GSE SYSTEMS INC
Form S-3
November 20, 2007

As filed with the Securities and Exchange Commission on November __, 2007 Registration No. 333-

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

GSE SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

52-1868008
(I.R.S. Employer Identification Number)

7133 Rutherford Road, Suite 200
Baltimore, MD 21244
(410) 277-3740
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

John V. Moran
Chief Executive Officer
GSE Systems, Inc.
7133 Rutherford Road, Suite 200
Baltimore, MD 21244
Tel: (410) 277-3740
Fax: (410) 277-5287
(Name and address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

James R. Hagerty, Esq.
888 17th Street, N.W., Suite 1000
Washington, DC 20006
Tel: (202) 223-5600
Fax: (202) 223-6625

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ( )

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. (x)

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ( )

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ( )

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the commission pursuant Rule 462(e) under the Securities Act, check the following box: ( )

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box: ( )

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum offering price (2)	Amount of registration fee
Common stock, par value $0.01 per share, issuable upon exercise of option	50,000	$9.51	$475,500	$14.60

(1) Consists of (i) 25,000 shares of our Common Stock issuable upon exercise of an option granted to George J. Pedersen, a member of the Company's Board of Directors, on April 6, 1998 and (ii) 25,000 shares of our Common Stock issuable upon exercise of an option granted to Jerome I. Feldman, Chairman of the Company's Board of Directors, on April 6, 1998.

(2) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) of Regulation C under the Securities Act, on the basis of $9.51 per share, the average of the high and low prices for the Common Stock on November 15, 2007 as reported on the American Stock Exchange.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this Prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER , 2007

PROSPECTUS

GSE SYSTEMS, INC.

Shares of Common Stock Issuable upon Exercise of Options

This prospectus relates to the disposition by the selling stockholders of up to 50,000 shares of our Common Stock issuable upon the exercise of options issued for the account of the stockholders named in this prospectus.

Our Common Stock is listed on the American Stock Exchange ("AMEX") under the symbol "GVP". For a more detailed description of our securities, see "Description of Our Share Capital" section of this prospectus. On November 16, 2007, the closing sale price of the Common Stock on AMEX was $9.55.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities. Changes may occur after the date of this Prospectus and GSE Systems will not update the information contained herein except in the normal course of its public disclosures.

The selling stockholders may sell the shares of Common Stock described in this prospectus in a number of different ways and at varying prices. We provide more information about how the selling stockholders may sell their shares of Common Stock in the section entitled "Plan of Distribution".

We will not be paying any underwriting discounts or commissions in this offering.

We will not receive any proceeds from the resale of shares of Common Stock by the selling stockholders. We will pay the expenses of this offering.

The Company has not granted registration rights, or otherwise granted these selling stockholders any right to demand that the Company file a registration statement with the Commission, with respect to the shares issuable upon the exercise of options.

Investing in our securities involves a significant degree of risk. You should carefully read this prospectus and consider the matters described in "Risk Factors" beginning on page 2 before you decide to invest in these securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _______________ , 2007.

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You should rely only on the information contained or incorporated by reference in this prospectus. The selling security holders are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date of this document, or that any information we have incorporated by reference in this prospectus is accurate as of any date other than the date of the document incorporated by reference regardless of the time of delivery of this prospectus. Our business, financial condition, results of operations and prospects may have changed since those dates.

Unless the context otherwise indicates, references in this prospectus to the terms “GSE”, “the Company”, “GSE Systems”, “we”, “our” and “us” refer to GSE Systems, Inc. and its subsidiaries.

PROSPECTUS SUMMARY

This section contains a general summary of the information contained in this prospectus and highlights selected information described in greater detail elsewhere or incorporated by reference in this prospectus. You should carefully read this entire prospectus, including the matters described in "Risk Factors" beginning on page 2, and the documents incorporated by reference in this prospectus to fully understand it and our business, results of operations and financial condition before making an investment decision. The information in this prospectus is not complete and may be changed. The selling stockholders named in this prospectus may not sell these securities until the registration statement filed with the Securities and Exchange Commission becomes effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy and accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The Company

GSE Systems, Inc. (the "Company", "GSE" or "GSE Systems" or "we" or "us") is incorporated under the laws of the State Delaware and is a leader in real-time, high fidelity simulation. The Company provides simulation solutions and services to the nuclear and fossil electric utility industry and the chemical and petrochemical industries. In addition, the Company provides plant monitoring and signal analysis monitoring and optimization software primarily to the power industry. GSE Systems, Inc.'s executive offices are located at 7133 Rutherford Road, Suite 200, Baltimore, Maryland 21244. The Company's telephone number is (410) 277-3740 and its facsimile number is (410) 277-5287. Our common stock trades on the American Stock Exchange under the symbol "GVP". GSE maintains a Web site at http://www.gses.com. Except for any documents that are incorporated by reference into this prospectus that may be accessed from our website, the information available on or through our website is not part of this prospectus.

