FLOTEK INDUSTRIES INC/CN/
Form PRE 14A
September 04, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-12

¨ **Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))**

FLOTEK INDUSTRIES, INC.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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FLOTEK INDUSTRIES, INC.

2930 W. Sam Houston Pkwy N., Suite 300

Houston, Texas 77043

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON OCTOBER 29, 2009

To the Stockholders of Flotek Industries, Inc.:

At the direction of the Board of Directors of Flotek Industries, Inc. (the Company), a Delaware corporation, NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders of the Company will be held at the Flotek Corporate Office, 2930 W. Sam Houston Pkwy. N, Suite 300, Houston, Texas 77043, on Thursday, October 29, 2009 at 9:00 a.m. (local time), for the purpose of considering and voting upon the following matters:

1. The amendment of the Company s Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 40,000,000 shares to 80,000,000 shares (the Proposed Charter Amendment);

2. The approval of the ability of the Company to pay dividends in the future in respect of its shares of preferred stock by issuing shares of the Company s common stock (the Preferred Stock PIK Dividend Provision);

3. The approval of the anti-dilution price protection provision contained in certain warrants issued by the Company in a private placement in August 2009 (the Exercisable Warrant Anti-dilution Provision);

4. The approval of the contingent warrants issued by the Company in a private placement in August 2009 (the Contingent Warrants); and

5. To consider and take action upon such other matters as may properly come before the Meeting.

By order of the Board of Directors

Casey Doherty
Corporate Secretary

September , 2009

YOUR VOTE IS IMPORTANT

TO ASSURE YOUR REPRESENTATION AT THE MEETING, PLEASE SIGN, DATE AND

RETURN YOUR PROXY AS PROMPTLY AS POSSIBLE. AN ENVELOPE, WHICH REQUIRES NO

POSTAGE IF MAILED IN THE UNITED STATES, IS ENCLOSED FOR THIS PURPOSE.

Stockholders with questions about the Special Meeting or who need assistance in voting their shares may call the Company s proxy solicitor, Innisfree M&A Incorporated, toll-free at (888) 750-5834. Banks and brokers may call collect at (212) 750-5833.

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FLOTEK INDUSTRIES, INC.

2930 W. Sam Houston Pkwy N., Suite 300

Houston, Texas 77043

PROXY STATEMENT

This Proxy Statement and the accompanying form of proxy are being sent to the stockholders of Flotek Industries, Inc. (the Company), a Delaware corporation, in connection with the solicitation by the Board of Directors of the Company (the Board) of proxies to be voted at a Special Meeting of Stockholders of the Company (the Meeting) to be held at 9:00 a.m. (local time) on Thursday, October 29, 2009 at the Flotek Corporate Office, 2930 W. Sam Houston Pkwy. N., Suite 300, Houston, Texas 77043 and at any adjournments thereof.

The Notice of Meeting, this Proxy Statement and the accompanying form of proxy are first being mailed to the stockholders on or about September , 2009.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on October 29, 2009. The Proxy Statement is available at www.flotekind.com/proxymaterials.

At the Meeting, stockholders will be asked (i) to consider and vote upon the amendment of the Company s Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock, $0.0001 par value per share (common stock), from 40,000,000 shares to 80,000,000 shares (the Proposed Charter Amendment); (ii) to consider and vote upon the approval of the ability of the Company to pay dividends in the future in respect of its shares of preferred stock, $0.0001 par value per share (preferred stock), by issuing shares of the Company s common stock (the Preferred Stock PIK Dividend Provision); (iii) to consider and vote upon the approval of the anti-dilution price protection provision contained in certain warrants issued by the Company in a private placement in August 2009 (the Exercisable Warrant Anti-dilution Provision); (iv) to consider and vote upon the approval of the contingent warrants issued by the Company in a private placement in August 2009 (the Contingent Warrants); and (v) to consider and take action upon such other matters as may properly come before the Meeting.

VOTING SECURITIES

The Board has fixed the close of business on September 14, 2009, as the record date (the Record Date) for determination of stockholders entitled to notice of, and to vote at, the Meeting. At the close of business on such date, there were outstanding and entitled to vote shares of common stock of the Company, which is the Company s only authorized and outstanding class of stock entitled to vote at the Meeting.

Holders of at least one-third of the outstanding shares of common stock are required to be represented at the Meeting, in person or by proxy, to constitute a quorum. Each outstanding share of common stock as of the Record Date is entitled to one vote. There will be no cumulative voting of shares for any matter voted upon at the Meeting.

The affirmative vote of at least a majority of the shares of common stock outstanding is required to approve the Proposed Charter Amendment. In determining whether this proposal has received the requisite number of affirmative votes, abstentions and broker non-votes will have the same effect as votes against the proposal.

The affirmative vote of at least a majority of the shares of common stock represented at the Meeting is required to approve the other matters to be considered at the Meeting. In determining whether each such other proposal has received the requisite number of affirmative votes, abstentions and broker non-votes will have the same effect as votes against such proposal.

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If the enclosed form of proxy is properly executed and returned to the Company prior to or at the Meeting and is not revoked prior to its exercise, all shares of common stock represented thereby will be voted at the Meeting and, where instructions have been given by a stockholder, will be voted in accordance with such instructions.

Any stockholder executing a proxy which is solicited hereby has the power to revoke it prior to its exercise. Revocation may be made by attending the Meeting and voting the shares of common stock in person or by delivering to the Secretary of the Company at the principal executive offices of the Company located at 2930 W. Sam Houston Parkway N., Suite 300, Houston, Texas 77043, prior to exercise of the proxy, a written notice of revocation or a later-dated, properly executed proxy.

The solicitation of proxies will be by mail, but proxies also may be solicited by telephone, telegram or in person by directors, officers and other employees of the Company. The Company will bear all costs of soliciting proxies. In order to solicit proxies, the Company will also request financial institutions, brokerage houses, custodians, nominees and fiduciaries to forward proxy materials to the beneficial owners of shares of common stock as of the Record Date and will reimburse such persons for their reasonable expenses of forwarding the proxy materials in accordance with customary practice. In addition, the Company has engaged Innisfree M&A Incorporated to provide proxy solicitation services for a fee of $15,000, plus reimbursement of out-of-pocket expenses.

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BENEFICIAL OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the beneficial ownership of our outstanding common stock as of September 1, 2009 by (i) each current director (including each nominee), (ii) each named executive officer of the Company identified in the Summary Compensation Table in our proxy statement for our 2009 annual meeting, and (iii) all current directors and executive officers as a group. There are currently no known beneficial owners of more than 5% of our common stock.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Number of Shares which Individual has the Right to Acquire	Total Number of Shares Beneficially Owned	Percent of Class (1)
Jerry D. Dumas, Sr. (2)	635,450	562,141	1,197,591	4.99%
Jesse E. Neyman	36,258	2,981	39,239	*
Steven A. Reeves	177,328	11,775	189,103	*
Scott D. Stanton	5,556		5,556	*
John W. Chisholm	103,835	25,389	129,224	*
James R. Massey	26,104	1,852	27,956	*
Kevin G. McMahon	22,620	1,852	24,472	*
Barry E. Stewart	71,968	25,057	97,025	*
Richard O. Wilson	93,304	25,057	118,361	*
James A. Jowett (3)	6,395		6,395	*
Lisa G. Meier (4)	40,069		40,069	*
All current directors & executive officers as a group (11)	1,218,887	656,104	1,874,991	7.8%

* Less than 1%

(1) Based on 23,437,714 shares of common stock outstanding as of September 1, 2009. For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares that such person or group of persons has the right to acquire within 60 days of September 1, 2009.

(2) Includes 18,096 shares of common stock owned by Saxton River Corporation and 26,000 shares of common stock owned by Dora Tes Foundation both of which is controlled jointly by Mr. and Mrs. Dumas. Number of Shares which Individual has the Right to Acquire do not include shares issuable upon conversion of certain preferred stock or exercise of certain warrants that are not issuable within 60 days hereof as a result of provisions in the governing instruments of such preferred stock and warrants limiting the conversion or exercise thereof if such conversion or exercise would cause the holder to beneficially own more than 4.99% of our common stock.

(3) Shares owned by Mr. Jowett as of final date of employment.

(4) Shares owned by Ms. Meier as of final date of employment.

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PROPOSAL 1: AMENDMENT OF AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

TO INCREASE THE AUTHORIZED NUMBER OF SHARES OF COMMON STOCK

Our Board has unanimously approved and is submitting for stockholder approval an amendment to our Amended and Restated Certificate of Incorporation, also referred to as the Charter, to increase the number of authorized shares of common stock from 40,000,000 shares to 80,000,000 shares. The number of preferred shares (currently 100,000) will be left unchanged.

Of the 40,000,000 currently authorized shares of common stock, as of September 1, 2009, there were 23,697,430 shares issued and 23,437,714 shares outstanding (not including 259,716 shares held as treasury shares). In addition, as of September 1, 2009, 8,907,698 shares were reserved for issuance upon the conversion of outstanding convertible notes, the exercise of outstanding warrants and the exercise of outstanding stock options under our stock-based compensation plans.

If Proposal No. 1 is approved, we will file the certificate of amendment to our Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, which will become effective either upon filing or at such time as the Board determines the appropriate effective time for the increase in authorized shares, subject to Delaware law. The certificate of amendment would provide that Article FOUR of our Amended and Restated Certificate of Incorporation be amended to read as follows:

FOUR: The aggregate number of shares which the corporation shall have the authority to issue is 80,100,000, consisting of 80,000,000 shares of Common Stock, par value of $.0001 per share, and 100,000 shares of Preferred Stock, par value of $.0001 per share.

Overview of Private Placement Transaction

On August 12, 2009, we completed a private placement of shares of our preferred stock and warrants to purchase shares of our common stock, yielding aggregate gross proceeds of $16 million. We undertook this private placement transaction to strengthen our balance sheet and increase our liquidity. In connection with this private placement, we also entered into a amendment to our bank credit facility to waive covenant violations as of June 30, 2009 and relax certain of the financial covenant obligations under our bank credit facility in the future. These actions were necessitated by the current downturn in domestic oil and gas drilling activity, which has adversely impacted our liquidity and results of operations. We used a portion of the net proceeds of this private placement to repay borrowings under our revolving credit facility, and will use the balance of the net proceeds for general corporate purposes, including making scheduled interest payments on our indebtedness.

In the private placement transaction, we issued an aggregate of 16,000 shares of our preferred stock, which are convertible into an aggregate of 6,956,512 shares of our common stock. We also issued currently exercisable warrants (the Exercisable Warrants) entitling the holders to purchase an aggregate of 2,480,000 shares of our common stock at an exercise price of $2.31 per share and Contingent Warrants entitling the holders, after stockholder approval of the Contingent Warrants, to purchase an aggregate of 8,000,000 shares of our common stock at an exercise price of $2.45 per share. We do not currently have a sufficient number of authorized and unissued shares of common stock to permit the exercise of the Contingent Warrants. The terms of the preferred stock also permit us, after obtaining stockholder approval, to pay dividends on the preferred stock by issuing shares of our common stock in lieu of paying cash dividends. We do not currently have a sufficient number of authorized and unissued shares of common stock to permit us to issue shares of our common stock in lieu of paying cash dividends on our preferred stock. In addition, in order to reserve a sufficient number of shares of our common stock for issuance of shares upon conversion of the preferred stock and exercise of the Exercisable Warrants, we were required to utilize approximately 1,251,905 shares of our common stock that had previously been reserved for the issuance of common stock upon future grants of restricted stock or the exercise of future options under our existing stock incentive plans. As a result, we no longer have a sufficient number of authorized and unissued shares of common stock to permit us to make future grants under our current stock incentive plans.

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The purchase agreements we entered into with the investors in the private placement transaction require us to seek stockholder approval of the matters described in this Proxy Statement, including the Proposed Charter Amendment, and provide for certain penalties if we do not obtain stockholder approval of these matters.

Why We Are Seeking Stockholder Approval

Pursuant to the law of our state of incorporation, Delaware, our Board must approve any amendment to our Charter and submit the amendment to stockholders. The affirmative vote of a majority of the outstanding shares of our common stock is required to approve Proposal No. 1. If stockholders approve Proposal No. 1, we will have sufficient authorized shares of our common stock to enable the exercise of the Contingent Warrants and to make future grants of options under our current stock incentive plans. If stockholders do not approve Proposal No. 1, we will be subject to the penalties described below.

Consequences of Not Obtaining Stockholder Approval

Pursuant to the terms of the preferred stock, the dividend rate on the preferred stock will increase from 15% per annum to 17.5% per annum if we have not obtained stockholder approval of the Proposed Charter Amendment, the Preferred Stock PIK Dividend Provision and the Contingent Warrants on or before December 10, 2009, and will further increase to 20% per annum if we have not obtained such stockholder approval by April 9, 2010. Upon any subsequent obtaining of such stockholder approval, the dividend rate on the preferred stock will return to 15% per annum. Thus, failure to obtain stockholder approval of the Proposed Charter Amendment will result in increased dividends under our preferred stock. It is important that you approve the Proposed Charter Amendment so that the dividend rate on the preferred stock does not increase.

Also pursuant to the terms of the preferred stock, if we have not obtained stockholder approval of the Proposed Charter Amendment, the Preferred Stock PIK Dividend Provision and the Contingent Warrants on or before June 30, 2011, we will be required to make an offer to purchase all outstanding shares of our preferred stock at a price equal to 110% of the liquidation preference of the preferred stock plus all accrued and unpaid dividends. We may not have sufficient funds to pay the purchase price for any shares of preferred stock that are tendered to us if we are required to make this offer to purchase. It is therefore important that you approve the Proposed Charter Amendment so that we will not be required to make this offer to purchase the outstanding preferred stock in July 2011.

In addition, we believe that we will be required under generally accepted accounting principles to classify the preferred stock as indebtedness if we have not obtained the required stockholder approvals to eliminate this obligation to make an offer to repurchase the preferred stock. If we are required to classify the preferred stock as indebtedness, we currently would fall below the continued listing requirements of the New York Stock Exchange (NYSE) relating to minimum market value and stockholders equity, which could result in the delisting of our shares of common stock from the NYSE. If our shares of common stock are delisted from the NYSE and we are unable to list our shares of common stock on another U.S. national or regional securities exchange or have our shares of common stock quoted on an established automated over-the-counter trading market in the United States within 30 days, we will be required to make an offer to repurchase all of our outstanding convertible notes at a price of 100% of the principal amount thereof plus accrued and unpaid interest. We may not have sufficient funds to pay the purchase price for any convertible notes that are tendered to us if we are required to make this offer to repurchase. It is therefore important that you approve the Proposed Charter Amendment so that we do not run this risk of our common stock being delisted from the NYSE and the risk of potentially being required to make an offer to repurchase our convertible notes.

