase in renewable energy legislation, government incentives and commercialization. Certain states in the U.S. are requiring that upwards of 20% of future energy be produced from renewable energy sources in efforts to reduce carbon dioxide emissions that are blamed, in part, for global warming. Very large corporations as well as venture capital and other investment firms have directed



funds to the renewable energy sector.

In June 2008, GPS entered into a business partnership with a wind-energy project development firm for the design and construction of wind-energy farms located in the United States and Canada. The business partners each owned 50% of the new company, Gemma Renewable Power, LLC ( GRP ). In December 2009, GPS acquired the other 50% ownership interest from its former partner and GRP became a wholly-owned subsidiary of the Company. GRP provides engineering, procurement and construction services for new wind farms generating electrical power, including the design and construction of roads, foundations, and electrical collection systems, as well as the erection of towers, turbines and blades. During the year ended January 31, 2010, GRP completed a wind-farm expansion project in Illinois with a contract value of approximately \$47 million and was awarded a contract for the design, engineering and construction of a 90 megawatt wind energy project in Kittitas County, Washington, including the installation of sixty (60) wind turbines with a value of approximately \$33 million. The latter project was completed during the fiscal year ended January 31, 2011. In November 2010, we announced that GRP had signed a contract valued in the amount of approximately \$51 million with a subsidiary of the wind-energy development firm referenced above for the construction of a wind energy farm in Henry County, Illinois. This project, covering the installation of up to 134 wind turbines, is anticipated to be completed in the first quarter of 2012. GRP will provide design services and construction of roads, foundations, and electrical collection systems in addition to erecting towers, turbines, and blades.

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During the year ended January 31, 2011, we signed a construction and start-up services contract, now valued at approximately \$56 million, for the construction of a 200 megawatt peaking power plant in Connecticut and received the related full notice-to-proceed. The completion of the project, which includes the installation of four gas turbines with ancillary equipment and systems, is expected to occur during the second quarter of fiscal year 2012.

**Materials**

In connection with the engineering and construction of traditional power energy systems, biodiesel plants, ethanol production facilities and other power energy systems, we procure materials on behalf of our customers. We are not dependent upon any one source for materials that we use to complete a particular project, and we are not currently experiencing difficulties in procuring the necessary materials for our contracted projects. However, we cannot guarantee that in the future there will not be unscheduled delays in the delivery of ordered materials and equipment.

**Competition**

GPS competes with numerous large and well capitalized private and public firms in the construction and engineering services industry. These competitors include SNC-Lavalin Group, Inc., a diversified Canadian construction and engineering firm with over 23,000 employees generating over \$6.1 billion in annual revenues; CH2M HILL Companies, Ltd., a worldwide professional engineering services firm with approximately 23,000 employees and with annual revenues of approximately \$5.4 billion; Foster Wheeler AG, an international provider of engineering and construction services and steam generation products with over 12,000 employees and with annual revenues exceeding \$4.0 billion; Shaw Group Inc., a diversified firm with approximately 27,000 employees providing consulting, engineering, construction and facilities management services and with annual revenues of approximately \$7.0 billion; and Fluor Corporation, an international engineering, procurement, construction and maintenance company with over 39,000 employees and approximately \$20.8 billion in annual revenues. Other large competitors in this industry include Fagan Inc., Granite Construction Incorporated and business units of URS Corporation and EMCOR Group, Inc. GPS also may compete with regional construction services companies in the markets where projects are located.

In order to compete with these firms, we intend to emphasize our expertise in the alternative fuel industry as well as our proven track record developing facilities and services for traditional power energy systems. Our extensive experience includes the completion of gas and oil-fired combined cycle plants, wood/coal-fired plants, waste-to-energy plants, wind plants and biomass process facilities, all performed on an engineering, procurement, and construction ( EPC ) basis. GPS provides a full range of development, consulting, engineering, procurement, construction, commissioning and maintenance services to project owners. We are able to react quickly to their requirements while bringing a strong, experienced team to help navigate through difficult technical, scheduling and construction issues. We believe that we are uniquely positioned to assist in the development and delivery of innovative renewable energy solutions as world energy needs grow and efforts to combat global warming increase.

**Customers**

GPS recognized approximately 59% and 96% of its net revenues for the fiscal years ended January 31, 2011 and 2010, respectively, under a contract with Pacific Gas & Electric Company for the construction of a gas-fired power plant in California. The net revenues associated with this customer represented approximately 56% and 93% of our consolidated net revenues from continuing operations for the fiscal years ended January 31, 2011 and 2010, respectively. Two other significant customers of the power industry services business, GenConn Middletown, LLC and Invenergy Wind Management, LLC, provided approximately 23% and 17% of the net revenues of this business segment for the current year, which represented approximately 22% and 17% of our consolidated net revenues from continuing operations for the current year.

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### **Contract Backlog**

Contract backlog represents the total accumulated value of projects awarded less the amount of net revenue recognized to date on contracts at a specific point in time. We believe contract backlog is an indicator of future net revenues and earnings potential. Although contract backlog reflects business that we consider to be firm, cancellations or reductions may occur and may reduce contract backlog and the future revenues of GPS. At January 31, 2011, the Company had power industry service contracts for the construction of three facilities, representing a total contract backlog of \$291 million compared to a total contract backlog of \$300 million at January 31, 2010.

### **Regulation**

Our power industry service operations are subject to various federal, state and local laws and regulations including: licensing for contractors; building codes; permitting and inspection requirements applicable to construction projects; regulations relating to worker safety and environmental protection; and special bidding, procurement and security clearance requirements on government projects. Many state and local regulations governing construction require permits and licenses to be held by individuals who have passed an examination or met other requirements. We believe that we have all the licenses required to conduct our current operations and that we are in substantial compliance with applicable regulatory requirements.