Recent Developments

On April 6, 1998, our Board of Directors ("the Board") approved grants of non-statutory options ("the "Options") to purchase 25,000 shares of our Common Stock ("Shares") to each of Jerome I. Feldman (Chairman of the Board) and George J. Pedersen (Director) outside of our 1995 Long-Term Incentive Plan. In July 1998, each of the Option holders executed exercise waivers for 12,500 of the 25,000 Shares issuable upon exercise granted pursuant to their respective Options, giving up their respective rights to exercise their respective Options in full unless the Company received stockholder approval for these Options. At our annual meeting of stockholders held on June 28, 2007, the Options were approved by a vote of the stockholders. The individual option agreements do not include registration rights ("Rights") and we have not entered into any Rights agreements with either Mr. Feldman or Mr. Pedersen. The exercise price for the Options is $2.25 per share. See the section captioned "Description of the Non-statutory Option Grants".

This prospectus relates to the sale by the selling stockholders of up to 50,000 shares of our common stock (the "Common Stock") issuable for the account of the stockholders named in this prospectus. The selling stockholders may sell the Common Stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. We will pay the expense of registering these shares.

The Offering

Securities that may be sold by the selling stockholders:	Up to 50,000 shares of Common Stock currently issuable upon the exercise of Options by the selling stockholders. All of the Shares offered by this prospectus are being sold by the selling stockholders. See "Selling Stockholders".

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Common stock outstanding as of November 15, 2007:	15,121,879
Use of proceeds:	We will not receive any proceeds from the sale of shares of Common Stock offered by this prospectus which will be sold for the account of the selling stockholders. See “Use of Proceeds”.
AMEX symbol:	GVP

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below may not be the only ones we will face. Additional risks and uncertainties not presently known to us or that we currently deem not material may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

The Company's expense levels are based upon its expectations as to future revenues, so it may be unable to adjust spending to compensate for a revenue shortfall. Accordingly, any revenue shortfall would likely have a disproportionate effect on the Company's operating results.

The Company’s revenue was $27.5 million, $22.0 million, and $29.5 million for the years ended December 31, 2006, 2005, and 2004, respectively. The Company’s operating income (loss) was $2.1 million, ($4.7 million), and $2,000 in 2006, 2005, and 2004, respectively. The Company's operating results have fluctuated in the past and may fluctuate significantly in the future as a result of a variety of factors, including purchasing patterns, timing of new products and enhancements by the Company and its competitors, and fluctuating foreign economic conditions. Since the Company's expense levels are based in part on its expectations as to future revenues and includes certain fixed costs, the Company may be unable to adjust spending in a timely manner to compensate for any revenue shortfall and such revenue shortfalls would likely have a disproportionate adverse effect on operating results.

A substantial portion of the Company's revenue is from the sales of products and provision of services to end users outside the U.S. Thus the Company may be subject to certain risks related to international sales and operations.

Sales of products and the provision of services to end users outside the United States accounted for approximately 69% of the Company’s consolidated revenue for the nine months ended September 30, 2007, 74% of the Company's consolidated revenue in 2006, 63% of the Company’s consolidated revenue in 2005, and 65% of consolidated revenue in 2004. The Company anticipates that international sales and services will continue to account for a significant portion of its revenue in the foreseeable future. As a result, the Company may be subject to certain risks, including risks associated with the application and imposition of protective legislation and regulations relating to import or export (including export of high technology products) or otherwise resulting from trade or foreign policy and risks associated with exchange rate fluctuations. Additional risks include potentially adverse tax consequences, tariffs, quotas and other barriers, potential difficulties involving the Company's strategic alliances and managing foreign sales agents or representatives and potential difficulties in accounts receivable collection. The Company currently sells products and provides services to customers in emerging market economies such as the United Arab Emirates, (34% of the Company’s consolidated revenue for the nine months ended September 30, 2007 and 60% in 2006, but none in 2005 and 2004) and Russia (10% of the Company’s consolidated revenue for the nine months ended September 30, 2007, and 12%, 0% and 5% of the Company’s consolidated revenue in 2006, 2005 and 2004, respectively). Although end users in the Ukraine accounted for 5% of the Company’s consolidated revenue for the nine months ended