Pursuant to the terms of the preferred stock, we can, at our election, automatically convert all outstanding shares of preferred stock into common stock if the closing price of our common stock equals or exceeds 150% of the preferred stock conversion price for at least 15 trading days in any period of 30 consecutive trading days. If we cause the preferred stock to automatically convert into shares of common stock before we have paid eight quarterly dividends on the preferred stock, we will be required to pay an additional amount to the holders of the preferred stock in connection with such automatic conversion equal to eight quarterly dividends less all dividends previously paid. This feature of the preferred stock will enable us to eliminate the further accrual of dividends on the preferred stock by converting all of the preferred stock into common stock. However, we cannot cause such automatic conversion unless we have previously obtained stockholder approval of the Proposed Charter Amendment and the Contingent Warrants. It is therefore important that you approve the Proposed Charter Amendment so that we will have the ability to automatically convert the preferred stock into shares of common stock if the price of our common stock reaches the required levels.

If stockholders do not approve the Proposed Charter Amendment at the meeting to which this Proxy Statement relates, the investors in our private placement transaction can require us to call and hold up to three additional meetings of our stockholders to consider and vote on the Proposed Charter Amendment and any of the other proposals set forth in this Proxy Statement that have not previously been approved. Calling such meetings and preparing and distributing proxy materials for such meetings will be expensive and will likely distract management of the Company from the operations of the Company. It is therefore important that you approve the Proposed Charter Amendment so that we are not required to call and hold additional special meetings of our stockholders to consider this and the other proposals again.

Other Considerations

While not the primary purpose for the proposed increase, the additional authorized shares of common stock will also be available from time to time for corporate purposes, including raising additional capital, acquisitions of other companies, products, technologies or businesses, stock dividends, stock splits and other distributions. We do not have any current intention or plan to issue shares of common stock for any purpose except for the issuance of shares (i) upon exercise of the Contingent Warrants (if the Contingent Warrants are approved by stockholders), (ii) in payment of dividends on our preferred stock, if and when declared by our Board and not paid in cash (and if the Preferred Stock PIK Dividend Provision is approved by stockholders), and (iii) upon the exercise of outstanding stock options and future issuances under our existing equity compensation plans to the extent deemed appropriate by the Compensation Committee of our Board.

Authorized but unissued shares of our common stock may be issued from time to time upon authorization by our Board, at such times, to such persons and for such consideration as the Board may determine in its discretion, except as may be required for a particular transaction by applicable law, regulation or the rules of the NYSE. When and if such shares are issued, they would have the same voting and other rights and privileges as the currently issued and outstanding shares of common stock.

The authorization of the additional shares of common stock would not, by itself, have any effect on the rights of stockholders. However, holders of common stock have no preemptive rights to acquire additional shares of common stock, so the issuance of additional shares could have a dilutive effect on earnings per share and the voting power of existing stockholders at the time of the issuance. The issuance of additional shares of common stock, or the perception that additional shares may be issued, may also adversely affect the market price of our common stock.

The Board does not believe an increase in the number of authorized shares of our common stock would significantly affect the ability of a third party to attempt to gain control of us. However, it is possible that an increase in authorized shares of common stock could render such an acquisition more difficult under certain circumstances or discourage an attempt by a third party to obtain control of us by making possible the issuance of shares that would dilute the share ownership of a person attempting to obtain control or otherwise make it difficult to obtain any required stockholder approval for a proposed transaction for control. The Board has no current intention to authorize the issuance of additional shares of common stock for such purposes and is not aware of any present attempt to obtain control of us or otherwise accumulate our common stock.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR PROPOSAL NO. 1 TO AMEND OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

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PROPOSAL 2: APPROVAL OF THE ABILITY OF THE COMPANY TO PAY DIVIDENDS IN RESPECT OF THE PREFERRED STOCK IN SHARES OF COMMON STOCK

Our Board has unanimously approved and is submitting for stockholder approval this proposal to permit the Company to pay dividends in the future in respect of its shares of preferred stock by issuing shares of the Company s common stock. If stockholders approve this Proposal No. 2, the Company will have the option in the future to pay dividends on its preferred stock in either cash or shares of our common stock or a combination of cash and shares of our common stock.

Why We Are Seeking Stockholder Approval

We issued 16,000 shares of our preferred stock on August 12, 2009 in our private placement transaction. Each share of preferred stock has a liquidation preference of $1,000, and dividends on these shares of preferred stock accrue at 15% per annum, subject to increase in certain circumstances. Dividends on our outstanding shares of preferred stock are payable quarterly in cash or, at our option after stockholder approval of this Proposal No. 2, in shares of common stock based on the volume weighted average trading price of a share of common stock for the 10 trading days prior to the payment date of such dividends, or a combination of cash and shares of common stock. Although we do not currently have a sufficient number of authorized shares of common stock to pay dividends on our preferred stock in shares of our common stock, we will have sufficient authorized shares of common stock if stockholders approve the Proposed Charter Amendment described above in Proposal No. 1.

We believe that the ability to pay dividends on the shares of preferred stock by issuing shares of common stock will give us greater flexibility to retain cash for other uses, such as debt service payments and capital expenditures. In the current economic climate, we believe that it is important for us to have the option to preserve working capital by being able to pay dividends on our preferred stock by issuing shares of common stock in lieu of paying cash dividends.

The purchase agreements we entered into with the investors in the private placement transaction require us to seek stockholder approval of the matters described in this Proxy Statement, including the Preferred Stock PIK Dividend Provision, and provide for certain penalties if we do not obtain stockholder approval of these matters. If stockholders do not approve this Proposal No. 2, we will be subject to the penalties described below.

Consequences of Not Obtaining Stockholder Approval

Pursuant to the terms of the preferred stock, the dividend rate on the preferred stock will increase from 15% per annum to 17.5% per annum if we have not obtained stockholder approval of the Proposed Charter Amendment, the Preferred Stock PIK Dividend Provision and the Contingent Warrants on or before December 10, 2009, and will further increase to 20% per annum if we have not obtained such stockholder approval by April 9, 2010. Upon any subsequent obtaining of such stockholder approval, the dividend rate on the preferred stock will return to 15% per annum. Thus, failure to obtain stockholder approval of the Preferred Stock PIK Dividend Provision will result in increased dividends under our preferred stock. It is important that you approve the Preferred Stock PIK Dividend Provision so that the dividend rate on the preferred stock does not increase.

Also pursuant to the terms of the preferred stock, if we have not obtained stockholder approval of the Proposed Charter Amendment, the Preferred Stock PIK Dividend Provision and the Contingent Warrants on or before June 30, 2011, we will be required to make an offer to purchase all outstanding shares of our preferred stock at a price equal to 110% of the liquidation preference of the preferred stock plus all accrued and unpaid dividends. We may not have sufficient funds to pay the purchase price for any shares of preferred stock that are tendered to us if we are required to make this offer to purchase. It is therefore important that you approve the Preferred Stock PIK Dividend Provision so that we will not be required to make this offer to purchase the outstanding preferred stock in July 2011.

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In addition, we believe that we will be required under generally accepted accounting principles to classify the preferred stock as indebtedness if we have not obtained the required stockholder approvals to eliminate this obligation to make an offer to repurchase the preferred stock. If we are required to classify the preferred stock as indebtedness, we currently would fall below the continued listing requirements of the NYSE relating to minimum market value and stockholders equity, which could result in the delisting of our shares of common stock from the NYSE. If our shares of common stock are delisted from the NYSE and we are unable to list our shares of common stock on another U.S. national or regional securities exchange or have our shares of common stock quoted on an established automated over-the-counter trading market in the United States within 30 days, we will be required to make an offer to repurchase all of our outstanding convertible notes at a price of 100% of the principal amount thereof plus accrued and unpaid interest. We may not have sufficient funds to pay the purchase price for any convertible notes that are tendered to us if we are required to make this offer to repurchase. It is therefore important that you approve the Preferred Stock PIK Dividend Provision so that we do not run this risk of our common stock being delisted from the NYSE and the risk of potentially being required to make an offer to repurchase our convertible notes.

If stockholders do not approve the Preferred Stock PIK Dividend Provision at the meeting to which this Proxy Statement relates, the investors in our private placement transaction can require us to call and hold up to three additional meetings of our stockholders to consider and vote on the Preferred Stock PIK Dividend Provision and any of the other proposals set forth in this Proxy Statement that have not previously been approved. Calling such meetings and preparing and distributing proxy materials for such meetings will be expensive and will likely distract management of the Company from the operations of the Company. It is therefore important that you approve the Preferred Stock PIK Dividend Provision so that we are not required to call and hold additional special meetings of our stockholders to consider this and the other proposals again.

Other Considerations

The issuance of additional shares of common stock in payment of dividends on our shares of preferred stock could have a dilutive effect on earnings per share and the voting power of existing stockholders at the time of the issuance. The issuance of additional shares of common stock, or the perception that additional shares may be issued, may also adversely affect the market price of our common stock.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR PROPOSAL NO. 2 TO APPROVE THE PREFERRED STOCK PIK DIVIDEND PROVISION.

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PROPOSAL 3: APPROVAL OF THE EXERCISABLE WARRANT ANTI-DILUTION PROVISION

Our Board has unanimously approved and is submitting for stockholder approval this proposal to approve the anti-dilution provision of certain warrants we issued in our private placement transaction on August 12, 2009. If stockholders approve this Proposal No. 3, the exercise price of such warrants will be subject to adjustment in certain circumstances.

Why We Are Seeking Stockholder Approval

In the private placement transaction that we completed on August 12, 2009, we issued shares of preferred stock and warrants to purchase shares of our common stock. Of those warrants, warrants to purchase an aggregate of 2,480,000 shares of common stock are currently exercisable, and warrants to purchase 8,000,000 shares of common stock are contingent on stockholder approval (as described below in Proposal No. 4). The Exercisable Warrants contain a provision that provides that if, prior to the exercise or termination of the Exercisable Warrants, we issue shares of common sock or securities convertible into or exercisable for shares of common sock at a consideration per share less than the exercise price of the Exercisable Warrants (currently $2.31 per share), subject to certain exceptions, the exercise price of the Exercisable Warrants will be reduced to be equal to the aggregate consideration per share of common stock received by the Company in such issuance. In accordance with NYSE rules, this provision only applies after we have obtained stockholder approval of such anti-dilution price protection provision. The Exercisable Warrants will expire if not exercised on or before August 11, 2014. The anti-dilution provision of the Exercisable Warrants and related definitions are attached to this Proxy Statement as Exhibit A.

The purchase agreements we entered into with the investors in the private placement transaction require us to seek stockholder approval of the matters described in this Proxy Statement, including the Exercisable Warrant Anti-dilution Provision, and provide for certain penalties if we do not obtain stockholder approval of these matters. If stockholders do not approve this Proposal No. 3, we will be subject to the penalties described below.

Consequences of Not Obtaining Stockholder Approval

If stockholders do not approve the Exercisable Warrant Anti-dilution Provision at the meeting to which this Proxy Statement relates, the investors in our private placement transaction can require us to call and hold up to three additional meetings of our stockholders to consider and vote on the Exercisable Warrant Anti-dilution Provision and any of the other proposals set forth in this Proxy Statement that have not previously been approved. Calling such meetings and preparing and distributing proxy materials for such meetings will be expensive and will likely distract management of the Company from the operations of the Company. It is therefore important that you approve the Exercisable Warrant Anti-dilution Provision so that we are not required to call and hold additional special meetings of our stockholders to consider this and the other proposals again.

Other Considerations

Any reduction in the exercise price of the Exercisable Warrants will result in the receipt by the Company of less consideration upon the exercise of the Exercisable Warrants, which may have a dilutive effect on the book value per share of our common stock. However, the Exercisable Warrant Anti-dilution Provision will not increase the number of shares of common stock issuable upon exercise of the Exercisable Warrants.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR PROPOSAL NO. 3 TO APPROVE THE EXERCISABLE WARRANT ANTI-DILUTION PROVISION.

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PROPOSAL 4: APPROVAL OF THE CONTINGENT WARRANTS

Our Board has unanimously approved and is submitting for stockholder approval this proposal to approve the Contingent Warrants we issued in our private placement transaction on August 12, 2009. If stockholders approve this Proposal No. 4, the Contingent Warrants will be exercisable on the terms described below.

Why We Are Seeking Stockholder Approval

In the private placement transaction that we completed on August 12, 2009, we issued shares of preferred stock and warrants to purchase shares of our common stock. Of those warrants, warrants to purchase 8,000,000 shares of common stock are contingent on stockholder approval as set forth in this Proposal No. 4. In accordance with NYSE rules, the Contingent Warrants are not exercisable until we have obtained stockholder approval of the Contingent Warrants.

The purchase agreements we entered into with the investors in the private placement transaction require us to seek stockholder approval of the matters described in this Proxy Statement, including the Contingent Warrants, and provide for certain penalties if we do not obtain stockholder approval of these matters. If stockholders do not approve this Proposal No. 4, we will be subject to the penalties described below.

Summary of the Contingent Warrants

The terms of the Contingent Warrants are governed by the warrant certificates issued to the investors in the private placement transaction, and the following summary is qualified in its entirety by the terms set forth in such warrant certificates. A form of the warrant certificate governing the Contingent Warrants is attached to this Proxy Statement as Exhibit B.

The Contingent Warrants will be exercisable at any time on or after the first business day following approval by the stockholders of the Contingent Warrants and the Proposed Charter Amendment and on or before 5:00 p.m., New York time, on the earlier of (1) the sixty-month anniversary of the day following approval by the stockholders of the Contingent Warrants and the Proposed Charter Amendment or (2) the ninety-eight-month anniversary of August 12, 2009.

The Contingent Warrants will be exercisable, at the option of each holder, in whole or in part by properly delivering a notice of exercise to the Company, accompanied by payment in full for the number of shares of the common stock purchased upon such exercise (except in the event of a proper cashless exercise as described below).