### **Telecommunications Infrastructure Services**

Through SMC, we provide comprehensive technology wiring and utility construction solutions to customers in the mid-Atlantic region. We perform both inside plant and outside plant cabling services including the structuring, cabling, terminations and connectivity that provide the physical transport for high speed data, voice, video and security networks. The net revenues of SMC, which represents our telecommunications infrastructure services business segment, were \$7.7 million for the fiscal year ended January 31, 2011, or approximately 4% of our consolidated net revenues from continuing operations for the current year.

The wide range of inside plant and premises wiring services that we provide to our customers include AutoCAD design; cable installation; equipment room and telecom closet design and build-out; data rack and cabinet installation; raceway design and installation; and cable identification, testing, labeling and documentation for copper, fiber optic and coax cable systems. These services are provided primarily to federal government facilities, including cleared facilities, on a direct and subcontract basis. Such facilities typically require regular upgrades to their wiring systems in order to accommodate improvements in security, telecommunications and network capabilities.

Services provided to our outside premises customers include trenchless directional boring and excavation for underground communication and power networks, aerial cabling services, and the installation of buried cable, high and low voltage electric lines, and private area outdoor lighting systems. Our sophisticated directional boring system is electronically guided and can place underground networks of various sizes with little or no restoration required. We use our equipment and experienced personnel to perform the trenching, plowing and back-hoeing for underground networks, to complete the installation of a variety of network structures, and to restore work sites. We utilize aerial bucket trucks, digger derrick trucks and experienced personnel to complete a variety of aerial projects. The outside premises services are primarily provided to regional communications service providers, electric utilities and other commercial customers.

SMC may have seasonally weaker results in the first and fourth quarters of the fiscal year, and may produce stronger results in the second and third fiscal quarters. This seasonality is due to the effect of winter weather on construction and outside plant activities as well as reduced daylight hours and customer budgetary constraints. Certain customers tend to complete budgeted capital expenditures before the end of the calendar year, and postpone additional expenditures until the subsequent fiscal period.

### **Raw Materials**

Generally, our telecommunications infrastructure services customers supply most or all of the materials required for a particular job and we provide the personnel, tools and equipment to perform the installation, maintenance or repair services. However, for certain projects, we may supply part or all of the materials required. In these instances, we are not dependent upon any one source for the materials that we customarily utilize to complete projects. We are not presently experiencing, nor do we anticipate experiencing, any difficulties in procuring an adequate supply of materials.

**Competition**

SMC operates in the fragmented and competitive telecommunication and infrastructure services industry. We compete with service providers ranging from small regional companies, which service a single market, to larger firms servicing multiple regions, as well as large national and multi-national contractors. We believe that we compete favorably with the other companies in the telecommunication and utility infrastructure services industry. We intend to emphasize our high quality reputation, outstanding customer base and highly motivated work force in competing for larger and more diverse contracts. We believe that our high quality and well maintained fleet of vehicles and construction machinery and equipment is essential to meet customers' needs for high quality and on-time service. We are committed to invest in our repair and maintenance capabilities to maintain the quality and life of our equipment. Additionally, we invest annually in new vehicles and equipment.

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**Customers**

The most significant customers of SMC for the fiscal year ended January 31, 2011 included a prime government services contractor and a local electricity cooperative. In total, SMC recognized approximately 53% of its net revenues for the fiscal year ended January 31, 2011 under contracts with these two customers. However, none of SMC's customers accounted for net revenues in excess of 10% of our consolidated net revenues for the fiscal years ended January 31, 2011 or 2010. Historically, a major portion of SMC's revenue-producing activity each year is performed pursuant to work orders authorized by customers under master agreements with its major customers. Near the end of our fiscal year ended January 31, 2010, we lost the business with the regional telephone company as our master agreement expired without renewal. Approximately 18% of SMC's net revenues last year was derived from projects performed for this customer. During the current year, the prime contract that our customer had with the federal government expired pursuant to which we performed inside services at various government installations throughout our region. The net revenues provided by this customer represented approximately 28% and 34% of SMC's net revenues for the years ended January 31, 2011 and 2010, respectively.

A significant challenge for SMC is the replacement of the business provided under the master agreements that did not renew. SMC has had a certain amount of success in obtaining projects from new customers over the past twelve months in the midst of a very difficult economic environment. SMC's business plan for the fiscal year ending January 31, 2012 is based on the continuation of aggressive bid and proposal efforts resulting in the addition of new business. However, despite our business development efforts, we cannot provide assurance that SMC will maintain its current level of net revenues for the fiscal year ending January 31, 2012.

**Contract Backlog**

As referenced above, a substantial number of the projects completed for SMECO, EDS and Verizon have been completed under the terms of master agreements that include pre-negotiated labor rates or line item prices. At January, 31, 2011 and 2010, the estimated values of unfulfilled work orders, open customer purchase orders and projects expected to be completed under current contracts were approximately \$2.8 million and \$1.9 million, respectively.

**Regulation**

Our telecommunications infrastructure services operations are also subject to various federal, state and local laws and regulations including: licensing for contractors; building codes; permitting and inspection requirements applicable to construction projects; regulations relating to worker safety and environmental protection; and special bidding, procurement and security clearance requirements on government projects. Many state and local regulations governing construction require permits and licenses to be held by individuals who have passed an examination or met other requirements. We believe that SMC has all the licenses required to provide its services within the region it typically conducts operations, and that we are in substantial compliance with applicable regulatory requirements. Our failure to comply with applicable regulations could result in substantial fines or revocation of our operating licenses.