September 30, 2007 and 8%, 18%, and 21% of the Company’s consolidated revenue in 2006, 2005, and 2004, respectively, GSE’s customer for these projects was Battelle’s Pacific Northwest National Laboratory, which is the purchasing agent for the U.S. Department of Energy (“DOE”). The DOE provides funding for various projects in Eastern and Central Europe. Accordingly, the Company is not subject to the political and financial risks that are normally faced when doing business in the Ukraine. The Company has taken steps designed to reduce the additional risks associated with doing business in these countries, but the Company believes that such risks may still exist and include, among others, general political and economic instability, lack of currency convertibility, as well as uncertainty with respect to the efficacy of applicable legal systems. There can be no assurance that these and other factors will not have a material adverse effect on the Company's business, financial condition or results of operations.

For the nine months ended September 30, 2007, two customers provided a substantial portion of the Company’s revenue. There is no guarantee that the Company will be able to generate the same level of revenue from these customers in future periods, nor that the Company could replace these revenues from other customers, thus causing a material adverse effect upon the Company's future revenue and results of operations.

For the nine months ended September 30, 2007, the Emirates Simulation Academy LLC (ESA) provided 34% of the Company’s consolidated revenue (21% in 2006, but none in 2005 and 2004) and the Federal State-Owned Enterprise Rosenergoatom (Russia) provided 18% of the Company’s consolidated revenue for the nine months ended September 30, 2007 (12%, 0% and 5% in 2006, 2005 and 2004, respectively). In January 2006, the Company received a $15.1 million contract from ESA to supply five simulators and an integrated training program. At September 30, 2007, the backlog remaining on this project was approximately $1.3 million. The project is expected to be completed by December 2007. The Company may not generate comparable revenue from these customers in future periods and may not be able to replace this revenue from other customers, thus materially and adversely affecting the Company’s revenue and results of operations.

The Company's business is substantially dependent on sales to the nuclear power industry. Any disruption in this industry would have a material adverse effect upon the Company's revenue.

For the nine months ended September 30, 2007, 43% of GSE’s revenue was from customers in the nuclear power industry (60% in 2006, 83% in 2005 and 85% in 2004). The Company will continue to derive a significant portion of its revenue from customers in the nuclear power industry for the foreseeable future. The Company's ability to supply nuclear power plant simulators and related products and services is dependent on the continued operation of nuclear power plants and, to a lesser extent, on the construction of new nuclear power plants. A wide range of factors affect the continued operation and construction of nuclear power plants, including the political and regulatory environment, the availability and cost of alternative means of power generation, the occurrence of future nuclear incidents, and general economic conditions.

The Company's line of credit agreement with Laurus Master Fund Ltd. imposes significant operating and financial restrictions, which may prevent it from capitalizing on business opportunities.

GSE’s line of credit agreement with Laurus Master Fund Ltd. (as further described in the Company’s Form 8-K filed with the Commission on March 8, 2006 and incorporated by reference herein) imposes significant operating and financial restrictions. These restrictions affect, and in certain cases limit, among other things, the Company’s ability to:

- incur additional indebtedness and liens;
- make capital expenditures;

- make investments and acquisitions; and

- consolidate, merge or sell all or substantially all of its assets.

There can be no assurance that these restrictions will not adversely affect the Company's ability to finance its future operations or capital needs or to engage in other business activities that may be in the interest of shareholders.

The Laurus line of credit agreement expires on March 6, 2008. The Company is currently in discussions with several banks regarding a new credit facility to replace the Laurus line of credit upon its expiration.

The Company is dependent on product innovation and development, which costs are incurred prior to revenues for new products and improvements.

The Company believes that its success will depend in large part on its ability to maintain and enhance its current product line, develop new products, maintain technological competitiveness and meet an expanding range of customer needs. The Company's product development activities are aimed at the development and expansion of its library of software modeling tools, the improvement of its display systems and workstation technologies, and the advancement and upgrading of its simulation technology. The life cycles for software modeling tools, graphical user interfaces, and simulation technology are variable and largely determined by competitive pressures. Consequently, the Company will need to continue to make significant investments in research and development to enhance and expand its capabilities in these areas and to maintain its competitive advantage.

The Company relies upon its intellectual property rights for the success of its business; however, the steps it has taken to protect its intellectual property may be inadequate.