The holder will not have the right to exercise any portion of the Contingent Warrants to the extent the holder would beneficially own in excess of 4.99% (or, if elected by a holder of the warrant upon not less than 61 days advance written notice, up to 9.99%) of the number of shares of common stock outstanding immediately after the exercise.

If we are in breach of our obligations under the purchase agreements that we entered into in connection with the private placement transaction to provide an effective registration statement for the resale of the shares of common stock issuable upon exercise of the Contingent Warrants, then the Contingent Warrants may be exercised, if otherwise exercisable and only during the continuation of such breach, on a cashless basis. If any Contingent Warrants are so exercisable on a cashless basis, such Contingent Warrants will be exercisable, in whole or in part by properly delivering a notice of exercise to the Company, by canceling a portion of the warrant in payment of the purchase price payable in respect of the number of shares of common stock purchased upon such exercise.

The exercise price per share of common stock underlying the Contingent Warrants is $2.45. This exercise price is subject to appropriate adjustment in the event of stock splits, certain dividends and distributions, reorganizations and similar events affecting the Company s common stock.

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If prior to the exercise or termination of the Contingent Warrants we issue shares of common stock or securities convertible into or exercisable for shares of common stock at a consideration per share less than the exercise price of the Contingent Warrants, subject to certain exceptions, the exercise price of the Contingent Warrants will be reduced to be equal to the aggregate consideration per share of common stock received by us in such issuance.

It shall be a condition to our entry into a Fundamental Transaction that the successor entity assumes in writing (or remains bound by) all of our obligations under the Contingent Warrants pursuant to written agreements, including (if necessary) agreements to deliver to each holder of Contingent Warrants in exchange for such Contingent Warrants a written instrument issued by the successor entity substantially similar in form and substance to the Contingent Warrants exercisable for the consideration that would have been issuable in the Fundamental Transaction in respect of the shares issuable upon exercise of the Contingent Warrants had the Contingent Warrants been exercised immediately prior to the consummation of the Fundamental Transaction. In the event of certain Fundamental Transactions, we will be required to make an offer to purchase the Contingent Warrants from the holders after such Fundamental Transaction at the Black Scholes value of such Contingent Warrants.

Fundamental Transaction means one or more related transactions in which, (i) the Company, directly or indirectly, effects any merger or consolidation with or into another person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another person) is completed pursuant to which holders of the Company s common stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the Company s outstanding common stock, (iv) the Company, directly or indirectly, effects any reclassification, reorganization or recapitalization of its common stock or any compulsory share exchange pursuant to which the Company s common stock is effectively converted into or exchanged for other securities, cash or property, or (v) the Company, directly or indirectly, consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another person whereby such other person acquires more than 50% of the outstanding shares of the Company s common stock (not including any shares of common stock held by the other person or other persons making or party to, or associated or affiliated with the other persons making or party to, such stock or share purchase agreement or other business combination).

The Contingent Warrants and all associated rights are transferable, in whole or in part, at the option of the holder, upon surrender to us of the Contingent Warrant together with a written assignment of the Contingent Warrant duly executed by the holder of such Contingent Warrant, payment to us of funds sufficient to pay any transfer taxes payable upon the making of such transfer, and delivery by the holder and transferee to us of any factual representations reasonably required to establish exemptions from the registration requirements of applicable securities laws relating to such transfer. The Contingent Warrants are restricted securities under Rule 144, and may not be transferred except pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act. We have no obligation to file a registration statement to register the resale of the Contingent Warrants.

Consequences of Not Obtaining Stockholder Approval

Pursuant to the terms of the preferred stock, the dividend rate on the preferred stock will increase from 15% per annum to 17.5% per annum if we have not obtained stockholder approval of the Proposed Charter Amendment, the Preferred Stock PIK Dividend Provision and the Contingent Warrants on or before December 10, 2009, and will further increase to 20% per annum if we have not obtained such stockholder approval by April 9, 2010. Upon any subsequent obtaining of such stockholder approval, the dividend rate on the preferred stock will return to 15% per annum. Thus, failure to obtain stockholder approval of the Contingent Warrants will result in increased dividends under our preferred stock. It is important that you approve the Contingent Warrants so that the dividend rate on the preferred stock does not increase.

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Also pursuant to the terms of the preferred stock, if we have not obtained stockholder approval of the Proposed Charter Amendment, the Preferred Stock PIK Dividend Provision and the Contingent Warrants on or before June 30, 2011, we will be required to make an offer to purchase all outstanding shares of our preferred stock at a price equal to 110% of the liquidation preference of the preferred stock plus all accrued and unpaid dividends. We may not have sufficient funds to pay the purchase price for any shares of preferred stock that are tendered to us if we are required to make this offer to purchase. It is therefore important that you approve the Contingent Warrants so that we will not be required to make this offer to purchase the outstanding preferred stock in July 2011.

In addition, we believe that we will be required under generally accepted accounting principles to classify the preferred stock as indebtedness if we have not obtained the required stockholder approvals to eliminate this obligation to make an offer to repurchase the preferred stock. If we are required to classify the preferred stock as indebtedness, we currently would fall below the continued listing requirements of the NYSE relating to minimum market value and stockholders equity, which could result in the delisting of our shares of common stock from the NYSE. If our shares of common stock are delisted from the NYSE and we are unable to list our shares of common stock on another U.S. national or regional securities exchange or have our shares of common stock quoted on an established automated over-the-counter trading market in the United States within 30 days, we will be required to make an offer to repurchase all of our outstanding convertible notes at a price of 100% of the principal amount thereof plus accrued and unpaid interest. We may not have sufficient funds to pay the purchase price for any convertible notes that are tendered to us if we are required to make this offer to repurchase. It is therefore important that you approve the Contingent Warrants so that we do not run this risk of our common stock being delisted from the NYSE and the risk of potentially being required to make an offer to repurchase our convertible notes.

If stockholders do not approve the Contingent Warrants at the meeting to which this Proxy Statement relates, the investors in our private placement transaction can require us to call and hold up to three additional meetings of our stockholders to consider and vote on the Contingent Warrants and any of the other proposals set forth in this Proxy Statement that have not previously been approved. Calling such meetings and preparing and distributing proxy materials for such meetings will be expensive and will likely distract management of the Company from the operations of the Company. It is therefore important that you approve the Contingent Warrants so that we are not required to call and hold additional special meetings of our stockholders to consider this and the other proposals again.

Other Considerations

The issuance of additional shares of common stock upon exercise of the Contingent Warrants could have a dilutive effect on earnings per share and the voting power of existing stockholders at the time of the issuance. The issuance of additional shares of common stock, or the perception that additional shares may be issued, may also adversely affect the market price of our common stock.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR PROPOSAL NO. 4 TO APPROVE THE CONTINGENT WARRANTS.

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OTHER MATTERS

The Board is not aware of any other matters that may come before the Meeting. However, the proxies may be voted with discretionary authority with respect to any other matters that may properly come before the Meeting.

STOCKHOLDER COMMUNICATIONS

Stockholder proposals for inclusion in the Proxy Statement for the 2010 Annual Meeting of Stockholders must be received by the Company at its principal executive offices by January 6, 2010 to be considered for inclusion in the Proxy Statement and form of proxy relation to the 2010 Annual Meeting of Stockholders. Such stockholder proposals, together with any supporting statements, should be directed to the Secretary of the Company.

Stockholders and interested parties who wish to communicate with the Board, or with any individual director, may do so by (1) calling Lighthouse Services Inc., a third party call center, at (800) 785-1003 or (2) correspondence addressed to the Board, or to an individual director, at the principal executive offices of the Company. All communications received from stockholders are sent directly to Board members.

Stockholders who have questions about the Special Meeting or who need assistance in voting their shares may call the Company s proxy solicitor, Innisfree M&A Incorporated, toll-free at (888) 750-5834. Banks and brokers may call collect at (212) 750-5833.

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EXHIBIT A

Anti Dilution Provision of Exercisable Warrants and Related Definitions

Subject to stockholder approval of this section, if at any time on or after the Initial Exercise Date the Company issues or sells, or in accordance with this is deemed to have issued or sold, any shares of Common Stock (including the issuance or sale of shares of Common Stock owned or held by or for the account of the Company, but excluding Excluded Securities) for a consideration per share (the New Issuance Price) less than a price (the Applicable Price) equal to the Exercise Price in effect immediately prior to such issue or sale or deemed issuance or sale (the foregoing, a Dilutive Issuance), then immediately after such Dilutive Issuance the Exercise Price then in effect shall be reduced to an amount equal to the New Issuance Price. For purposes of determining the adjusted Exercise Price under this section, the following shall be applicable:

(a) Issuance of Options. If the Company in any manner grants any Options and the lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Option or upon conversion, exercise or exchange of any Convertible Securities issuable upon exercise of any such Option is less than the Applicable Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the granting or sale of such Option for such price per share. For purposes of this section, the lowest price per share for which one share of Common Stock is issuable upon exercise of such Options or upon conversion, exercise or exchange of such Convertible Securities shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon the granting or sale of the Option, upon exercise of the Option and upon conversion, exercise or exchange of any Convertible Security issuable upon exercise of such Option. No further adjustment of the Exercise Price shall be made upon the actual issuance of such Common Stock or of such Convertible Securities upon the exercise of such Options or upon the actual issuance of such Common Stock upon conversion, exercise or exchange of such Convertible Securities.

(b) Issuance of Convertible Securities. If the Company in any manner issues or sells any Convertible Securities and the lowest price per share for which one share of Common Stock is issuable upon the conversion, exercise or exchange thereof is less than the Applicable Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the issuance or sale of such Convertible Securities for such price per share. For the purposes of this section, the lowest price per share for which one share of Common Stock is issuable upon the conversion, exercise or exchange shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to one share of Common Stock upon the issuance or sale of the Convertible Security and upon conversion, exercise or exchange of such Convertible Security. No further adjustment of the Exercise Price shall be made upon the actual issuance of such Common Stock upon conversion, exercise or exchange of such Convertible Securities, and if any such issue or sale of such Convertible Securities is made upon exercise of any Options for which adjustment of this exercisable warrant has been or is to be made pursuant to other provisions of this section, no further adjustment of the Exercise Price shall be made by reason of such issue or sale.

(c) Change in Option Price or Rate of Conversion. If the purchase price provided for in any Options, the additional consideration, if any, payable upon the issue, conversion, exercise or exchange of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exercisable or exchangeable for Common Stock increases or decreases at any time, the Exercise Price in effect at the time of such increase or decrease shall be adjusted to the Exercise Price which would have been in effect at such time had such Options or Convertible Securities provided for such increased or decreased purchase price, additional consideration or increased or decreased conversion rate, as the case may be, at the time initially granted, issued or sold. For purposes of this section, if the terms of any Option or Convertible Security that was outstanding as of the date of issuance of this exercisable warrant are increased or decreased in the manner described in the immediately preceding sentence, then such Option or Convertible Security and the

Common Stock deemed issuable upon exercise, conversion or exchange thereof shall be deemed to have been issued as of the date of such increase or decrease. No adjustment pursuant to this section shall be made if such adjustment would result in an increase of the Exercise Price then in effect.

(d) Calculation of Consideration Received. In case any Option is issued in connection with the issue or sale of other securities of the Company, together comprising one integrated transaction in which no specific consideration is allocated to such Options by the parties thereto, the Options will be deemed to have been issued for a consideration of $0.0001. If any Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor will be deemed to be the net amount received by the Company therefor. If any Common Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of such consideration received by the Company will be the fair value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company will be the Closing Sale Price of such security on the date of receipt. If any Common Stock, Options or Convertible Securities are issued to the owners of the non-surviving entity in connection with any merger in which the Company is the surviving entity, the amount of consideration therefor will be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. The fair value of any consideration other than cash or securities will be determined in good faith by the board of directors of the Company.

(e) Record Date. If the Company takes a record of the holders of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in Options or in Convertible Securities or (B) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

Certain Defined Terms

Closing Sale Price means, for any security as of any date, the last closing trade price for such security on the Principal Market, as reported by Bloomberg, L.P. (Bloomberg), or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing trade price, then the last trade price of such security prior to 4:00 p.m., New York Time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last trade price of such security on the principal securities exchange or Trading Market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last trade price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no last trade price is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the pink sheets by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.).

Common Stock means the common stock, par value $0.0001 per share, of the Company.

Convertible Securities means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for Common Stock.

Excluded Securities means any Common Stock issued or issuable: (i) in connection with any stock plan of the Company; (ii) upon exercise of the exercisable warrants; (iii) pursuant to a bona fide firm commitment underwritten public offering with a nationally recognized underwriter that generates gross proceeds to the Company in excess of $25,000,000 (other than an at-the-market offering as defined in Rule 415(a)(4) under the Securities Act and equity lines); (iv) upon conversion of any Options or Convertible Securities that are outstanding on the day immediately preceding the Initial Exercise Date, provided that the terms of such Options or Convertible Securities are not amended, modified or changed on or after the Initial Exercise Date; (v) in connection with any acquisition, merger, joint venture or strategic investment that has been approved by the board of directors of the Company; (vi) securities issued to commercial banks or financial institutions, the primary business of which is not making equity-related loans; (vii) securities issued to lessors in connection with commercial credit arrangements, equipment financings or similar transactions or to independent contractors or vendors of the Company in connection with bona fide business transactions; or (vii) upon conversion of the preferred stock issued in connection with the exercisable warrants.

Exercise Price means $2.31 per share of Common Stock under the exercisable warrant, subject to adjustment.

Initial Exercise Date means August 11, 2009.

Options means any right, warrants or options to subscribe for or purchase Common Stock or Convertible Securities.

Principal Market means the New York Stock Exchange.

Trading Market means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE Alternext, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market or the New York Stock Exchange (or any successors to any of the foregoing).

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EXHIBIT B

NEITHER THE WARRANTS REPRESENTED BY THIS WARRANT CERTIFICATE NOR THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (2) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE STATE SECURITIES LAWS AND THE SECURITIES LAWS OF OTHER JURISDICTIONS, AND IN THE CASE OF A TRANSACTION EXEMPT FROM REGISTRATION, UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT AND SUCH OTHER APPLICABLE LAWS OR THE COMPANY HAS RECEIVED FROM THE HOLDER REASONABLE ASSURANCE THAT THE SECURITIES CAN BE SOLD, ASSIGNED OR TRANSFERRED PURSUANT TO RULE 144 UNDER THE SECURITIES ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

FLOTEK INDUSTRIES, INC.