**Safety, Risk Management, Insurance and Performance Bonds**

We are committed to ensuring that the employees of each of our businesses perform their work in a safe environment. We regularly communicate with our employees to promote safety and to instill safe work habits. GPS and SMC each have an experienced full time safety director committed to ensuring a safe work place, as well as compliance with applicable contracts, insurance and local and environmental laws.

Contracts in the power and telecommunication infrastructure services industries may require performance bonds or other means of financial assurance to secure contractual performance. If we are unable to obtain surety bonds or letters of credit in sufficient amounts or at acceptable rates, we might be precluded from entering into additional contracts with certain of our customers. Under current arrangements, our Bank has committed to provide us with up to \$10.0 million in irrevocable standby letters of credit, if needed, as collateral to support future bonding commitments.

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**Employees**

The total number of personnel employed by us is subject to seasonal fluctuations, the volume of construction in progress and the relative amount of work performed by subcontractors. In addition, for the construction of specific power facilities, we may employ union craft workers. At January 31, 2011, we had approximately 188 employees, including 56 at VLI, all of whom were full-time. None were union members. We believe that our employee relations are good.

**Materials Filed with the Securities and Exchange Commission**

The public may read any materials that we file with the Securities and Exchange Commission (the SEC) at the SEC's public reference room at 100 F Street, NE, Washington, D.C. 20549. The public may 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 that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including us, at <http://www.sec.gov>. We maintain a website on the Internet at [www.arganinc.com](http://www.arganinc.com). Information on our website is not incorporated by reference into this Annual Report on Form 10-K.

Copies of our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our 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 are available as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC without charge upon written request to:

Argan, Inc.

Attention: Corporate Secretary

One Church Street, Suite 201

Rockville, Maryland 20850

(301) 315-0027

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**ITEM 1A. RISK FACTORS.**

Investing in our securities involves a high degree of risk. Our business, financial position and future results of operations may be impacted in a materially adverse manner by risks associated with the execution of our strategic plan and the creation of a profitable and cash-flow positive business in a challenging economic environment, our ability to obtain capital or to obtain capital on terms acceptable to us, the successful integration of acquired companies into our consolidated operations, our ability to successfully manage diverse operations remotely located, our ability to successfully compete in highly competitive industries, the successful resolution of ongoing litigation, our dependence upon key managers and employees and our ability to retain them, and potential fluctuations in quarterly operating results, among other risks. Before investing in our securities, please consider the risks summarized in this paragraph and those risks discussed below. Our future results may also be impacted by other risk factors listed from time to time in our future filings with the SEC, including, but not limited to, our Annual Reports on Form 10-K and our Quarterly Reports on Form 10-Q.

**General Risks Relating to Our Company**

**The weak economic recovery may result in reduced demand for our products and services, and may cause our financial position to deteriorate.**

Our customers may be impacted by the weak economic recovery in the United States from a depressed housing market, constraints in the credit market and high unemployment. They may delay, curtail or cancel proposed and existing projects; thus decreasing the overall demand for our services and adversely impacting our liquidity. In addition, project owners may continue to experience difficulty in raising capital for the construction of power-generation plants and renewable fuel production facilities due to substantial limitations on the availability of credit and other uncertainties in the credit markets. Customers may be reluctant to establish new supply relationships as the condition of the economy causes demand for their products to be weak. In general, if overall economic conditions do not improve steadily, the demand for our products and services may be adversely affected.

**We may be unable to maintain our profitability.**

Due primarily to the favorable operating results of GPS, we have generated income from continuing operations for three consecutive years – the fiscal years ended January 31, 2009, 2010 and 2011. As described in the risks presented below, our ability to maintain profitable continuing operations depends on many factors including the ability of the power services business segment to continue to obtain new construction projects and to complete its projects successfully. A substantial decline in the net revenues of GPS could have a material adverse effect on our ability to achieve net income in the future.

**Our dependence on one or a few customers could adversely affect us.**

The size of the energy plant construction projects of our power industry services segment frequently results in a limited number of projects contributing a substantial portion of our consolidated net revenues as described in Note 16 to our consolidated financial statements. Should we fail to replace projects that are completed by GPS with new projects, future net revenues and profits may be adversely affected.

**Our dependence on large construction contracts may result in uneven quarterly financial results.**

Our power industry service activities in any one fiscal quarter are typically concentrated on a few large construction projects for which we use the percentage-of-completion accounting method to determine contract revenues. To a substantial extent, construction contract revenues are recognized as services are provided as measured by the amount of costs incurred. As the timing of equipment purchases, subcontractor services and other contract events may not be evenly distributed over the lives of our contracts, the amount of total contract costs may vary from quarter to quarter, creating uneven amounts of quarterly contract net revenues. In addition, the timing of contract commencements and completions may exacerbate the uneven pattern. As a result of the foregoing, future amounts of consolidated net revenues, cash flow from operations, net income and earnings per share reported on a quarterly basis may vary in an uneven pattern and may not be indicative of the operating results expected for any other quarter or for an entire fiscal year, thus rendering consecutive quarter comparisons of our consolidated operating results a less meaningful way to assess the growth of our business.

**Lawsuits could adversely affect our business.**

From time to time, we, our directors and/or certain of our current officers are named as a party to lawsuits. A discussion of our significant lawsuits appears in Item 3 of this Annual Report on Form 10-K and Note 12 to our consolidated financial statements. It is not possible at this time to predict the likely outcome of these actions with certainty, and an adverse result in any of these lawsuits could have a material adverse effect on us. Litigation can involve complex factual and legal questions and its outcome is uncertain. Any claim that is successfully asserted against us could result in significant damage claims and other losses. Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations, which could adversely affect our financial condition, results of operations or cash flows.