Although the Company believes that factors such as the technological and creative skills of its personnel, new product developments, frequent product enhancements and reliable product maintenance are important to establishing and maintaining a technological leadership position, the Company's business depends, in part, on its intellectual property rights in its proprietary technology and information. The Company relies upon a combination of trade secret, copyright, patent and trademark law, contractual arrangements and technical means to protect its intellectual property rights. The Company enters into confidentiality agreements with its employees, consultants, joint venture and alliance partners, customers and other third parties that are granted access to its proprietary information, and limits access to and distribution of its proprietary information. There can be no assurance, however, that the Company has protected or will be able to protect its proprietary technology and information adequately, that the unauthorized disclosure or use of the Company's proprietary information will be prevented, that others have not or will not develop similar technology or information independently, or, to the extent the Company owns patents, that others have not or will not be able to design around those patents. Furthermore, the laws of certain countries in which the Company's products are sold do not protect the Company's products and intellectual property rights to the same extent as the laws of the United States.

The industries in which GSE operates are highly competitive. This competition may prevent the Company from raising prices at the same pace as its costs increase.

The Company's businesses operate in highly competitive environments with both domestic and foreign competitors, many of whom have substantially greater financial, marketing and other resources than the Company. The principal factors affecting competition include price, technological proficiency, ease of system configuration, product reliability, applications expertise, engineering support, local presence and financial stability. The Company believes that competition in the simulation fields may further intensify in the future as a result of advances in technology, consolidations and/or strategic alliances among competitors, increased costs required to develop new technology and the increasing importance of software content in systems and products. As the Company's business has a significant international component, changes in the value of the dollar could adversely affect the Company's ability to compete internationally.

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GSE may pursue new acquisitions and joint ventures, and any of these transactions could adversely affect its operating results or result in increased costs or other related issues.

The Company intends to pursue new acquisitions and joint ventures, a pursuit which could consume substantial time and resources. Identifying appropriate acquisition candidates and negotiating and consummating acquisitions can be a lengthy and costly process. The Company may also encounter substantial unanticipated costs or other related issues such as compliance with new regulations and regulatory schemes, additional oversight, elimination of redundancy, and increased employee benefits costs associated with the acquired businesses. The risks inherent in this strategy could have an adverse impact on the Company’s results of operation or financial position

The nuclear power industry, the Company's largest customer group, is associated with a number of hazards which could create significant liabilities for the Company.

The Company's business could expose it to third party claims with respect to product, environmental and other similar liabilities. Although the Company has sought to protect itself from these potential liabilities through a variety of legal and contractual provisions as well as through liability insurance, the effectiveness of such protections has not been fully tested. Certain of the Company's products and services are used by the nuclear power industry primarily in operator training. Although the Company's contracts for such products and services typically contain provisions designed to protect the Company from potential liabilities associated with such use, there can be no assurance that the Company would not be materially adversely affected by claims or actions which may potentially arise.

The Company, as a 10% owner of ESA, has provided a partial guarantee totaling $1.2 million for the credit facility that Union National Bank has extended to ESA. ESA is a start-up entity; if it is unable to generate sufficient cash flow from operations and defaults on its credit facility, GSE may have to provide up to $1.2 million to Union National Bank to cover ESA’s obligations.

In May 2007, the Company deposited $1.2 million into a restricted, interest-bearing account at Union National Bank (“UNB”) in the United Arab Emirates as a partial guarantee for the $11.8 million credit facility that UNB has extended to ESA. The guarantee will be in place until the expiration of the ESA credit facility on December 31, 2014 or earlier if ESA pays down and terminates the facility. Both of the other two owners of ESA, Al Qudra Holding PJSC and the Centre of Excellence for Applied Research and Training, both located in the United Arab Emirates, have each provided to UNB a bank guarantee for 100% of the $11.8 million ESA credit facility. In the event that ESA should default upon their UNB loan, UNB can utilize all or a portion of the guarantees that the three owners have provided to cover ESA’s outstanding borrowings against the credit facility and accrued interest payable. Thus, if such a default were to occur, GSE may incur a loss of up to $1.2 million.

In January 2006, the Company received a $15.1 million contract from ESA to supply five simulators and an integrated training program. Under the terms of the contract, the Company provided a $2.1 million performance bond to ESA that will remain outstanding until the end of the warranty period on December 31, 2008.