WARRANT TO PURCHASE COMMON STOCK

Warrant Shares: __________ Issue Date: August 11, 2009

THIS WARRANT TO PURCHASE COMMON STOCK (the Warrant) certifies that, for value received, __________ (the Holder) is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the date Flotek Industries, Inc., a Delaware corporation (the Company) obtains the Stockholder Approval described in Section 5 hereof (the Initial Exercise Date) and on or prior to the earlier of (i) 5:00 p.m. Eastern time on the 60-month anniversary of the date the Company obtains the Stockholder Approval, or (ii) 5:00 p.m. Eastern time on the 98-month anniversary of the date hereof (the Termination Date) but not thereafter, to subscribe for and purchase from the Company __________ fully paid nonassessable shares of Common Stock of the Company (the Warrant Shares). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. As used herein, the following terms shall have the following respective meanings:

a) Affiliate means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the Securities Act.

b) Board of Directors means the board of directors of the Company.

c) Business Day means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

d) Certificate of Designations means the Certificate of Designations of the Company establishing the Preferred Stock.

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e) Certificate of Incorporation means the Amended and Restated Certificate of Incorporation of the Company, as such may be amended, modified or restated from time to time.

f) Closing Sale Price means, for any security as of any date, the last closing trade price for such security on the Principal Market, as reported by Bloomberg, L.P. (Bloomberg), or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing trade price, then the last trade price of such security prior to 4:00 p.m., New York Time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last trade price of such security on the principal securities exchange or Trading Market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last trade price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no last trade price is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the pink sheets by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.).

g) Commission means the United States Securities and Exchange Commission.

h) Common Stock means the common stock, par value $0.0001 per share, of the Company.

i) Convertible Securities means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for Common Stock.

j) Exchange Act means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

k) Excluded Securities means any Common Stock issued or issuable: (i) in connection with any stock plan of the Company; (ii) upon exercise of the Warrants; (iii) pursuant to a bona fide firm commitment underwritten public offering with a nationally recognized underwriter that generates gross proceeds to the Company in excess of $25,000,000 (other than an at-the-market offering as defined in Rule 415(a)(4) under the Securities Act and equity lines); (iv) upon conversion of any Options or Convertible Securities that are outstanding on the day immediately preceding the Initial Exercise Date, provided that the terms of such Options or Convertible Securities are not amended, modified or changed on or after the Initial Exercise Date; (v) in connection with any acquisition, merger, joint venture or strategic investment that has been approved by the Board of Directors of the Company; (vi) securities issued to commercial banks or financial institutions, the primary business of which is not making equity-related loans; (vii) securities issued to lessors in connection with commercial credit arrangements, equipment financings or similar transactions or to independent contractors or vendors of the Company in connection with bona fide business transactions; or (viii) in connection with the conversion of the Preferred Stock or exercise of the warrants issued in connection with the Warrants (including warrants issued after the date hereof to the placement agent pursuant to the agreement between the Company and the placement agent entered into in connection with the issuance of Warrants, not to exceed 175,000 shares at an exercise price of not less than $2.31 per share).

l) Options means any right, warrants or options to subscribe for or ONT> 999(4)

Proceeds from sale of equipment

4 1

Purchase of property, plant, and equipment

(896) (1,071)

Net cash provided by (used in) investing activities

107 (1,074)

Financing activities:

Payment of long-term debt

(40,692) (17,175)

Payments of debt financing costs	(304)	(65)
Net cash used in financing activities	(40,996)	(17,240)
Effect of exchange rate changes on cash	(3,822)	565
Net change in cash and cash equivalents	(36,937)	26,007
Cash and cash equivalents, beginning of period	103,220	57,633
Cash and cash equivalents, end of period	$66,283	$83,640

See accompanying notes to condensed consolidated financial statements (unaudited).

GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 BUSINESS AND ORGANIZATION

Global Power Equipment Group Inc. and its subsidiaries (the Company , we , us or our) designs, engineers and manufactures heat recovery and auxiliary power equipment and provides routine and specialty maintenance services to customers in the utility and industrial sectors. The Company s corporate headquarters are located in Tulsa, Oklahoma, with facilities in Plymouth, Minnesota; Tulsa, Oklahoma; Auburn, Massachusetts; Atlanta, Georgia; Monterrey, Mexico; Shanghai, China; and Heerlen, The Netherlands.

The unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America. The information in the condensed consolidated financial statements, in the opinion of management, includes normal recurring adjustments and reflects all adjustments which are necessary for a fair statement of such financial statements. The Company believes that the disclosures presented are adequate to represent materially correct interim financial statements. These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and related notes for the year ended December 31, 2009. The results of operations for the three and six months ended June 30, 2010 and 2009 are not necessarily indicative of the actual results that may occur for the entire fiscal year.

On September 28, 2006, Global Power Equipment Group Inc. and all of its U.S. subsidiaries filed voluntary Chapter 11 petitions under the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (Bankruptcy Court). The Company successfully exited Chapter 11 on January 22, 2008 pursuant to an approved Plan of Reorganization (Plan of Reorganization or Plan).

On June 30, 2010 the Company filed an amendment to its Second Amended and Restated Certificate of Incorporation to implement a 1-for-9 reverse stock split of all outstanding shares of its common stock. The reverse stock split was authorized by the stockholders at the Annual Meeting of Stockholders on April 22, 2010, and was implemented by the Board of Directors in accordance with that authority. Upon the implementation of the reverse stock split, all of our common stock outstanding on June 30, 2010 was converted, automatically and without action by any holder of those shares, into one ninth of the number of those shares outstanding immediately before the reverse stock split (adjusted to avoid fractional shares). All of the share and per share numbers in this Quarterly Report on Form 10-Q reflect the effect of the reverse stock split.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying condensed consolidated financial statements include the accounts of Global Power Equipment Group Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition: The Company is organized in two major segments: the Products Division and the Services Division. Within these segments, the Company has three primary revenue streams, Heat Recovery Equipment (comprised of the Specialty Boiler and Heat Recovery Steam Generator (HRSG) product lines), Auxiliary Power Equipment and Industrial Services.

Revenues and cost of revenues for the Heat Recovery Equipment product line, and fixed price contracts in the Industrial Services business, are recognized on the percentage-of-completion method based on the percentage of actual hours incurred to date in relation to total estimated hours for each contract. This method is used because management considers expended labor hours to be the best available measure of progress on these contracts. The Company expenses pre-contract costs as incurred. Costs related to change orders are recognized when they are incurred. Change orders are included in total estimated contract revenues when they can be reliably estimated and it is probable that the adjustment will be approved by the customer or realized.

The percentage-of-completion method generally results in the recognition of reasonably consistent profit margins over the life of a contract since management has the ability to produce reasonably dependable estimates of contract billings and contract costs. The Company uses the level of profit margin that is most likely to occur on a contract. If the most likely profit margin cannot be precisely determined, the lowest probable level of profit in the range of estimates is used until the results can be estimated more precisely. The Company s estimate of the total hours to be incurred at any particular time has a significant impact on the revenue recognized for the respective period. The percentage-of-completion method is only allowed under certain circumstances in which the revenue process is long-term in nature (often in excess of one year), the products, or services, sold are highly customized and a process is in place whereby revenues, costs and margins can be reasonably estimated.

Changes in job performance, job conditions, estimated profitability, final contract settlements and resolution of claims may result in revisions to costs and income, and the effects of such revisions are recognized in the period that the revisions are determined. Estimated losses on uncompleted contracts are recognized in the period in which they first become apparent. Under percentage-of-completion accounting, management must also make key judgments in areas such as percent complete, estimates of project revenues, costs and margin, estimates of total and remaining project hours and liquidated damages assessments. Any deviations from estimates could have a significant positive or negative impact on the Company s results of operations.

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(UNAUDITED)

Revenues for the Auxiliary Power Equipment product line are recognized under the completed-contract method due to the short-term nature of the production period. Generally, these contracts specify separate phases of work which are frequently contracted separately. Under this method, no revenue can be recognized until the contract phase is substantially complete, at which time revenue is recognized and costs previously deferred are charged to expense. Also, for revenue to be recognized, the customer takes risk of loss and title, and the installation is operating according to specifications or has been accepted by the customer. As with the Heat Recovery Equipment product line, changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to job costs and income amounts that are different than amounts originally estimated.

Revenues for the Industrial Services business that are not recognized on the percentage-of-completion method are primarily for routine service contracts. Under these arrangements, the Company recognizes revenue when services are performed and the customer assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Specifically, the revenues under these contracts are recognized as the services are performed based upon an agreed-upon price for the completed services or based upon the hours incurred and agreed upon hourly rates. On cost reimbursable contracts, revenue is recognized as costs are incurred and includes applicable fees earned through the date services are provided.

In the fourth quarter of 2006, upon approval by the Bankruptcy Court, the Company initiated a wind down of Deltak s (a subsidiary of the Company, based in Plymouth, Minnesota) large-scale HRSG product line and Deltak entered into completion agreements with certain HRSG customers to complete executory contracts for delivery of HRSG units. Certain of the HRSG contracts under completion agreements were in a positive cash position as of the Chapter 11 filing date since aggregate collections of billings exceeded aggregate project costs. The recognition of this excess was deferred until such time as the earnings process is considered completed through satisfaction of the performance milestones under the completion agreements. This amount is included in income from discontinued operations in the accompanying condensed consolidated statements of operations, net of estimates of liquidated damage claims accrued for these contracts. Deferred amounts are reported in the accompanying consolidated balance sheets as deferred revenue and the balance at June 30, 2010 was $0. The excess of collections of billings over aggregate project costs for these contracts will be recognized as Deltak meets the performance milestones as specified for avoiding the liquidated damage claims. During the three and six months ended June 30, 2010 and 2009, the Company recognized such excess as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Deferred revenue recognized	$ 2,115	$ 6,031	$ 3,014	$ 6,076

***Use of Estimates*:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ materially from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and on deposit with initial maturities of three months or less. The Company maintains cash in depository accounts at various FDIC insured banks and financial institutions. Although the Company maintains cash balances in excess of the FDIC insured limits, management believes this risk is mitigated by using financial institutions that are rated investment grade according to credit rating agencies.

Accounts Receivable: Accounts receivable are reported net of allowance for doubtful accounts and discounts. The allowance is based on current market conditions, review of specific customer economics and other estimates based on the judgment of management. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not generally charge interest on outstanding amounts.

The Company has certain customers that represent more than 10 percent of consolidated accounts receivable. The balance for these customers as a percentage of the consolidated accounts receivable is as follows:

Customer	June 30, 2010	December 31, 2009
Entergy Services Inc.	27%	35%
General Electric Company	16%	
Southern Nuclear Company		12%
Daelim Industrial Co. LTD	10%	

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Inventories: Inventories consist primarily of raw materials and are stated at the lower of first-in, first-out cost or market, net of applicable reserves.

Goodwill**:** The Company has made acquisitions in the past that included the recognition of goodwill, which was determined based upon previous accounting principles. Pursuant to Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 350, *Intangibles-Goodwill and Other*, beginning January 1, 2009, the Company records as goodwill the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. The Company evaluates goodwill for impairment at least annually, or more frequently if triggering events occur or other impairment indicators arise which might impair recoverability. During the six months ended June 30, 2010, no triggering events occurred that would require additional impairment testing.

Major Customers: The Company has certain customers that represent more than 10 percent of consolidated revenues. The revenue for these customers as a percentage of the consolidated revenues is as follows:

Customer	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Entergy Services Inc.	27%		29%	
Southern Nuclear Company	17%		24%	11%
General Electric Company		23%		18%
Energy Northwest		22%		15%
Tennessee Valley Authority		13%		11%
All others	56%	42%	47%	45%
Total	100%	100%	100%	100%

Customers for the Products Division include original equipment manufacturers (OEMs), engineering and construction firms, operators of power generation facilities and firms engaged across several process related industries. Customers for the Services Division are varied, but do include some major utility companies within the United States. The Company s major customers vary over time due to the relative size and duration of the Company s projects.

Cost of Revenues: Cost of Revenues for both Products and Services primarily include charges for materials, direct labor and related benefits, freight (inbound and outbound), direct supplies and tools, warehousing costs and utilities related to production facilities, purchasing and receiving costs, inspection costs, internal transfer costs, and, where appropriate, an allocation of overhead.

Warranty Costs: Estimated costs related to product warranty are accrued as the related revenue is recognized and included in cost of revenues. Estimated costs are based upon past warranty claims and sales history. Warranty terms vary by contract but generally provide for a term of three years or less. The Company manages its exposure to warranty claims by having its field service and quality assurance personnel regularly monitor projects and maintain ongoing and regular communications with the customers.

Shipping and Handling Costs: The Company accounts for shipping and handling costs in accordance with ASC 605-45, *Principal Agent Considerations*. Amounts billed to customers in sale transactions related to shipping and handling costs are recorded as revenue. Shipping and handling costs incurred by us are included in cost of revenues in the condensed consolidated statements of operations.

Advertising Costs: The Company accounts for advertising costs in accordance with ASC 720-35, *Advertising Costs*. Generally, advertising costs are immaterial and are expensed as incurred in selling and administrative expense.

Selling and Administrative expense: Selling and administrative expenses are primarily comprised of indirect labor and related benefits, legal and professional fees, indirect utilities, office rent, bad debt expense, and indirect travel and related expenses.

Reorganization Items: The Company successfully exited Chapter 11 on January 22, 2008. The accompanying condensed consolidated financial statements have been presented in conformity with the provisions of ASC 852, *Reorganizations*. Accordingly, all pre-petition liabilities of the Debtor that are subject to compromise are segregated in the accompanying condensed consolidated balance sheets as liabilities subject to compromise. These liabilities are recorded at amounts or claims allowed by the Bankruptcy Court. ASC 852 also requires that reorganization items (direct and incremental costs, such as professional fees incurred in Chapter 11 cases) be segregated as a separate line item in the statements of operations.