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### **We may be unsuccessful at generating internal growth which could result in an overall decline in our business.**

Our ability to expand by achieving profitable organic growth of the Company will be affected by, among other factors, our success in:

- expanding the range of services and products we offer to customers in order to address their evolving needs;
- attracting new customers;
- hiring and retaining employees; and
- controlling operating and overhead expenses.

Many of the factors affecting our ability to generate internal growth may be beyond our control. Our strategies may not be successful and we may not be able to generate cash flow sufficient to fund our operations and to support internal growth. Our inability to achieve internal growth could materially and adversely affect our business, financial condition and results of operations.

### **Future acquisitions and/or investments may not occur which could limit the growth of our business.**

We are a holding company with no operations other than our investments in GPS and SMC. The successful execution of our overall business plan could be based, in part, on our making additional acquisitions and/or investments that would provide positive cash flow to us and value to our stockholders. Additional companies meeting these criteria and that provide products and/or services to growth industries and are available for purchase at attractive prices may be difficult to find. Further, efforts to conduct due diligence investigations of attractive target companies and to negotiate acquisition and related agreements may not be successful.

We cannot readily predict the timing or size of our acquisition efforts and therefore the capital we will need for these efforts. However, it is likely that any potential future acquisition or strategic investment transaction would require the use of cash and/or shares of our common stock as components of the purchase price. Using cash for acquisitions may limit our financial flexibility and make us more likely to seek additional capital through future debt or equity financings. Our ability to obtain such additional financing in the future may depend upon prevailing capital market conditions, the strength of our future operating results and financial condition as well as conditions in our business; and those factors may affect our efforts to arrange additional financing on terms that are acceptable to us. Our ability to use shares of our common stock as future acquisition consideration may be limited by a variety of factors, including the future market price of shares of our common stock and a potential seller's assessment of the liquidity of our common stock. If adequate funds or the use of our common stock are not available to us, or are not available on acceptable terms, we may not be able to take advantage of acquisitions or other opportunities, to make future investments, or to respond to competitive challenges.

We have pledged the majority of our assets to secure our financing arrangements with Bank of America (the "Bank"). The Bank's consent is required for acquisitions, divestitures, the participation in joint ventures and certain other investments. There can be no assurance that our Bank will consent to future transactions. If we are unable to obtain such consents, our ability to consummate acquisitions, to make investments or to enter into other arrangements for the purpose of growing our business may be limited.

### **We may not be able to comply with certain of our debt covenants which may interfere with our ability to successfully execute our business plan.**

The financing arrangements with our Bank require that we maintain compliance with certain financial covenants at each fiscal quarter-end and include an acceleration clause which allows the Bank to declare amounts outstanding under the debt arrangements due and payable if it determines in good faith that a material adverse change has occurred in our financial condition or that of any of our subsidiaries.

We are currently in compliance with our debt covenants, but there can be no assurance that we will continue to be in compliance. If our performance does not result in compliance with any of our financial covenants, or if the Bank seeks to exercise its rights under the acceleration clause referred to above, we would seek to modify the financing arrangements, but there can be no assurance that the Bank would not exercise its rights and remedies under the debt arrangements, including accelerating payments of all outstanding senior debt. These payments would have a significantly adverse impact on our liquidity and our ability to obtain additional capital thereby jeopardizing our ability to successfully execute our business plan.



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**The integration of acquired companies may not be successful.**

Even if we do complete acquisitions in the future, we may not be able to successfully integrate such acquired companies with our other operations without substantial costs, delays or other operational or financial problems. Integrating acquired companies involves a number of special risks which could materially and adversely affect our business, financial condition and results of operations, including:

- failure of acquired companies to achieve the results we expect;
- diversion of management's attention from operational matters;
- difficulties integrating the operations and personnel of acquired companies;
- inability to retain key personnel of acquired companies;
- risks associated with unanticipated events or liabilities;
- the potential disruption of our business; and
- the difficulties of maintaining uniform standards, controls, procedures and policies.

If one of our acquired companies suffers customer dissatisfaction or performance problems, the reputation of our entire company could be materially and adversely affected. In addition, future acquisitions could result in issuances of equity securities that would reduce our stockholders' ownership interest, the incurrence of debt, contingent liabilities, deferred stock-based compensation or expenses related to the valuation of goodwill or other intangible assets and the incurrence of large, immediate write-offs.

**Our results of operations could be adversely affected as a result of additional impairment losses related to goodwill and other purchased intangible assets.**

When we acquire a business, we record goodwill equal to the excess amount paid for the business, including liabilities assumed, over the fair value of the net assets of the acquired business. Generally accepted accounting principles require that all business combinations be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination be recognized as assets apart from goodwill. The balances of goodwill and other intangible assets that have indefinite useful lives are not amortized, but instead must be tested at least annually for impairment. The amounts of intangible assets that do have finite lives are amortized over their useful lives. However, should poor performance or other conditions indicate that the carrying value of a business or long-lived asset may have suffered impairment, a determination of fair value is required to be performed in the period that such conditions are noted. If the carrying value of a business or of an individual purchased intangible asset is found to exceed the corresponding fair value, an impairment loss is recorded. The aggregate carrying amount of goodwill, other purchased intangible assets with indefinite lives and long lived purchased intangible assets included in our consolidated balance sheet as of January 31, 2011 was approximately \$21.4 million, or approximately 16.4% of total consolidated assets and 21.9% of consolidated net assets.