The Company has provided a cash-collateralized standby letter of credit to ESA which can be drawn upon by ESA in the event the Company fails to cure a material breach of the contract within 30 days of receiving written notice from ESA regarding the nature of the breach. Although the contract is expected to be complete by the end of December 2007 and no such material breach is expected, if ESA were to draw upon the standby letter of credit, GSE would incur a loss of up to $2.1 million.

The Common Stock issuable upon exercise of the Options may be diluted.

The number of shares of our Common Stock issuable upon exercise of the Options is subject to adjustment only for stock splits and combinations, stock dividends and specified other transactions. The number of shares of our Common Stock issuable upon exercise of the Options is not subject to adjustment for other events, such as employee stock option grants, offerings of our common stock, or in connection with acquisitions or other transactions which may adversely affect the price of our Common Stock. The terms of the Options do not restrict our ability to offer Common Stock in the future or to engage in other transactions that could dilute our Common Stock. We have no particular obligation to consider the interests of the holders of our Common Stock in engaging in any such offering or transaction.

Our Common Stock will rank behind our current debt obligations.

Until such time as our current debt obligations are satisfied, our Common Stock will rank junior to our outstanding debt obligations as to distribution of assets upon dissolution, liquidation or winding up of the Company.

You should consider the tax considerations relating to investing in the Common Stock.

Investors in this offering may face adverse federal, state and local tax consequences by virtue of their purchase, ownership and holdings of Common Stock. Prospective investors should consult their own tax advisors regarding these and other possible tax consequences to them of an investment in this offering.

Our stock price may be volatile and could experience substantial declines.

The market price of our common stock has experienced historical volatility and might continue to experience volatility in the future in response to quarter-to-quarter variations in operating results, changes in backlog and new business results, the issuance of analysts' reports, market conditions in the industry, changes in governmental regulations, and changes in general conditions in the economy or the financial markets.

The general equity markets have also experienced significant fluctuations in value. This volatility and the market variability has affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock.

We only have a limited number of shares of Common Stock available for sale, which could affect our ability to raise additional equity capital.

As a result of the issuance of the shares in our June 22, 2007 private placement (including the shares we are required to reserve for issuance upon exercise of the warrants we issued or may be required to issue) we have only 216,148 additional authorized shares of Common Stock that are not issued or otherwise reserved for issuance. As a result, our ability to raise additional equity capital in the short term will be limited. To increase the number of authorized shares of our Common Stock, we will be required to obtain stockholder approval and we cannot assure you that that such approval can be obtained.

The Company is holding a special shareholders meeting on December 13, 2007. The shareholders are being asked to approve a proposal to increase the authorized shares of GSE Common Stock from 18,000,000 shares to 30,000,000 shares. There is no assurance that the shareholders will approve this proposal.

The Company has limited cash resources. If the Company is unable to generate adequate cash flow from operations, it will need additional capital to fund its operations.

At September 30, 2007, we had cash and cash equivalents totaling $6.8 million and our available borrowing base under our line of credit with Laurus Master Fund, Ltd. was $2.0 million, none of which had been utilized. We anticipate our normal operations and the utilization of our current credit facility will generate all of the funds necessary to fund our consolidated operations during the next twelve months. We believe that we will have sufficient liquidity and working capital without additional financing. However, notwithstanding the foregoing, the Company may be required to look for additional capital to fund its operations if the Company is unable to operate profitably and generate sufficient cash from operations. There can be no assurance that the Company would be successful in raising such additional funds.

Investors should not anticipate receiving cash dividends on our Common Stock.

We have not paid any dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. We intend to retain any earnings to finance the growth of our business and we may never pay cash dividends. In addition, under the terms of our line of credit agreement with Laurus Master Fund Ltd., we are prohibited from paying any dividends on our common stock.

FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein contain "forward-looking" statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that are based on management's assumptions, expectations and projections about us, and the industry within which we operate, that have been made pursuant to the Private Securities Litigation Reform Act of 1995 which reflect our expectations regarding our future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "anticipate," "believe," "continue," "estimate", "intend", "may," "plan", "potential", "predict", "expect", "should", ' expressions, or the negative of these terms or other comparable terminology, have been used to identify these forward-looking statements. These forward-looking statements may also use different phrases. These statements regarding our expectations reflect our current beliefs and are based on information currently available to us. Accordingly, these statements by their nature are subject to risks and uncertainties, including those listed under "Risk Factors," which could cause our actual growth, results, performance and business prospects and opportunities to differ from those expressed in, or implied by, these statements. Discussions containing these forward-looking statements may be found, among other places, in "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" incorporated by reference from our most recent annual report on Form 10-K and in our most recent quarterly report on Form 10-Q subsequent to the filing of our most recent annual report on Form 10-K with the SEC, as well as any amendments thereto reflected in subsequent filings with the SEC. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. Except as otherwise required by federal securities law, we are not obligated to update or revise these forward-looking statements to reflect new events or circumstances. We caution you that a variety of factors, including but not limited to the factors described under the heading "Risk Factors" and the following, could cause our business conditions and results to differ materially from what is contained in forward looking statements:

¨ changes in the rate of economic growth in the United States and other major international economies;

¨ changes in investment by the nuclear and fossil electric utility industry, the chemical and petrochemical industries and the U.S. military-industrial complex;

¨ changes in the financial condition of our customers;

¨ changes in regulatory environment;

¨ changes in project design or schedules;

¨ contract cancellations;

¨ changes in our estimates of costs to complete projects;

¨ changes in trade, monetary and fiscal policies worldwide;

¨ currency fluctuations;

¨ war and/or terrorist attacks on facilities either owned or where equipment or services are or may be provided;

¨ outcomes of future litigation;

¨ protection and validity of our patents and other intellectual property rights;

¨ increasing competition by foreign and domestic companies;

¨ compliance with our debt covenants;

¨ recoverability of claims against our customers and others;

¨ the possible need to invest in future joint ventures;

¨ changes in estimates used in our critical accounting policies; and

¨ the other risks identified in this registration statement, or the documents incorporated by reference herein, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.

Other factors and assumptions not identified above were also involved in the formation of these forward looking statements and the failure of such other assumptions to be realized, as well as other factors, may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described above in connection with any forward looking statements that may be made by us. You should not place undue reliance on any forward-looking statements. New factors emerge from time to time, and it is not possible for us to predict which factors will arise.

We undertake no obligation to publicly update any forward looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in proxy statements, quarterly reports on Form 10-Q, annual reports on Form 10-K and current reports on Form 8-K filed with the SEC.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the resale shares by the selling stockholders. All proceeds from the resale of shares will be for the accounts of the selling stockholders named in this prospectus, any supplement to this prospectus or in any amendment to the registration statement of which this prospectus forms a part.

The selling stockholders will pay any underwriting discounts and commissions and expenses incurred by the selling stockholders for brokerage, accounting, tax or legal services or any other expenses incurred by the selling stockholders in disposing of the shares. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees and fees and expenses of our counsel and our accountants.

The shares covered by this prospectus are issuable upon exercise of options to purchase our Common Stock. Upon any exercise for cash of the options, the selling stockholders will pay us the exercise price of the options. The cash exercise price of the options is $2.25 per share. Any proceeds we receive from the exercise of outstanding options on a cash basis will be used for general corporate purposes.

DESCRIPTION OF THE NON-STATUTORY OPTION GRANTS

In December 1997, the Company's Compensation Committee recommended that Option grants be made to Messrs. Feldman and Pedersen. After due consideration and deliberation, on April 6, 1998, the Board granted to each of Messrs. Feldman and Pedersen Options to purchase 25,000 shares of our Common Stock, at an exercise price of $2.25 per share, outside of the Company's 1995 Long-Term Incentive Plan (the "Plan") for their individual contributions to the Company. The Options were fully vested and exercisable on the date of the grant and 50,000 shares of authorized but unissued shares of Common Stock were reserved for issuance.

In July 1998, each of the Option holders executed exercise waivers for 12,500 of the 25,000 shares granted pursuant to their respective Options, giving up their respective rights to exercise their respective Options in full unless the Company received stockholder approval for these Options. At the annual meeting of stockholders held on June 28, 2007, the Options were approved by a vote of the stockholders.

Although the Board authorized registration of an aggregate of 50,000 shares with the SEC in the appropriate registration statement, the individual Option agreements do not require registration and contain no demand registration provisions. The Company has not entered into any individual registration rights agreements or otherwise granted Messrs. Feldman and Pedersen any right to demand the Company file a registration statement with the SEC, with respect to the resale of the Common Stock issuable upon exercise of the Options.

The Options provide for the shares and Option price to be adjusted in the event of stock dividends, stock splits, adoption of stock rights plans, recapitalizations, mergers, consolidations or reorganizations of/by the Company.

The registration and sale of the Common Stock issuable upon exercise of the Options, is subject to removal of restrictive legends and provision to the Company of a legal opinion stating that any transfer by t