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The Company s reorganization items are as follows (in thousands):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Professional fees	$ 414	$ 235	$ 700	$ 481
Change in estimate of liabilities subject to compromise	20		240	(378)
Total reorganization expense	$ 434	$ 235	$ 940	$ 103

***Income from Discontinued Operations**:* During the three and six months ended June 30, 2010 and 2009, the Company earned income from discontinued operations due to the winding down of the large scale HRSG operations (see Note 2 revenue recognition). The following table summarizes the income from discontinued operations (in thousands):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Income from discontinued operations	$ 2,090	$ 6,816	$ 3,176	$ 7,489
Related tax expense (benefit)	15	(85)	(12)	(140)
Net income from discontinued operations	$ 2,105	$ 6,731	$ 3,164	$ 7,349

Income Taxes: The current provision for income taxes is based on current federal, foreign and state statutory rates which are adjusted based on changes in tax laws and significant fluctuations in taxable income. The overall effective income tax rate for the three and six months ended June 30, 2010 and 2009, is as follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Effective income tax rate	1.7%	11.2%	8.7%	9.9%

The effective income tax rate differs from the statutory federal income tax rate of 35% primarily because of state and foreign income taxes, deferred taxes on indefinite life intangibles, changes in the valuation allowance and utilization of net operating loss carry forwards.

Effective January 1, 2007, the Company adopted provisions of ASC 740-10, *Income Taxes*, which relates to recognition of uncertain tax positions. FASB requires companies to assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence, using a more likely than not standard. In making such assessments, significant weight is given to evidence that can be objectively verified. A company s current or previous losses are given more weight than its future outlook, although we do consider future taxable income projections, ongoing tax planning strategies and the limitation on the use of carryforward losses in determining valuation allowance needs. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2009, the Company provided for a liability of $3.8 million for unrecognized tax benefits related to various federal, foreign and state income tax matters which is included in Other long-term liabilities. If recognized, the entire amount of the liability would affect the effective tax rate. There was no change to this balance during the six months ended June 30, 2010.

Derivative Financial Instruments: ASC 815, *Derivatives and Hedging*, requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. For derivatives designated as hedges, changes in the fair value are either offset against the change in fair value, for the risk being hedged, of the assets and liabilities through earnings, or recognized in accumulated other comprehensive income until the hedged item is recognized in earnings.

The Company uses financial instruments in the management of its foreign currency exchange exposures. These financial instruments are considered derivatives under ASC 815, but do not meet hedge accounting requirements. Therefore, the Company recognizes changes in fair values of the forward agreements through selling and administrative expenses.

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The following table summarizes the forward contracts at June 30, 2010, all of which mature during 2010 (in thousands):

Functional Currency	Currency Hedged (bought or sold forward)	Hedged Foreign Currency Exposure (in equivalent U.S. Dollars)	Notional Amount of Forward Buy Contracts (in equivalent U.S. Dollars)	Notional Amount of Forward Sell Contracts (in equivalent U.S. Dollars)
Euro	U. S. Dollars	$ 3,258	$ 3,258	$
U.S. Dollars	Mexican Pesos	2,295	2,295	
U.S. Dollars	Euro	2,683		2,683
U.S. Dollars	South Korean Won	1,213		1,213
	Total	$ 9,449	$ 5,553	$ 3,896

The following table summarizes the forward contracts at December 31, 2009 (in thousands):

Functional Currency	Currency Hedged (bought or sold forward)	Hedged Foreign Currency Exposure (in equivalent U.S. Dollars)	Notional Amount of Forward Buy Contracts (in equivalent U.S. Dollars)	Notional Amount of Forward Sell Contracts (in equivalent U.S. Dollars)
Euro	U. S. Dollars	$ 3,258	$ 3,258	$
U.S. Dollars	Mexican Pesos	1,542	1,542	
U.S. Dollars	Euro	8,175		8,175
U.S. Dollars	South Korean Won	3,188		3,188
	Total	$ 16,163	$ 4,800	$ 11,363

The notional amount provides one measure of the transaction volume outstanding as of the balance sheet date. Amounts ultimately realized upon final settlement of these financial instruments, along with the gains and losses on the underlying exposures within the Company s forward contracts, will depend on actual market exchange rates during the remaining life of the instruments.

In March 2008, the Company entered into an interest rate swap agreement to convert $60 million of the Credit Facility variable interest payments to a fixed rate of 2.97% which terminated in March 2010. The interest rate swap agreement constituted a cash flow hedge and satisfied the criteria for hedge accounting prescribed by ASC 815.

The following tables show the impact of derivatives on the Company s condensed consolidated balance sheets (in thousands):

As of	June 30, 2010		December 31, 2009	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value

	Location		Location	
Foreign exchange contracts	Other current liabilities	$ 385	Other current liabilities	$ 570
Interest rate contracts			Other current liabilities	408
Gain (loss) on interest rate contract derivative (effective portion), net of tax			Other comprehensive income (loss)	185

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The following tables show the impact of derivatives not designated as hedging instruments on the Company s condensed consolidated statements of operations (in thousands):

Derivatives Not Designated as Hedging Instruments under ASC 815-10	Location of Gain (Loss) Recognized on Derivatives	Amount of Gain (Loss) Recognized on Derivatives for the Three Months Ended June 30, 2010	2009	Amount of Gain Recognized on Derivatives for the Six Months Ended June 30, 2010	2009
Foreign exchange contracts	Selling and administrative expenses	$ (150)	$ 133	$ 185	$ 225
Total		$ (150)	$ 133	$ 185	$ 225

Fair Value of Financial Instruments: In September 2006, the FASB issued ASC 820, *Fair Value Measurements and Disclosures*. ASC 820-10 defines fair value as the exit price, which is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. ASC 820-10 establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Company adopted certain of the provisions of ASC 820 on January 1, 2008. Although the adoption of ASC 820 did not materially impact its financial condition, results of operations, or cash flow, the Company is required to provide additional disclosures as part of its financial statements. ASC 820 establishes a three-tier fair value hierarchy, which categorizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in the active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The following table shows assets and liabilities measured at fair value as of June 30, 2010, on the Company s condensed consolidated balance sheet, and the input categories associated with those assets and liabilities (in thousands):

		Fair Value Measurements at Reporting Date Using		
Description	Total Fair Value Assets (Liabilities) at June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign exchange contracts	$ (385)	$	$ (385)	$
Total	$ (385)	$	$ (385)	$

The following table shows assets and liabilities measured at fair value as of December 31, 2009, on the Company s consolidated balance sheet, and the input categories associated with those assets and liabilities (in thousands):

Description	Fair Value Measurements at Reporting Date Using

	Total Fair Value Assets (Liabilities) at December 31, 2009		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Foreign exchange contracts	$	(570)	$	$	(570)	$
Interest rate contracts		(408)			(408)	
Total	$	(978)	$	$	(978)	$

The fair value of the foreign exchange contracts is calculated using the foreign exchange rate at the end of the period and the notional amounts as determined in the forward contract. The Company uses the calculated fair values to adjust the asset or liability as appropriate.

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The fair value of interest rate swaps is calculated with proprietary models utilizing observable inputs as well as future assumptions related to interest rates and other applicable variables. These calculations are performed by the financial institutions which are counterparties to the applicable swap agreements and reported to the Company on a monthly basis. The Company uses these reported fair values to adjust the asset or liability as appropriate.

The Company s financial instruments consist primarily of cash and cash equivalents, receivables, payables and debt instruments. The carrying values of these financial instruments approximate their respective fair values as they are either short-term in nature or carry interest rates which are periodically adjusted to market rates.

ASC 820 requires that companies provide a reconciliation of the beginning and ending balances for Level 3 assets and liabilities measured at fair value. Since the Company has no Level 3 assets or liabilities, no reconciliation is required.

Adoption of New Accounting Standards: In December 2009, the FASB issued Accounting Standards Update (ASU) 2009-17, *Consolidations* (ASC 810) *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17), which is effective for annual periods beginning after November 15, 2009. ASU 2009-17 requires Company management to consider a variable entity s purpose and design and the Company s ability to direct the activities of the variable interest entity that most significantly impact such entity s economic performance when determining whether such entity should be consolidated. The Company adopted the provisions of ASU 2009-17 as required on January 1, 2010. The provisions had no impact on the Company s consolidated financial position or results of operations upon adoption.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures*: *Improving Disclosures about Fair Value Measurements* which amends ASC 820, *Fair Value Measurements and Disclosures* (ASU 2010-06) to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. ASU 2010-06 also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The Company adopted the provisions of ASU 2010-06 as required on January 1, 2010. See Note 2 for required disclosure.

In March 2010, the FASB issued ASU No. 2010-11, *Derivatives and Hedging Scope Exception Related to Embedded Credit Derivatives* (codified within ASC 815 - *Derivatives and Hedging*). ASU 2010-11 improves disclosures originally required under SFAS No. 161. ASU 2010-11 is effective for interim and annual periods beginning after June 15, 2010. The adoption of ASU 2010-11 is not expected to have any material impact on our financial position, results of operations or cash flows.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 3 EARNINGS PER SHARE

Basic and diluted earnings per common share are calculated as follows (all share and per share numbers reflect the Company s June 30, 2010, 1-for-9 reverse stock split) (in thousands, except for share and per share data):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Basic Earnings Per Common Share:				
Income from continuing operations	$ 8,516	$ 10,702	$ 18,622	$ 22,718
Income from discontinued operations	2,105	6,731	3,164	7,349
Net income available to common shareholders	$ 10,621	$ 17,433	$ 21,786	$ 30,067
Weighted Average Common Shares Outstanding	15,303,434	15,003,875	15,189,849	14,922,756
Income from continuing operations	$ 0.56	$ 0.71	$ 1.23	$ 1.52
Income from discontinued operations	0.13	0.45	0.20	0.49
Basic earnings per common share	$ 0.69	$ 1.16	$ 1.43	$ 2.01
Diluted Earnings Per Common Share:				
Income from continuing operations	$ 8,516	$ 10,702	$ 18,622	$ 22,718
Income from discontinued operations	2,105	6,731	3,164	7,349
Net income available to common shareholders	$ 10,621	$ 17,433	$ 21,786	$ 30,067
Weighted Average Common Shares Outstanding	15,303,434	15,003,875	15,189,849	14,922,756
Dilutive effect of unvested Restricted Stock Units	425,115	291,186	286,820	276,458
Dilutive effect of contingently returnable shares	152,377	152,367	152,967	152,367
Dilutive effect of warrants	554,470	117,473	539,047	
Weighted Average Common Shares Outstanding Assuming Dilution	16,435,396	15,564,901	16,168,683	15,351,581
Income from continuing operations	$ 0.52	$ 0.69	$ 1.15	$ 1.48
Income from discontinued operations	0.13	0.43	0.20	0.48
Diluted earnings per common share	$ 0.65	$ 1.12	$ 1.35	$ 1.96

Restricted Stock Awards. All common shares granted under the 2008 Directors Equity Incentive Plan are issued at the time the grant is approved and vest, based on certain service conditions, over a four year period. Only vested shares are included in the Weighted Average Common Shares Outstanding for each period. Unvested restricted stock awards are contingently returnable and included, under the treasury method, in the calculation for dilutive effect of contingently returnable shares. If the award is forfeited before the vesting period has expired, the forfeited shares are included as treasury shares.

Restricted Stock Units (RSU). Common shares granted under the 2008 Management Incentive Plan are issued as the shares vest. Therefore, only the vested/issued shares are included in the Weighted Average Common Shares Outstanding for each period. Unvested restricted stock units are contingently issuable and included, under the treasury method, in the calculation for dilutive effect of unvested RSUs to purchase common shares.

Management Co-Investment Plan. Common shares issued under the 2008 Management Co-investment Plan were issued on January 22, 2008 and will cliff vest, based on certain service conditions, on the third anniversary of the grant date. Only vested shares are included in the Weighted Average Common Shares Outstanding for each period. Unvested shares are contingently returnable and included, under the treasury method, in the calculation for dilutive effect of contingently returnable shares. If an award is forfeited before the vesting period has expired, the forfeited shares are included as treasury shares.

Diluted earnings per share include the potentially dilutive effect of outstanding warrants that are convertible to common stock. At June 30, 2009, 1,807,223 shares of common stock underlying warrants were excluded from this calculation because the exercise price of the warrants was greater than the average market price of the common shares.

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NOTE 4 DEBT

Credit Facility: The Company has a $150 million Credit Facility (Credit Facility) consisting of a $60 million revolving letter of credit facility, including a $25 million cash advance sub-facility, and a $90 million term loan facility. The Credit Facility is due and payable on January 22, 2014, and has mandatory amortization payments on the term loan facility of approximately $1.3 million per quarter and a sweep of 25 75% of excess cash flow, as defined in the Credit Facility. In January 2010, the Company paid all of the mandatory amortization payments due for 2010 as part of the third amendment to the Credit Facility.

At June 30, 2010 and December 31, 2009, the Credit Facility consisted of the following (in thousands):

	June 30, 2010	December 31, 2009
Term loan facility	$ 24,633	$ 65,325
Less:		
Current maturities of long-term debt		
Quarterly installments	2,500	5,000
Excess cash flow sweep		35,692
Long-term debt, net of current maturities	$ 22,133	$ 24,633

The interest rate on the Credit Facility was 8.0% as of June 30, 2010. Letters of credit issued under the revolving letter of credit facility bear interest at 3.82% at June 30, 2010. The Company also pays an unused line fee of 0.50%.

The Credit Facility includes customary affirmative and negative covenants, such as limitations on the creation of new indebtedness and on certain liens, restrictions on certain transactions and payments and requires maintenance of a minimum consolidated leverage ratio, consolidated fixed charge ratio and liquidity. A default under the Credit Facility may be triggered by events such as a failure to comply with financial covenants or other covenants under the Credit Facility, a failure to make payments when due under the Credit Facility, a change of control of the Company or certain insolvency proceedings. A default under the Credit Facility would permit the participating banks to restrict the Company s ability to further access the Credit Facility for loans, require the immediate repayment of any outstanding loans with interest and require the cash collateralization of outstanding letter of credit obligations. The Credit Facility is secured by a first priority lien on substantially all assets of the Company.

NOTE 5 COMMITMENTS AND CONTINGENCIES

Employment Agreements: The Company entered into employment agreements with terms of two to three years with certain members of management with automatic one-year renewal periods at expiration dates. The agreements provide for, among other things, compensation, benefits and severance payments.