We perform annual impairment assessments of the carrying values of goodwill and other indefinite-lived intangible assets as of November 1. Assessments of these assets as well as our long-lived assets may be conducted more frequently if we identify indications of impairment. Should the operating results of GPS or any future acquired company experience unexpected deterioration, we could be required to record additional significant impairment losses related to purchased intangible assets. Impairment losses, if any, would be recognized as operating expenses and would adversely affect future profitability.

**Our business growth could outpace the capabilities of our senior management which could adversely affect our ability to complete the execution of our business plan.**

We cannot be certain that our current management team will be adequate to support our operations as they expand. Future growth could impose significant additional responsibilities on members of our senior management, including the need to recruit and integrate new senior level managers and executives. We cannot be certain that we can recruit and retain such additional managers and executives. To the extent that we are unable to attract and retain additional qualified management members in order to manage our growth effectively, we may not be able to expand our operations or execute our business plan. Our financial condition and results of operations could be materially and adversely affected as a result.

**Loss of key personnel could prevent us from effectively managing our business.**

Our future success is substantially dependent on the continued service and performance of our current executive team and the senior management members of our businesses. We cannot be certain that any such individual will continue in such capacity or continue to perform at a high level for any particular period of time. Our ability to operate productively and profitably, particularly in the power services industry, may also be limited by our ability to attract, employ, retain and train skilled personnel necessary to meet our future requirements. We cannot be certain that we will be able to maintain management teams and an adequate skilled labor force necessary to operate efficiently and to support our growth strategy or that our labor expenses will not increase as a result of a shortage in the supply of these skilled personnel. Labor shortages or increased labor costs could impair our ability to maintain our business or grow our net revenues. The loss of key personnel, or the inability to hire and retain qualified employees in the future, could negatively impact our ability to manage our business.

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**Our actual business and financial results could differ from the estimates and assumptions that we use to prepare our consolidated financial statements, which may reduce our profits.**

To prepare consolidated financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions as of the date of the financial statements, which affect the reported values of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. For example, we may recognize revenue over the life of a contract based on the proportion of costs incurred to date compared to the total costs estimated to be incurred for the entire project. Areas requiring significant estimates by our management include:

the application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders and contract claims;

the valuation of assets acquired and liabilities assumed in connection with business combinations;

the value of goodwill and recoverability of other purchased intangible assets;

provisions for income taxes and related valuation allowances;

accruals for estimated liabilities, including litigation reserves;

provisions for uncollectible receivables and recoveries of costs from subcontractors, vendors and others; and

the valuation of stock-based compensation expense.

Our actual business and financial results could differ from those estimates, which may reduce our profits.

**Our employees work on projects that are inherently dangerous and a failure to maintain a safe work site could result in significant losses.**

We often work on large-scale and complex projects, frequently in geographically remote locations. Our project sites can place our employees and others near large and/or mechanized equipment, moving vehicles, dangerous processes or highly regulated materials, and in challenging environments. Safety is a primary focus of our business and is critical to our reputation. Often, we are responsible for safety on the project sites where we work. Many of our clients require that we meet certain safety criteria to be eligible to bid on contracts. We maintain programs with the primary purpose of implementing effective health, safety and environmental procedures throughout our Company. If we fail to implement appropriate safety procedures and/or if our procedures fail, our employees or others may suffer injuries. The failure to comply with such procedures, client contracts or applicable regulations could subject us to losses and liability, and adversely impact our ability to obtain projects in the future.

**Terrorist attacks could negatively impact the economy in the United States and the markets in which we operate.**

Terrorist attacks, like those that occurred on September 11, 2001, have contributed to economic instability in the United States. Future acts of terrorism, violence or war could affect the markets in which we operate, our business and our expectations. Armed hostilities may increase, or terrorist attacks, or responses from the United States, may lead to further acts of terrorism and civil disturbances in the United States or elsewhere, which may further contribute to economic instability in the United States. These attacks or armed conflicts may affect our operations or those of our customers or suppliers and could impact our net revenues, our production capability and our ability to complete contracts in a timely manner.

**If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, investors could lose confidence in our financial reporting, which would harm our business and the trading price of our common stock.**

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. We devote significant attention to establishing and maintaining effective internal controls. Implementing changes to our internal controls

required compliance training of our officers and employees. Over the last three years, substantial costs have been incurred and significant efforts have been expended in order to evaluate, test and remediate our internal controls over financial reporting. We cannot be certain that these measures and future measures will ensure that we will successfully implement and maintain adequate controls over our financial reporting processes and related reporting requirements. Any failure to implement required new or improved controls or difficulties encountered in their implementation could affect our operating results or cause us to fail to meet our reporting obligations and could result in a breach of a covenant in our Bank financing arrangements in future periods. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the market price of our common stock.

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**We rely on information systems to conduct our business, and failure to protect these systems against security breaches could adversely affect our business and results of operations. Additionally, if these systems fail or become unavailable for any significant period of time, our business could be harmed.**

The efficient operation of our business is dependent on computer hardware and software systems. Information systems are vulnerable to operational malfunctions and security breaches by computer hackers and cyber terrorists. We rely on industry accepted security measures and technology to securely maintain confidential and proprietary information maintained on our information systems. However, these measures and technology may not adequately prevent unanticipated downtime or security breaches. The unavailability of the information systems or the failure of these systems to perform as anticipated for any reason could disrupt our business and could result in decreased performance and increased overhead costs, causing our business and results of operations to suffer. Any significant interruption or failure of our information systems or any significant breach of security could adversely affect our business and results of operations.