Litigation: The Company is involved from time to time in legal actions that arise in the ordinary course of our business. The Company does not believe that the resolution of any currently pending actions, either individually or in the aggregate, will have a material adverse effect on the Company s financial position or results of operations. However, the outcomes of any legal actions cannot be predicted, and therefore, there can be no assurance that this will be the case.

Deltak Fund for Unsecured Claims in Bankruptcy. On September 28, 2006, the Company and all of its U.S. subsidiaries, including Deltak, filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. Pursuant to an approved Plan of Reorganization, an administrator was appointed to administer a fund of approximately $34 million in cash that was intended to be distributed to the holders of allowed unsecured claims against Deltak. Under the Plan of Reorganization, the administrator has the right and duty to administer the fund and to make, file and settle or otherwise resolve objections to unsecured claims against Deltak.

Since January 22, 2008, the administrator has adjudicated and/or settled various unsecured claims and engaged in efforts to resolve the remaining disputed claims. As of July 13, 2010, approximately $12.3 million of cash remains in the fund subject to the control of the administrator.

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Certain disputed unsecured claims remain unresolved. The administrator continues to contest and otherwise seek to resolve these and all other remaining disputed claims.

Asbestos Cases. The Company has been named as a defendant in a limited number of asbestos personal injury lawsuits. Neither the Company nor its predecessors ever mined, manufactured, produced or distributed asbestos fiber, the material that allegedly caused the injury underlying these actions. The bankruptcy court s discharge order issued upon emergence from bankruptcy extinguished the claims made by all plaintiffs who had filed asbestos claims against the Company before that time. The Company also believes the bankruptcy court s discharge order should serve as a bar against any later claim filed against it or any of its subsidiaries based on alleged injury from asbestos at any time before emergence from bankruptcy. In any event, to date, the Company has been successful in having the asbestos cases that were filed against it post-bankruptcy dismissed without liability. The Company intends to vigorously defend all currently active actions, just as we defended the other actions that have since been dismissed, all without liability, and we do not anticipate that any of these actions will have a material adverse effect on our financial position, results of operations or liquidity. However, the outcomes of any legal actions cannot be predicted, and therefore, there can be no assurance that this will be the case.

Contingencies: At June 30, 2010, the Company had a contingent liability for issued and outstanding stand-by letters of credit, generally issued to secure performance on customer contracts. The balance of stand-by letters of credit totaled approximately $16.6 million for the domestic entities and $10.4 million for foreign entities at June 30, 2010. Currently, there are no amounts drawn upon these letters of credit. In addition, at June 30, 2010, the Company had outstanding surety bonds on projects of approximately $9.6 million.

The Company evaluated its banking relationships with regard to cash and available credit. The Company and its subsidiaries maintain cash in depository accounts at various FDIC insured banks and financial institutions. Although the Company and its subsidiaries maintain cash balances in excess of the FDIC insured limits, management believes this risk is mitigated by using financial institutions that are rated investment grade according to credit rating agencies. To the extent that the credit crisis affects the counterparties in the revolver facility, the Company may have difficulty accessing all the available credit under this facility.

NOTE 6 STOCKHOLDERS EQUITY

	Common Shares * $0.01 Per Share		Paid-in	Accumulated Other Comprehensive Income	Retained	Treasury Shares		
(in thousands, except share amounts)	**Shares**	**Amount**	**Capital**	**(Loss)**	**Earnings**	**Shares**	**Amount**	**Total**
Balance, December 31, 2009	15,263,066	$ 1,374	$ 61,459	$ 2,655	$ 70,994	(42,340)	$ (4)	136,478
Restricted stock awards	17,361	2	66					68
Stock-based compensation	246,392	22	1,495					1,517
Stock-based compensation -withheld			(617)			(42,408)	(4)	(621)
Warrants exercised	58,373	5	457					462
Warrants withheld			(459)			(30,066)	(3)	(462)
Forfeiture of restricted shares						(2,136)		
Fractional shares resulting from reverse stock split	(638)							
Other comprehensive income:								
Net income					21,786			21,786
Fair value of interest rate swap				185				185
Foreign currency translation				(3,934)				(3,934)

Comprehensive income									18,037
Balance, June 30, 2010	15,584,554	$ 1,403	$ 62,401	$	(1,094)	$ 92,780	(116,950)	$ (11)	$ 155,479

* (all share numbers reflect our June 30, 2010, 1-for-9 reverse stock split)

Restricted Stock Awards: Pursuant to the 2008 Director s Equity Incentive Plan, the Company is permitted to award shares of common stock as restricted stock subject to specified restrictions on transfer, forfeiture and/or such other restrictions on incidents of ownership determined by the Compensation Committee of the Company s Board of Directors. On January 22, 2009, the Company issued 26,144 shares of restricted stock under the 2008 Director s Equity Incentive Plan at a grant date fair value of $5.76 per share, which approximated the quoted market price of the common stock on that date. Vesting of this restricted stock is based on certain service conditions over a four year period. In connection with the grant, the Company recorded expense of $0.02 million for the six months ended June 30, 2010, and will recognize an aggregate of $0.06 million of expense over the remaining two years of the four year vesting period if the service conditions are met.

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GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

On February 9, 2009, the Company issued 34,722 shares of restricted stock under the 2008 Director s Equity Incentive Plan at a grant date fair value of $4.95 per share, which approximated the quoted market price of the common stock on that date. Vesting of this restricted stock is based on certain service conditions over a four year period. In connection with the grant, the Company recorded expense of $0.02 million for the six months ended June 30, 2010, and will recognize an aggregate of $0.11 million of expense over the remaining three years of the four year vesting period if the service conditions are met.

On February 9, 2010, the Company granted 17,361 shares of restricted stock under the 2008 Director s Equity Incentive Plan at a grant date fair value of $15.75 per share. Vesting of this restricted stock is based on certain service conditions over a four year period. In connection with the grant, the Company recorded expense of $0.03 million for the six months ended June 30, 2010 and will recognize an aggregate of $0.24 million of expense over the remainder of the four years of the four year vesting period if the service conditions are met.

Stock-based Compensation: On June 23, 2008, the Company granted 581,546 Restricted Stock Units (each such unit, an RSU) with a grant date fair value of $10.80 per unit under the 2008 Management Incentive Plan pursuant to RSU Award Agreements executed by each beneficiary of the grant. Grants of RSUs under the 2008 Management Incentive Plan are valued in terms of the quoted market price of the Company s common stock at date of grant; however, common stock is not issued at the time of the grant. Vesting of RSUs is based on certain performance and service conditions over a four year period. The Company recognizes compensation cost for awards with performance conditions if and when the Company concludes that it is probable that the performance condition will be achieved, net of an estimate of pre-vesting forfeitures. The Company recognizes compensation cost for awards with service condition throughout the vesting term, net of an estimate of pre-vesting forfeitures. Restricted shares are issued to plan participants as vesting requirements are satisfied. In connection with this grant, the Company recognized $0.4 million in expense for the six months ended June 30, 2010, related to these RSUs. In addition, on March 2, 2010, the Company issued 7,935 shares of Restricted Stock to the recipients of RSU awards according to specific separation agreements.

On February 9, 2009, the Company granted 540,008 RSUs with a grant date fair value of $4.95 per unit under the 2008 Management Incentive Plan. In addition, on September 14, 2009, the Company granted 83,333 RSUs with a grant date fair value of $10.80 per unit under the 2008 Management Incentive Plan. In connection with these grants, the Company recognized $0.6 million of expense for the six months ended June 30, 2010, related to these RSUs. Additionally, on March 2, 2010, the Company issued 11,842 shares of Restricted Stock to certain recipients of RSU awards pursuant to individual separation agreements.

On March 23, 2010, the Company granted 458,888 RSUs with a grant date fair value of $15.75 per unit under the 2008 Management Incentive Plan. In connection with this grant, the Company recognized $0.4 million of expense for the six months ended June 30, 2010, related to these RSUs.

Management Co-Investment Plan: On January 22, 2008, members of management were offered the opportunity to purchase shares of the new common stock (up to an aggregate amount of $1.5 million) at the share price of $7.65 per share. With each purchase of two shares of new common stock, an additional share of restricted stock (each an Incentive Share) was issued. The Company recognized $0.07 million in expense related to the Incentive Shares during the six months ended June 30, 2010 with the remaining compensation expense of $0.1 million to be recognized over the remaining vesting period. At March 31, 2010, 2,136 shares of common stock issued under the Management Co-Investment Plan were forfeited by members of management who terminated their employment with the Company prior to meeting the vesting requirements. These shares are held as treasury shares.

Fair Market Value of Interest Rate Swap: On March 28, 2008, the Company entered into a swap agreement to convert $60 million of the Credit Facility variable interest payments to fixed rates. On March 31, 2010, the swap agreement expired resulting in additional accumulated comprehensive income of $0.2 million. See Note 2 for a discussion of the interest rate swaps.

Foreign Currency Translation: Foreign assets and liabilities are translated using the exchange rate in effect at the balance sheet date, and results of operations are translated using an average rate for the period. Translation adjustments are accumulated and reported as a component of accumulated other comprehensive income. The amount of accumulated comprehensive loss related to foreign currency translation was $1.1 million at June 30, 2010.

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GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

NOTE 7 SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow disclosures are as follows (in thousands):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash paid during the period for:				
Interest	$ 1,229	$ 2,004	$ 2,486	$ 4,442
Income taxes	284	621	416	804

NOTE 8 SEGMENT INFORMATION

The Management Approach called for by ASC 280, *Segment Reporting*, is used by Company management to present the segment information which follows. The Company considered the way its management team makes operating decisions and assesses performance and considered which components of its enterprise have discrete financial information available. Management makes decisions using a products and services group focus and its analysis resulted in two operating segments, Products Division and Services Division. The Company evaluates performance based on net income or loss not including certain items as noted below. Intersegment revenues and transactions are conducted and recorded on the same basis as transactions with third-party entities. Interest expense is allocated based on the amount of capital employed for each division. Corporate assets consist primarily of cash and deferred tax assets.

The following tables present information about segment income (in thousands):

	Products Division Three Months Ended June 30,		Services Division Three Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 38,754	$ 57,995	$ 85,906	$ 97,810
Interest expense	564	1,342	555	819
Depreciation and amortization	456	568	556	538
Income tax provision	53	1,004	96	348
Segment income	2,918	7,371	6,032	3,566

	Products Division Six Months Ended June 30,		Services Division Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 73,808	$ 115,420	$ 208,002	$ 166,359
Interest expense	1,667	2,853	1,609	1,977
Depreciation and amortization	960	979	1,092	1,077
Income tax provision	444	1,785	1,334	720
Segment income	4,649	15,970	14,913	6,851
Total Assets	$ 133,603	$ 149,902	$ 107,948	$ 85,282

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GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The following table reconciles segment income to total consolidated net income (in thousands):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net income:				
Total segment income	$ 8,950	$ 10,937	$ 19,562	$ 22,821
Income from discontinued operations	2,105	6,731	3,164	7,349
Reorganization expense	(434)	(235)	(940)	(103)
Consolidated net income	$ 10,621	$ 17,433	$ 21,786	$ 30,067

The following table reconciles segment assets to total consolidated assets (in thousands):

	June 30, 2010	December 31, 2009
Assets:		
Total segment assets	$ 241,551	$ 254,512
Non allocated corporate assets	44,710	74,708
Total consolidated assets	$ 286,261	$ 329,220

Services revenue is predominantly derived in the United States. The following tables present Products revenue by geographical region based on the Company s operating locations. Products are often shipped to other geographical areas but revenues are listed in the region in which the revenue is recognized (in thousands):

	Three Months Ended June 30,			
	2010		2009	
	Revenue Recognized In	Product Shipped To	Revenue Recognized In	Product Shipped To
United States	$ 27,287	$ 13,595	$ 42,776	$ 23,579
Canada		2,865		1,584
Europe	7,441	5,082	9,106	18,932
Mexico	1,899		4,600	
Asia	2,127	9,070	1,513	8,424
Middle East		2,978		2,976
Other		5,164		2,500
Total	$ 38,754	$ 38,754	$ 57,995	$ 57,995

	Six Months Ended June 30,			
	2010		2009	
	Revenue Recognized In	Product Shipped To	Revenue Recognized In	Product Shipped To
United States	$ 49,860	$ 21,285	$ 90,742	$ 44,165
Canada		4,961		2,967
Europe	16,669	8,584	15,195	23,669
Mexico	3,491		7,787	
Asia	3,788	15,132	1,696	13,002
Middle East		13,301		26,308
Other		10,545		5,309
Total	$ 73,808	$ 73,808	$ 115,420	$ 115,420

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GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

NOTE 9 SUBSEQUENT EVENTS

On July 12, 2010, the U.S. Bankruptcy Court approved a settlement of certain claims against the Company and its Deltak subsidiary. As a result of that settlement and the related compromise by the Company of its own claim against the fund that had been established pursuant to the Company s Plan of Reorganization to be distributed to holders of allowed unsecured claims against Deltak, the Company received a cash payment of $2.8 million on July 27, 2010.

On August 5, 2010, the Company completed the registration process with the Securities and Exchange Commission (the SEC) and listed its common stock on the NASDAQ Stock Market LLC. Trading of the Company s common stock on NASDAQ began on August 10, 2010.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
FORWARD-LOOKING STATEMENTS

Statements we make in the following discussion that express a belief, expectation, intention or otherwise are not limited to recounting historical facts are forward-looking statements that are subject to various risks, uncertainties and assumptions. Our actual results, performance or achievements, could differ materially from those we express in the following discussion due to a variety of factors, including the risks and uncertainties we have noted under the heading Forward-Looking Statements, at the beginning of this Quarterly Report on Form 10-Q, and Risk Factors in Item 1A of our Registration Statement on Form 10, filed with the SEC on July 30, 2010.

This discussion and analysis is intended to provide information that will assist in an overall understanding of our financial statements, changes in certain key indicators in those financial statements from period to period, the factors that account for these changes and how certain accounting principles have impacted our financial statements. This discussion and analysis should be read in conjunction with our condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q and our audited December 31, 2009 consolidated financial statements and notes thereto included in our Registration Statement on Form 10, filed with the SEC on July 30, 2010.