**Specific Risks Relating to Our Power Industry Services**

**Failure to successfully operate our power industry services business will adversely affect us.**

The operations of our power industry services business conducted by GPS represent a significant portion of our net revenues and profits. The net revenues of this business segment were \$174.9 million for the fiscal year ended January 31, 2011, representing 96% of consolidated net revenues from continuing operations. Income from these operations for the current fiscal year was \$21.6 million. Consolidated income from continuing operations (before income taxes) for the current year was \$17.0 million, reduced primarily by our corporate and public company expenses. Our inability to successfully manage and grow our power industry services business will adversely affect our consolidated operating results and financial condition.

**Our backlog is subject to unexpected adjustments, delays and cancellations, and may be an uncertain indicator of future net revenues.**

Projects awarded to us may remain included in our backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur with respect to contracts reflected in our backlog that could reduce the dollar amount of our backlog and the net revenues and profits that we actually earn. We cannot guarantee that the net revenues projected based on our backlog at January 31, 2011 will be realized or will result in profitable operating results.

At January 31, 2011, our construction contract backlog was approximately \$291 million including approximately \$224 million related to a project to construct an eight-unit simple cycle peaking power generation facility in Southern California that was awarded to GPS by developer of power facilities in July 2008, over two years ago. During the fourth quarter of the current year, the California Energy Commission approved the construction of this power plant and the customer informed us of the signing of a power purchase agreement. Subsequent to the end of the current fiscal year, GPS completed renegotiations, and signed an amended engineering, procurement and construction contract with the project owner. Although our expectation is that we will eventually be provided with a full notice to proceed for this project, we do not know when that will occur. Should construction work on this project not commence in the second quarter of fiscal year 2012 as we expect, our results of operations and financial condition may be adversely affected, perhaps in a material way.

**Intense competition in the engineering and construction industry could reduce our market share and profits.**

We serve markets that are highly competitive and in which a large number of multinational companies compete such as Fluor Corporation, The Shaw Group Inc., URS Corporation (the Washington Division), SNC Lavalin Group, Inc., Foster Wheeler AG, CH2M HILL Companies, Ltd., and EMCOR Group, Inc. In particular, the engineering and construction markets are highly competitive and require substantial resources and capital investment in equipment, technology and skilled personnel. Competition also places downward pressure on our contract prices and profit margins. Intense competition is expected to continue in these markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable profit margins. If we are unable to meet these competitive challenges and replace completed projects with new customers or projects, we could lose market share to our competitors and our business could be materially adversely affected.





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**Interruption of power plant construction projects could adversely affect future results of operations.**

At any time, GPS has a limited number of construction contracts. For example, one customer represented approximately 59% and 96% of the net revenues of the power industry services business for the fiscal years ended January 31, 2011 and 2010, respectively. Should any unexpected suspension, termination or delay of the work under such contracts occur, our results of operations may be materially and adversely affected.

**The nature of our engineering and construction business exposes us to potential liability claims and contract disputes which may reduce our profits.**

We engage in engineering and construction activities for large energy plant facilities where design, construction or systems failures can result in substantial injury or damage to third parties. In addition, the nature of our business results in clients, subcontractors and vendors occasionally presenting claims against us for recovery of costs they incurred in excess of what they expected to incur, or for which they believe they are not contractually liable. We have been and may in the future be named as a defendant in legal proceedings where parties may make a claim for damages or other remedies with respect to our projects or other matters. These claims generally arise in the normal course of our business.

Note 12 to our accompanying consolidated financial statements describes a matter which includes a claim in the approximate amount of \$6.8 million that a subcontractor has made against a payment bond issued on our behalf related to a cancelled construction project. Assurance cannot be provided that we will be successful in defending against this claim. It is reasonably possible that resolution of the matters discussed above could occur in a manner or with a decision unfavorable to us. Any resulting loss could have a material negative affect on our consolidated results of operations in a future reporting period. No provision for loss, if any, has been recorded in the consolidated financial statements related to this matter as of January 31, 2011. If new facts become known in the future indicating that it is probable that a loss has been incurred by us and the amount of loss can be reasonably estimated by us, the impact of the change will be reflected in the consolidated financial statements at that time.

In accordance with customary industry practices, we maintain insurance coverage against some, but not all, potential losses in order to protect against the risks we face. When it is determined that we have liability, we may not be covered by insurance or, if covered, the dollar amount of any liability may exceed our policy limits. Further, we may elect not to carry insurance if our management believes that the cost of available insurance is excessive relative to the risks presented. In addition, we cannot insure fully against pollution and environmental risks. Our professional liability coverage is on a claims-made basis covering only claims actually made during the policy period currently in effect. In addition, even where insurance is maintained for such exposures, the policies have deductibles resulting in our assuming exposure for a layer of coverage with respect to any such claims. Any liability not covered by our insurance, in excess of our insurance limits or, if covered by insurance but subject to a high deductible, could result in a significant loss for us, which claims may reduce our future profits and cash available for operations.

In the future, we may bring claims against project owners for additional costs exceeding the contract price or for amounts not included in the original contract price. These types of claims occur due to matters such as owner-caused delays or changes from the initial project scope, both of which may result in additional cost. Often, these claims can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when these claims will be fully resolved. When these types of events occur and unresolved claims are pending, we have used working capital in projects to cover cost overruns pending the resolution of the relevant claims. A failure to promptly recover on these types of claims could have a negative impact on our liquidity and profitability.