Overview:

We are a comprehensive provider of power generation equipment and maintenance services for customers in the domestic and international energy, power infrastructure and service industries. We operate through two business segments, which we refer to as our Products Division and our Services Division.

- Through our Products Division, we design, engineer and manufacture a comprehensive range of auxiliary power and heat recovery equipment primarily used to enhance the efficiency and facilitate the operation of gas turbine power plants as well as for other industrial, energy and power-related applications.

- Through our Services Division, we provide on-site specialty, maintenance and outage management services for commercial nuclear reactors and specialty, maintenance and other industrial services to fossil-fuel and hydroelectric power plants and other industrial operations in the United States. These services include a comprehensive range of industrial maintenance, modification, construction and specialty services.

For information about our segments, see Note 8 to our consolidated financial statements included in this Quarterly Report on Form 10-Q.

In both our segments, our operations are based on discrete projects subject to contract awards of varying scopes and values. Business volume fluctuates due to many factors, including the mix of work and project schedules, which are dependent on the level and timing of customer releases of new business. Significant fluctuations may occur from period to period in revenues, gross profits and operating results and are discussed below.

Products:

Year-to-date operating results for our Products Division reflect lower shipment volumes compared to the prior year periods as a result of the depressed OEM cycle. Gross margins realized in the first half of 2010, although reasonably strong considering the state of the OEM market, were weaker than in the year earlier period. This margin degradation is a result of the competitive environment in which we are currently operating.

Services:

Volumes in our Services Division depend in significant part upon our clients scheduling of refueling outages, which historically has varied from year to year and within each calendar year. As a result the volume of outage work for in any calendar year may vary during the course of the year as projects are commenced and completed. Furthermore, we experienced a high level of capital project work in the first half of 2010 as we performed a significant portion of the required services on a particular capital project during the period. Our year-to-date gross margins were higher than historical gross margins due primarily to the efficient execution of several capital projects completed during the first half of 2010.

Backlog

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

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Backlog is not a measure defined by generally accepted accounting principles, and our methodology for determining backlog may vary from the methodology used by other companies in determining their backlog amounts. We believe that backlog is useful to our investors as an important supplemental measure of operating performance. It is also used by us to formulate internal business targets, anticipate cash generation and capital needs, and inform other operating decisions. Backlog may not be indicative of future operating results and projects in our backlog may be cancelled, modified or otherwise altered by our customers.

The following table shows our backlog, by division, as of the end of each of the last five quarters:

(In thousands)	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010
Products	$ 129,231	$ 122,327	$ 120,760	$ 98,784	$ 98,598
Services	158,680	200,276	194,162	168,936	199,443
Total Backlog	$ 287,911	$ 322,603	$ 314,922	$ 267,720	$ 298,041

The decline in Products backlog from June 30, 2009 to June 30, 2010 is attributable to a decline in bookings (additions to our backlog) during this part of the OEM cycle. Products bookings activity during the second quarter 2010 was approximately equal to revenue recognized from shipments during the period. Management believes a flat quarter over quarter backlog in 2010 suggests a stabilizing OEM market since this is the first quarter in a year that backlog did not experience a quarterly decline for our Products Division.

The build in Services backlog from March 31, 2010 to June 30, 2010 primarily reflects maintenance bookings or contract extensions and is comprised of management s estimate of work scope over the next twelve months related to these contracts. The lumpy backlog activity in the prior periods is primarily attributable to large capital projects booked initially in June 2009, with increasing scope defined by the customer and added to backlog as of September 30, 2009 and December 31, 2009. The decline from December 31, 2009 to March 31, 2010 primarily results from work completed during this period on capital projects booked in 2009, partially offset by smaller incremental bookings under multi-year maintenance contracts.

Results of Operations:

Our summary financial results for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30,		Variance		Six Months Ended June 30,		Variance	
(In thousands)	2010	2009	$	%	2010	2009	$	%
Total revenues	$ 124,660	$ 155,805	$ (31,145)	-20.0%	$ 281,810	$ 281,779	$ 31	0.0%
Cost of revenues	100,513	128,003	(27,490)	-21.5%	232,406	227,747	4,659	2.0%
Gross profit	24,147	27,802	(3,655)	-13.1%	49,404	54,032	(4,628)	-8.6%
Selling and administrative expenses	13,929	13,352	577	4.3%	24,788	23,876	912	3.8%
Interest expense	1,119	2,161	(1,042)	-48.2%	3,276	4,830	(1,554)	-32.2%
Reorganization expense	434	235	199	84.7%	940	103	837	812.6%
Income tax expense	149	1,352	(1,203)	-89.0%	1,778	2,505	(727)	-29.0%
Income from discontinued operations	2,105	6,731	(4,626)	-68.7%	3,164	7,349	(4,185)	-56.9%
Net income	$ 10,621	$ 17,433	$ (6,812)	-39.1%	$ 21,786	$ 30,067	$ (8,281)	-27.5%

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Revenues

	Three Months Ended June 30,		Variance		Six Months Ended June 30,		Variance	
(In thousands)	**2010**	**2009**	**$**	**%**	**2010**	**2009**	**$**	**%**
Products revenue	$ 38,754	$ 57,995	$ (19,241)	-33.2%	$ 73,808	$ 115,420	$ (41,612)	-36.1%
Services revenue	85,906	97,810	(11,904)	-12.2%	208,002	166,359	41,643	25.0%
Total revenues	$ 124,660	$ 155,805	$ (31,145)	-20.0%	$ 281,810	$ 281,779	$ 31	0.0%

Products Revenue.

The composition of our Products revenue varies from period to period based on our product mix, the strength of various geographic markets we serve and our ability to address those markets. The geographic dispersion of where products were shipped for the three and six months ended June 30, 2010 and June 30, 2009 was as follows:

	Three Months Ended June 30,		Variance		Six Months Ended June 30,		Variance	
(In thousands)	**2010**	**2009**	**$**	**%**	**2010**	**2009**	**$**	**%**
United States	$ 13,595	$ 23,579	$ (9,984)	-42.3%	$ 21,285	$ 44,165	$ (22,880)	-51.8%
Canada	2,865	1,584	1,281	80.9%	4,961	2,967	1,994	67.2%
Europe	5,082	18,932	(13,850)	-73.2%	8,584	23,669	(15,085)	-63.7%
Asia	9,070	8,424	646	7.7%	15,132	13,002	2,130	16.4%
Middle East	2,978	2,976	2	0.1%	13,301	26,308	(13,007)	-49.4%
Other	5,164	2,500	2,664	106.6%	10,545	5,309	5,236	98.6%
Total	$ 38,754	$ 57,995	$ (19,241)	-33.2%	$ 73,808	$ 115,420	$ (41,612)	-36.1%

The decline in Products revenue for the three and six months ended June 30, 2010 compared to the same periods in 2009 resulted largely from the reduction in the industrial demand for power and in the availability of project financing, both occurring as a result of the worldwide recession and both contributing to a sharp reduction in shipments of gas-fired turbines by OEMs. The decline was also due in part to downward pricing pressure resulting from decreased demand leading to reduced margins on lower volumes during the downward part of the economic cycle. Year-over-year declines were most significant in the United States, Europe and the Middle East where the reduction in industrial demand was most prevalent.

Services Revenue.

The composition of our Services revenue varies from period to period based on contract mix (lump-sum versus fixed price and capital versus maintenance) and the number and scope of outages for our nuclear maintenance contracts. The decline in the second quarter revenue of 2010 is largely attributable to the timing of client outages scheduled in the current period as compared to 2009 and, to a lesser extent, to the fact that some of the 2009 outage projects were extensive in terms of length of outage and scope of work.

Total Services revenue increased in the first half of 2010 as compared to the same period during 2009 resulting primarily from a new capital project that began in the second half of 2009 and continued into 2010. This capital project continued into the first quarter of 2010 more than offset a reduction in scheduled outages this year as compared to 2009.

Cost of Revenues

(In thousands)	Three Months Ended June 30, 2010	2009	Variance $	%	Six Months Ended June 30, 2010	2009	Variance $	%
Cost of Products revenue	$ 28,517	$ 40,148	$ (11,631)	-29.0%	$ 54,841	$ 80,114	$ (25,273)	-31.5%
Cost of Services revenue	71,996	87,855	(15,859)	-18.1%	177,565	147,633	29,932	20.3%
Total cost of revenues	$ 100,513	$ 128,003	$ (27,490)	-21.5%	$ 232,406	$ 227,747	$ 4,659	2.0%

Cost of Products Revenue.

The cost of Products revenue during the second quarter 2010 declined compared to the corresponding prior period in 2009 due primarily to a decline in revenue. The 29.0% decline in cost of Products revenue for the second quarter 2010 was less than the 33.2% decline in revenues for that quarter, which reflects a more price competitive environment as compared to bookings that generated revenues recognized in the second quarter of 2009.

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The cost of Products revenue declined during the first half of 2010 compared to the corresponding prior period in 2009, due primarily to a decline in revenue, and also reflects margin pressure on fewer project opportunities in this part of the OEM cycle.

Cost of Services Revenue.

The cost of Services revenue during the second quarter 2010 declined compared to the corresponding prior period in 2009. The decrease is primarily attributable to the decrease in Services revenue for the period, partially offset by higher margins realized on capital projects completed during the quarter.

The cost of Services revenue increased for the six months ended June 30, 2010, compared to the corresponding prior period in 2009. The increase is primarily attributable to the increase in Services revenue resulting from heavy capital project work completed during the first quarter of 2010. Cost of Services revenue is typically proportionate to changes in Services revenue since they are comprised almost entirely of variable labor.

Selling and Administrative Expenses

	Three Months Ended June 30,		Variance		Six Months Ended June 30,		Variance	
(In thousands)	**2010**	**2009**	**$**	**%**	**2010**	**2009**	**$**	**%**
Selling and administrative	$ 13,929	$ 13,352	$ 577	4.3%	$ 24,788	$ 23,876	$ 912	3.8%

Selling and administrative expenses include the costs associated with conducting our business: general management, compensation and benefits of employees, officers and directors, legal and professional fees and other general expenses.

The increase in selling and administrative expenses for the three and six months ended June 30, 2010, compared to the same periods in 2009, resulted primarily from increases in professional fees related to our efforts to prepare our Registration Statement on Form 10 and to comply with public reporting requirements. In addition, an increase in personnel costs related to higher non-cash stock compensation expense during 2010 as a result of additional restricted stock grants made in 2010.

Interest Expense

	Three Months Ended June 30,		Variance		Six Months Ended June 30,		Variance	
(In thousands)	**2010**	**2009**	**$**	**%**	**2010**	**2009**	**$**	**%**
Interest expense	$ 1,119	$ 2,161	$ (1,042)	-48.2%	$ 3,276	$ 4,830	$ (1,554)	-32.2%

Interest expense consists of term loan and revolver interest, letter of credit fees and amortization of debt issuance costs offset by interest income earned on cash balances.

Interest expense declined $1.0 million in the three months ended June 30, 2010, compared to the same period in 2009. Term loan interest declined by $1.3 million compared to the second quarter 2009, directly attributable to a $43.2 million reduction in our term loan balance from $67.8 million as of June 30, 2009 to $24.6 million as of June 30, 2010. This decrease was offset by a $0.3 million increase in letters of credit fees, amortization of debt issuance costs and a reduction in interest income for the three months ended June 30, 2010 as compared to the corresponding period in 2009.

The decrease in interest expense during the six months ended June 30, 2010, relative to the same period in 2009 was primarily attributable to a $2.2 million decrease in the interest expense for the long-term debt facility. This decrease was offset by a $0.2 million increase in letters of credit fees and a $0.4 million increase in amortization of debt issuance costs for the six months ended June 30, 2010 as compared to the corresponding period in 2009.

Reorganization Expense

(In thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Variance $	Variance %	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Variance $	Variance %
Reorganization expense	$ 434	$ 235	$ 199	84.7%	$ 940	$ 103	$ 837	812.6%

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

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The increase in reorganization costs for the three and six months ended June 30, 2010, as compared to the same periods in 2009, resulted primarily from higher costs associated with professional fees incurred in increased efforts during 2010 to resolve claims that remained outstanding from our 2008 bankruptcy proceedings.

Income Tax Expense

	Three Months Ended June 30,		Variance		Six Months Ended June 30,		Variance	
(In thousands)	**2010**	**2009**	**$**	**%**	**2010**	**2009**	**$**	**%**
Income tax expense	$ 149	$ 1,352	$ (1,203)	-89.0%	$ 1,778	$ 2,505	$ (727)	-29.0%

Income tax expense for interim periods is based on estimates of the effective tax rate for the entire fiscal year. The effective income tax rate is based upon the estimated income for the year, the estimated composition of the income in different jurisdictions and discrete adjustments, if any, in the applicable quarterly periods for settlements of tax audits or assessments and the resolution or identification of tax position uncertainties.

For the three months ended June 30, 2010, our income tax provision was $0.1 million, or 1.7% of pretax income, compared to $1.3 million, or 11.2% of pretax income, in the same period for 2009. Our income tax provision for the six months ended June 30, 2010 totaled $1.8 million, or 8.7% of pretax income, compared to $2.5 million, or 9.9% of pretax income, for the six months ended June 30, 2009. The effective income tax rates for these periods differ from the federal statutory tax rate mainly due to the effects of operating in foreign jurisdictions with lower statutory tax rates, domestic valuation allowances and our ability to utilize federal and state loss carryforwards generated from prior periods.

Income from Discontinued Operations

	Three Months Ended June 30,		Variance		Six Months Ended June 30,		Variance	
(In thousands)	**2010**	**2009**	**$**	**%**	**2010**	**2009**	**$**	**%**
Income from discontinued operations	$ 2,105	$ 6,731	$ (4,626)	-68.7%	$ 3,164	$ 7,349	$ (4,185)	-56.9%

Income from discontinued operations includes transaction related expenses resulting from the wind down of Deltak s large-scale HRSG product line contracts. Some of the HRSG contracts under completion agreements were in a positive cash position as of the September 28, 2006 Chapter 11 filing date because aggregate collections of billings exceeded aggregated project costs incurred. Our recognition of this excess is deferred until the earnings process is considered completed upon satisfaction of performance milestones set forth in the completion agreements. We recognized the excess of collections of billings over aggregate project costs for these contracts as Deltak meets the performance milestones as specified for avoiding the liquidated damage claims.