**Our dependence upon third parties to complete many of our contracts may adversely affect our performance under future energy plant construction contracts.**

Much of the work performed under our energy plant construction contracts is actually performed by third-party subcontractors we hire. We also rely on third-party equipment manufacturers or suppliers to provide much of the equipment included in an energy project and most of the materials (including concrete and steel) used in our construction projects. If we are unable to hire qualified subcontractors or find qualified equipment manufacturers or suppliers, our ability to successfully complete a project could be impaired. If the amount we are required to pay for subcontractors or equipment and supplies exceeds what we have estimated, especially when we are operating under a lump sum or a fixed-price type construction contract, we may suffer losses on these contracts. If a supplier,

manufacturer or subcontractor fails to provide supplies, equipment or services as required under a negotiated contract for any reason, we may be required to source these supplies, equipment or services on a delayed basis or at a higher price than anticipated which could impact contract profitability in an adverse manner.

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**If we guarantee the timely completion or performance standards of a project, we could incur additional costs to cover our guarantee obligations.**

In some instances and in many of our fixed price contracts, we guarantee a customer that we will complete a project by a scheduled date. We sometimes provide that the project, when completed, will also achieve certain performance standards. If we subsequently fail to complete the project as scheduled, or if the project subsequently fails to meet guaranteed performance standards, we may be held responsible for cost impacts to the customer resulting from any delay or modifications to the plant in order to achieve the performance standards, generally in the form of contractually agreed-upon liquidated damages. If these events would occur, the total costs of the project would exceed our original estimate, and we could experience reduced profits or a loss for that project.

**If financing for new energy plants is unavailable, construction of such plants may not occur.**

Traditional gas-fired power plants have been constructed typically by large utility companies. However, to a large extent, the construction of new energy plants, including alternative and renewable energy facilities, is conducted by private investment groups. The owner of the Sentinel project described above is Competitive Power Ventures, Inc. which is owned by Warburg Pincus, certain individual investors and members of its management team. The challenge for these types of project owners to secure and maintain financing in the midst of the current credit crisis continues to be significant. Should debt financing for the construction of new energy facilities, including alternative or renewable energy plants, not be available, investors may not be able to invest in such projects, thereby adversely affecting the likelihood that GPS or GRP will obtain contracts to construct such plants.

**The inability of our customers to receive or to avoid delay in receiving the applicable regulatory and environmental approvals relating to projects may result in lost or postponed net revenues for us.**

The commencement and/or execution of many of the construction projects performed by our power industry services segment are subject to numerous regulatory permitting processes. Applications for permits may be opposed by individuals or environmental groups, resulting in delays and possible non-issuance of the permits. There are no assurances that our customers will obtain the necessary permits for these projects, or that the necessary permits will be obtained in order to allow construction work to proceed as scheduled. Failure to commence or complete construction work as anticipated could have material adverse impacts on our future net revenues, profits and cash flows from operations.

**Our use of the percentage-of-completion method of accounting could result in a reduction or reversal of previously recorded net revenues or profits.**

Under our accounting procedures, we measure and recognize a large portion of our net revenues under the percentage-of-completion accounting methodology. This methodology allows us to recognize net revenues and contract profits ratably over the life of a contract by comparing the amount of the costs incurred to date against the total amount of costs expected to be incurred. The effects of revisions to net revenues and estimated costs are recorded when the amounts are known and can be reasonably estimated, and these revisions can occur at any time and could be material. Given the uncertainties associated with these types of contracts, it is possible for actual costs to vary from estimates previously made, which may result in reductions or reversals of previously recorded net revenues and profits.

**Future bonding requirements may adversely affect our ability to compete for new energy plant construction projects.**

Our construction contracts frequently require that we obtain payment and performance bonds from surety companies on behalf of our customers as a condition to the award of such contracts. Surety market conditions have in the last few years become more difficult as a result of significant losses incurred by many surety companies, both in the construction industry as well as in certain large corporate bankruptcies. Consequently, less overall bonding capacity is available in the market than in the past, and surety bonds have become more expensive and restrictive. Historically, we have had a strong bonding capacity but, under standard terms in the surety market, surety companies issue bonds on a project-by-project basis and can decline to issue bonds at any time or require the posting of additional collateral as a condition to issuing any bonds.

Current or future market conditions, changes in our surety's assessment of its own operating and financial risk or larger future projects could cause our surety company to decline to issue, or substantially reduce the amount of, bonds for

our work and could increase our bonding costs. These actions can be taken on short notice. If our surety company were to limit or eliminate our access to bonding, our alternatives would include seeking bonding capacity from other surety companies, joint venturing with other construction firms, increasing business with clients that do not require bonds and posting other forms of collateral for project performance, such as letters of credit, or cash. We may be unable to make alternative arrangements in a timely manner, on acceptable terms, or at all. Accordingly, if we were to experience an interruption, reduction or other alteration in the availability of bonding capacity, we may be unable to compete for or work on certain projects.

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**As we bear the risk of cost overruns in the completion of our construction contracts, we may experience reduced profits or, in some cases, losses under these contracts if actual costs exceed our estimates.**

We conduct our business under various types of contractual arrangements including fixed price contracts. We bear a significant portion of the risk for cost overruns on these types of contracts where contract prices are established in part on cost and scheduling estimates. Our estimates may be based on a number of assumptions about future economic conditions and the future prices and availability of labor, equipment and materials, and other exigencies. From time to time, we may also assume a project's technical risk, which means that we may have to satisfy certain technical requirements of a project despite the fact that at the time of project award, we may not have previously produced the system or product in question. Unexpected or increased costs may occur due to the following factors among others:

- shortages of skilled labor, materials and energy plant equipment including power turbines;
- unanticipated escalation in the price of construction commodities;
- unscheduled delays in the delivery of ordered materials and equipment;
- engineering problems, including those relating to the commissioning of newly designed equipment;
- declines in the productivity of construction workers;
- work stoppages;
- weather interference;
- inability to develop or non-acceptance of new technologies to produce alternative fuel sources; and
- the difficulty in obtaining necessary permits or approvals.