Income from discontinued operations decreased in the three and six months ended June 30, 2010 compared to the same periods in 2009. In June 2010, we recognized the balance of the deferred revenue related to completion agreements from Deltak s legacy large-scale HRSG contracts. As milestones contained within the completion agreements were met, deferred revenues were removed from the balance sheet and recognized as income from discontinued operations. These are non-cash events.

Liquidity and Capital Resources

We believe a strong balance sheet is a necessary pre-requisite for creating sustainable growth in stockholder value. Our liquidity position as of June 30, 2010 was strong: we had $66.3 million of cash on our balance sheet and outstanding borrowings of $24.6 million on our $150 million Credit Facility.

Sources and Uses of Cash. Our primary sources of cash are net cash flow from operations and borrowings under our Credit Facility. Our primary uses of cash are principal and interest payments on our indebtedness, capital expenditures, working-capital and general corporate purposes.

Cash and Cash Equivalents. Cash and cash equivalents decreased $36.9 million, or 35.8%, to $66.3 million at June 30, 2010 from $103.2 million at December 31, 2009, primarily a result of using cash generated from operations to pay down term debt. During the same period in 2009, cash and cash equivalents increased $26.0 million, or 45.1%, from $57.6 million to $83.6 million, primarily resulting from cash from operations partially offset by cash used to pay down term debt.

Credit Facility. We have a Credit Facility, which consists of a $90 million term loan facility and a $60 million revolving letter of credit facility with a $25 million cash advance sub-facility. At June 30, 2010, the balance on the term loan facility was $24.6 million, and there were no amounts drawn on the cash advance sub-facility.

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The Credit Facility includes affirmative and negative covenants, including customary limitations on the creation of new indebtedness and liens, restrictions on transactions and payments and financial covenants relating to our consolidated leverage ratio, consolidated fixed charge ratio and liquidity.

If we fail to comply with the restrictions in the Credit Facility, we will be in default and the participating banks may restrict our ability to borrow additional funds under the Credit Facility, may require that we immediately repay all outstanding loans with interest and may require the cash collateralization of outstanding letter of credit obligations. We have given a first priority lien on substantially all of our assets as security for the Credit Facility. The Credit Facility is due and payable on January 22, 2014 and has mandatory amortization payments of approximately $1.3 million per quarter and a sweep of 25% to 75% of excess cash flow, as defined in the Credit Facility. At June 30, 2010, and December 31, 2009, we were in compliance with all financial and other covenants under the Credit Facility.

Changes in Cash and Cash Equivalents for the six months ended June 30, 2010 and 2009 are as follows:

(In thousands)	**Six Months Ended June 30, 2010**	**2009**
	(Unaudited)	
Operating		
Statement of cash flow data:		
Cash flows provided by (used in):		
Operating activities	$ 7,774	$ 43,756
Investing activities	107	(1,074)
Financing activities	(40,996)	(17,240)
Effect of exchange rate changes on cash	(3,822)	565
Change in cash and cash equivalents	$ (36,937)	$ 26,007

Operating Activities

We believe that cash generated from our operations and available to us under our Credit Facility will be adequate to meet our working capital requirements for the foreseeable future.

During the six months ended June 30, 2010, cash provided by our operating activities was $7.8 million. The principal sources of cash from operating activities were:

net income of $21.8 million, adjusted for non-cash charges of $3.1 million in depreciation and amortization, $1.0 million in stock based compensation, partially offset by $3.0 million in deferred revenue recognized on completion agreements.

a $14.8 million decrease related to changes in our working capital accounts (discussed below) due to the timing of cash receipts and payments in these accounts which is indicative of our investment in current projects in process at June 30, 2010.

a $0.3 million decrease in cash resulting from a decrease in liabilities subject to compromise.

During the six months ended June 30, 2009, cash provided by our operating activities was $43.8 million. The principal sources of cash from operating activities were:

net income of $30.1 million, adjusted for non-cash charges of $2.7 million in depreciation and amortization and $0.9 million in stock based compensation, partially offset by $6.1 million in deferred revenue recognized on completion agreements.

a $16.2 million increase related to changes in our working capital accounts (discussed below) resulting from higher shipments than the amount needed for reinvestment in operations due to declining bookings in the depressed OEM market.

The $36.0 million decrease in cash provided from operating activities for the first six months of 2010 as compared to the prior year period resulted from lower volumes which affected working capital accounts, and lower net income.

With respect to our working capital accounts, we continually monitor our accounts receivable, and manage the operating cash flows of the Company by managing the working capital accounts in total, rather than by the individual elements. The primary elements of the Company s working capital accounts are accounts receivable, costs in excess of billings, other assets, accounts payable, billings in excess of cost and other accrued liabilities. Accounts receivable consist of billings to our clients a substantial portion of which is for project-related costs. Costs in excess of billings consist of costs incurred on projects that have not been billed to our clients. Accounts payable consists of obligations to third parties relating primarily to costs incurred for projects which are generally billable to clients. Billings in excess of cost consist of billings to and payments from our clients for costs yet to be incurred. This comprehensive view of working capital, taking into account each of the six primary elements listed is both common and useful in our project-based industry, as it facilitates reviews of cash flow information at the total working capital level.

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Investing Activities

Cash provided by investing activities for the six months ended June 30, 2010 was $0.1 million, made up primarily of decreases in restricted cash offset by purchases of fixed assets. Cash used in investing activities for the six months ended June 30, 2009 was $1.1 million resulting from cash used to purchase fixed assets.

Financing Activities

Cash used in financing activities for the six months ended June 30, 2010 was $41.0 million, resulting from principal payments made on our Credit Facility which includes: $35.7 million payments made pursuant to the excess cash flow provision calculated as of December 31, 2009 and a $5 million pre-payment of the 2010 quarterly amortization payments partially offset by $0.3 million in debt issuance costs incurred. Cash used in financing activities for the six months ended June 30, 2009 was $17.2 million, resulting from principal payments made on our Credit Facility which includes $14.7 million payments made pursuant to the excess cash flow provision calculated as of December 31, 2008 and $2.5 million payments of the 2009 quarterly amortization payments.

Off-Balance Sheet Transactions

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

Critical Accounting Policies

Our condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical can be found in our Registration Statement on Form 10, filed with the SEC on July 30, 2010, in the notes to the condensed consolidated financial statements and the Critical Accounting Policies and Estimates section of Management s Discussion and Analysis of Financial Condition and Results of Operations.

Contractual Obligations

There have been no material changes to the table of contractual obligations presented in our Registration Statement on Form 10, filed with the SEC on July 30, 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. Our primary market risk exposure is volatility of interest rates, primarily in the United States. We manage interest rates through the use of a combination of fixed and floating rate debt and interest rate swap agreements. We are subject to interest rate changes on our LIBOR-based variable interest $150 million Credit Facility. As of June 30, 2010 and December 31, 2009, respectively, we had $24.6 million and $65.3 million of outstanding borrowings on our Credit Facility. To hedge against some of our variable interest rate exposure, on March 31, 2008, we entered into an interest rate swap agreement to convert $60 million of the Credit Facility from a variable rate of interest to a fixed rate of 2.97% per annum. That hedge agreement terminated in March 2010.

Interest rate sensitivity Based on our level of variable rate debt at June 30, 2010, a 50 basis point fluctuation in short-term interest rates would have an approximate $0.2 million impact on our expected pre-tax income on an annual basis. At December 31, 2009, a similar fluctuation would have an approximate $0.2 million impact on our expected pre-tax income.

Foreign Currency Exchange Rate Risk. We have foreign currency exposures related to buying and selling in currencies other than the U.S. dollar. To manage these risks, we enter into foreign currency forward agreements. At June 30, 2010 and at December 31, 2009, our most significant foreign currency exposures involved the Euro and the South Korean Won. Based on currency forward contracts in place at each of these dates, a 10% strengthening or weakening in the Euro from year-end exchange rates would decrease or increase our pretax income by approximately $0.03 million at June 30, 2010 and $0.5 million at December 31, 2009 and a similar change in the South Korean Won would decrease or increase our pretax income by approximately $0.1 million at June 30, 2010 and $0.3 million at December 31 2009.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of disclosure controls and procedures in Rule 13a-15(e) under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2010. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that the information required to be disclosed in the Company s periodic reports is recorded, processed, summarized and reported as and when required.

Changes in Internal Control over Financial Reporting

We are not yet required to comply with the internal control reporting requirements mandated by Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404) due to a transition period established by rules of the SEC for newly public companies. We will be required to comply with the internal control over financial reporting requirements for the first time, and will be required to provide a management report on the effectiveness of our internal control over financial reporting and an attestation report on the effectiveness of our internal control over financial reporting from our independent registered public accounting firm, in connection with our Annual Report on Form 10-K for the year ending December 31, 2011. Although we are not yet required to comply with these requirements, we are preparing for future compliance by assessing and strengthening our system of internal control. We are in the process of performing the information system and process documentation, and evaluation and testing required for management to make this assessment and for our independent registered public accounting firm to provide their attestation report. In the course of evaluation and testing, management may identify deficiencies that will be addressed and remediated.

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Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved from time to time in legal actions that arise in the ordinary course of our business. We do not believe that the resolution of the currently pending actions, either individually or in the aggregate, will have a material adverse effect on our financial position or results of operations. However, the outcomes of any legal actions cannot be predicted, and therefore, there can be no assurance that this will be the case.

Deltak Fund for Unsecured Claims in Bankruptcy. On September 28, 2006, we and all of our U.S. subsidiaries, including Deltak, filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. Pursuant to an approved Plan of Reorganization, an administrator was appointed to administer a fund of approximately $34 million in cash that was intended to be distributed to the holders of allowed unsecured claims against Deltak. Under the Plan of Reorganization, the administrator has the right and duty to administer the fund and to make, file and settle or otherwise resolve objections to unsecured claims against Deltak.

Since January 22, 2008, the administrator has adjudicated and/or settled various unsecured claims and engaged in efforts to resolve the remaining disputed claims. As of July 13, 2010, approximately $12.3 million of cash remains in the fund subject to the control of the administrator.

Certain disputed unsecured claims remain unresolved. The administrator continues to contest and otherwise seek to resolve these and all other remaining disputed claims.

Asbestos Cases. We have been named as a defendant in a limited number of asbestos personal injury lawsuits. Neither we nor our predecessors ever mined, manufactured, produced or distributed asbestos fiber, the material that allegedly caused the injury underlying these actions. The bankruptcy court s discharge order issued when we emerged from bankruptcy extinguished the claims made by all plaintiffs who had filed asbestos claims against the Company before that time. We also believe the bankruptcy court s discharge order should serve as a bar against any later claim filed against us or any of our subsidiaries based on alleged injury from asbestos at any time before we emerged from bankruptcy. In any event, to date, we have been successful in having the asbestos cases that were filed against us post-bankruptcy dismissed without liability. We intend to vigorously defend all currently active actions, just as we defended the other actions that have since been dismissed, all without liability, and we do not anticipate that any of these actions will have a material adverse effect on our financial position, results of operations or liquidity. However, the outcomes of any legal actions cannot be predicted, and therefore, there can be no assurance that this will be the case.

Item 1A. Risk Factors.

There were no material changes to our risk factors from those reported in our Registration Statement on Form 10 as filed with the SEC on July 30, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Reverse Stock Split

On June 30, 2010, we filed an amendment to our Second Amended and Restated Certificate of Incorporation to implement a 1-for-9 reverse stock split of all outstanding shares of our common stock. The reverse stock split had been authorized by our stockholders at our Annual Meeting of Stockholders held on April 22, 2010, and was implemented by our Board of Directors in accordance with that authority. Upon the implementation of the reverse stock split, all of our common stock outstanding on June 30, 2010 was converted, automatically and without action by any holder of those shares, into one ninth of the number of those shares outstanding immediately before the reverse stock split (adjusted to avoid fractional shares). We effected the reverse stock split to enable us to list the shares of our common stock on the NASDAQ Stock Market LLC. Effecting the reverse stock split combined the previously issued and outstanding shares of our common stock into a smaller number of new shares with the result that the new shares trade at a higher price per share than pre-reverse stock split prices. The reverse stock split reduced the number of shares of our common stock reserved for issuance under our equity compensation plans and under outstanding warrants. It did not, however, change the number of shares of common stock that is authorized under our Certificate of Incorporation. Nor did it change the per share par value of our shares or the proportionate equity interests of our stockholders or the proportionate potential equity interests of holders of restricted stock units. All of the share and per share numbers in this Quarterly Report on

Form 10-Q reflect the effect of the reverse stock split.

Sales of Unregistered Securities During the Quarter

None.

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Item 5. Other Information.

In accordance with rules prescribed by the SEC, a proposal of or nomination by a stockholder intended to be presented at our 2011 annual meeting of stockholders must be received at our principal executive offices no later than November 16, 2010, if the proposal or nomination is to be considered for inclusion in our proxy statement and proxy card for that meeting.

Under our By-Laws, a stockholder may present a proposal or make a nomination for consideration at our 2011 annual meeting of stockholders (but may not have that proposal or nomination included in our proxy statement for that meeting) by delivering a written notice to the Secretary of Global Power Equipment Group Inc. at our principal executive offices between December 23, 2010 and January 22, 2011. For a stockholder s proposal or nomination to be properly requested or made for purposes of any annual meeting of stockholders, the stockholder must comply with all of the requirements of our By-Laws, not just the timeliness requirements described above.

Item 6. Exhibits.

Exhibit	Description
10.1	Section 409A Amendment to Restricted Stock Unit Award Agreements dated July 27, 2010. *
10.2	Form of 2010 Restricted Stock Unit Award Agreement. *
10.3	Amendment No. 4 to the Credit Agreement, effective as of June 25, 2010 (filed as Exhibit 10.23 to the Company s Amendment No. 2 to Form 10 filed with the Commission on July 20, 2010 and incorporated herein by reference).
31.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Indicates a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GLOBAL POWER EQUIPMENT GROUP INC.

Date: September 13, 2010	By:	/s/ DAVID L. KELLER **David L. Keller,** **President and Chief Executive Officer**
Date: September 13, 2010	By:	/s/ DAVID L. WILLIS **David L. Willis,** **Senior Vice President and Chief Financial Officer**