If our estimates prove inaccurate, or circumstances change, cost overruns may occur and we could experience reduced profits, or in some cases, incur a loss on a particular project.

**If we are unable to collect amounts billed to project owners as scheduled, our cash flows may be materially and adversely affected.**

Many of our contracts require us to satisfy specified design, engineering, procurement or construction milestones in order to receive payment for work completed or equipment or supplies procured prior to achievement of the applicable contract milestone. As a result, under these types of arrangements, we may incur significant costs or perform significant amounts of services prior to receipt of payment. If the customer determines not to proceed with the completion of the project, delays in making payment of billed amounts or defaults on its payment obligations, we may face delays or other difficulties in collecting payment of amounts due to us for the costs previously incurred or for the amounts previously expended to purchase equipment or supplies. Such problems may impact the planned cash flows of affected projects and result in unanticipated reductions in the amounts of future cash flows from operations.

**If the development of renewable energy sources does not occur, the demand for our construction services could decline.**

There are many provisions included in the American Recovery and Reinvestment Act of 2009 intended to benefit renewable energy. In addition, over half of the states in the U.S. have passed legislation requiring that utilities include a percentage of renewable energy in the mix of power they generate and buy. These future percentages may be as high as 20%, and the requirements are contributing to the increased momentum of efforts to develop sources of alternative renewable energy, including wind, solar, water, geothermal and biofuels. Should these government requirements fail to be extended or should they be repealed, the pace of the development of alternative renewable energy sources may slow, thereby reducing the future opportunities for GPS to construct such plants.

**We could be subject to compliance with environmental, health and safety laws and regulations that would add costs to our business.**

Our operations are subject to compliance with federal, state and local environmental, health and safety laws and regulations, including those relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste, and the cleanup of properties affected by hazardous substances. Certain environmental laws impose substantial penalties for non-compliance and others, such as the federal Comprehensive Environmental Response, Compensation and Liability Act, impose strict, retroactive, joint and several liability upon persons responsible for releases of hazardous substances. We continually evaluate whether we must take additional steps to ensure compliance with environmental laws, however, there can be no assurance that these requirements will not change and that compliance will not adversely affect our operations in the future.



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**Specific Risks Relating to Our Telecommunications Infrastructure Services Business**

**Failure to replace significant customers could adversely affect our SMC business.**

Historically, significant portions of the net revenues of SMC have been provided by a few major customers under long-term master service-type contracts. Near the end of our fiscal year ended January 31, 2010, we lost the business with Verizon as our master agreement expired without renewal. Approximately 18% of SMC's net revenues last year was derived from projects performed for Verizon. During the current year, the prime contract that EDS had with the federal government expired pursuant to which we performed inside services at various government installations throughout the mid-Atlantic region. The net revenues provided by EDS represented approximately 28% and 34% of SMC's net revenues for the years ended January 31, 2011 and 2010, respectively.

A significant challenge for SMC is the replacement of the lost business provided under the arrangements with Verizon and EDS. SMC has had a certain amount of success in obtaining projects from new customers over the past twelve months and in the midst of a very difficult economic environment. SMC's business plan for the fiscal year ending January 31, 2012 is based on the continuation of aggressive bid and proposal efforts resulting in the addition of new business. However, despite our business development efforts, we cannot provide assurance that SMC will maintain its current level of net revenues for the fiscal year ending January 31, 2012.

**If we fail to compete successfully against current or future competitors, our business, financial condition and results of operations could be materially and adversely affected.**

We operate in highly competitive markets. We compete with service providers ranging from small regional companies which service a single market, to larger firms servicing multiple regions, as well as large national and multi-national entities. In addition, there are few barriers to entry in the telecommunications infrastructure industry. As a result, any organization that has adequate financial resources and access to technical expertise may become one of our competitors.

Competition in the telecommunications infrastructure industry depends on a number of factors, including price. Certain of our competitors may have lower overhead cost structures than we do and may, therefore, be able to provide their services at lower rates than we can. In addition, some of our competitors are larger and have significantly greater financial resources than we do. Our competitors may develop the expertise, experience and resources to provide services that are superior in price and quality to our services. Similarly, we may not be able to maintain or enhance our competitive position within our industry. We may also face competition from the in-house service organizations of our existing or prospective customers.

A significant portion of our business involves providing services, directly or indirectly as a subcontractor, to the federal government under government contracts. The federal government may limit the competitive bidding on any contract under a small business or minority set-aside, in which bidding is limited to companies meeting the criteria for a small business or minority business, respectively, which may exclude us from consideration.

We may not be able to compete successfully against our competitors in the future. If we fail to compete successfully against our current or future competitors, our business, financial condition, and results of operations could be materially and adversely affected.

**Rapid technological change and/or customer consolidations could reduce the demand for the telecommunication services we provide.**

The telecommunications infrastructure industry is undergoing rapid change as a result of technological advances that could in certain cases reduce the demand for our services or otherwise negatively impact our business. New or developing technologies could displace the wireline systems used for voice, video and data transmissions, and improvements in existing technology may allow telecommunications companies to significantly improve their networks without physically upgrading them. In addition, consolidation, competition or capital constraints in the utility, telecommunications or computer networking industries may result in reduced spending or the loss of one or more of our customers.

**Our substantial dependence upon fixed price contracts may expose us to losses in the event that we fail to accurately estimate the costs that we will incur to complete such projects.**

We currently generate,