

POWERSECURE INTERNATIONAL, INC.

Form 10-Q

May 05, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

or

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

For the transition period from _____ to _____

Commission File Number 1-12014

POWERSECURE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-1169358
(I.R.S. Employer
Identification No.)

1609 Heritage Commerce Court
Wake Forest, North Carolina
(Address of principal executive offices)

27587
(Zip code)

(919) 556-3056

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large
accelerated filer ☐
☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒
As of May 1, 2011, 18,832,544 shares of the issuer's Common Stock were outstanding.

POWERSECURE INTERNATIONAL, INC.
FORM 10-Q
For the Quarterly Period Ended March 31, 2011
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PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements

POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (unaudited)
(in thousands, except share data)

	March 31, 2011	December 31, 2010
Assets		
Current Assets:		
Cash and cash equivalents	\$ 14,890	\$ 8,202
Trade receivables, net of allowance for doubtful accounts of \$256 and \$415, respectively	32,672	29,290
Assets of discontinued operations held for sale		12,183
Inventories	29,863	25,011
Current deferred income taxes	1,731	1,731
Prepaid expenses and other current assets	928	933
 Total current assets	 80,084	 77,350
 Property, plant and equipment:		
Equipment	29,080	24,946
Furniture and fixtures	280	280
Land, building and improvements	5,735	5,720
 Total property, plant and equipment, at cost	 35,095	 30,946
Less accumulated depreciation and amortization	6,481	5,899
 Property, plant and equipment, net	 28,614	 25,047
 Other assets:		
Goodwill	7,970	7,970
Deferred income taxes, net of current portion	1,244	1,244
Restricted annuity contract	2,324	2,306
Intangible rights and capitalized software costs, net of accumulated amortization of \$2,637 and \$2,463, respectively	1,959	1,942
Investment in unconsolidated affiliate	4,732	4,346
Other assets	299	324
 Total other assets	 18,528	 18,132

Total Assets	\$	127,226	\$	120,529
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See accompanying notes to consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (unaudited)
(in thousands, except share data)

	March 31, 2011	December 31, 2010
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 9,392	\$ 8,438
Accrued and other liabilities	13,260	10,986
Liabilities of discontinued operations held for sale		1,411
Current income taxes payable	139	251
Current unrecognized tax benefit	954	954
Current portion of capital lease obligations	807	796
 Total current liabilities	 24,552	 22,836
 Long-term liabilities:		
Revolving line of credit	5,000	5,000
Capital lease obligations, net of current portion	3,441	3,647
Unrecognized tax benefit	749	749
Deferred compensation	1,136	1,053
 Total long-term liabilities	 10,326	 10,449
 Commitments and contingencies (Notes 7 and 9)		
 Stockholders' Equity:		
PowerSecure International stockholders' equity:		
Preferred stock—undesignated, \$.01 par value; 2,000,000 shares authorized; none issued and outstanding		
Preferred stock—Series C, \$.01 par value; 500,000 shares authorized; none issued and outstanding		
Common stock, \$.01 par value; 25,000,000 shares authorized; 18,807,044 and 18,701,614 shares issued and outstanding, respectively	188	187
Additional paid-in-capital	115,342	114,791
Accumulated deficit	(24,753)	(29,489)
 Total PowerSecure International, Inc. stockholders' equity	 90,777	 85,489
Noncontrolling interest	1,571	1,755
 Total stockholders' equity	 92,348	 87,244

Total Liabilities and Stockholders' Equity	\$ 127,226	\$ 120,529
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See accompanying notes to consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended March 31,	
	2011	2010
Revenues	\$ 23,713	\$ 20,460
Cost of sales	16,054	12,351
Gross profit	7,659	8,109
Operating expenses:		
General and administrative	7,919	6,462
Selling, marketing and service	1,158	1,046
Depreciation and amortization	806	584
Total operating expenses	9,883	8,092
Operating income (loss)	(2,224)	17
Other income and (expenses):		
Equity income from unconsolidated affiliate	1,011	1,030
Management fees	168	154
Interest income and other income	20	30
Interest expense	(142)	(141)
Income (loss) before income taxes	(1,167)	1,090
Income tax benefit (provision)	83	(205)
Income (loss) from continuing operations	(1,084)	885
Discontinued operations (Note 5):		
Income from operations, net of tax		519
Gain on disposal, net of tax	5,636	
Income from discontinued operations, net of tax	5,636	519
Net income	4,552	1,404
Less: Net (income) loss attributable to noncontrolling interest	184	(187)

Net income attributable to PowerSecure International, Inc.	\$	4,736	\$	1,217
Amounts attributable to PowerSecure International, Inc. common stockholders:				
Income (loss) from continuing operations, net of tax	\$	(900)	\$	698
Income from discontinued operations, net of tax		5,636		519
Net income	\$	4,736	\$	1,217
Basic earnings per share attributable to PowerSecure International, Inc. common stockholders:				
Income (loss) from continuing operations	\$	(0.05)	\$	0.04
Income from discontinued operations		0.30		0.03
Net income attributable to PowerSecure International, Inc. common stockholders	\$	0.25	\$	0.07
Diluted earnings per share attributable to PowerSecure International, Inc. common stockholders:				
Income (loss) from continuing operations	\$	(0.05)	\$	0.04
Income from discontinued operations		0.30		0.03
Net income attributable to PowerSecure International, Inc. common stockholders	\$	0.25	\$	0.07

See accompanying notes to consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(in thousands)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 4,552	\$ 1,404
Adjustments to reconcile net income to net cash used in operating activities:		
Income from discontinued operations	(5,636)	(519)
Depreciation and amortization	806	584
Stock compensation expense	480	494
Distributions to noncontrolling shareholder		(598)
Equity in income of unconsolidated affiliate	(1,011)	(1,030)
Distributions from unconsolidated affiliate	607	809
Changes in operating assets and liabilities, net of effect of aquisitons:		
Trade receivables, net	(3,382)	(1,222)
Inventories	(4,852)	(4,375)
Other current assets and liabilities	(106)	357
Other noncurrent assets	25	35
Accounts payable	954	5,304
Restructuring charges		(248)
Accrued and other liabilities	2,166	(3,453)
Deferred compensation obligation	83	83
Restricted annuity contract	(18)	(22)
Net cash used by continuing operations	(5,332)	(2,397)
Net cash provided by discontinued operations		592
Net cash used in operating activities	(5,332)	(1,805)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,180)	(1,102)
Additions to intangible rights and software development	(192)	(286)
Proceeds from sale of property, plant and equipment		5
Proceeds from sale of discontinued operations	16,515	
Discontinued operations investing activities		(21)
Net cash provided by (used in) investing activities	12,143	(1,404)
Cash flows from financing activities:		
Borrowings (payments) on revolving line of credit		
Payments on capital lease obligations	(195)	(185)
Proceeds from stock option and warrant exercises, net of shares tendered	72	(162)

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Net cash used in financing activities	(123)	(347)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,688	(3,556)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,202	20,169
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 14,890	\$ 16,613

See accompanying notes to consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

As of March 31, 2011 and December 31, 2010 and

For the Three Month Periods Ended March 31, 2011 and 2010

(in thousands, except per share data)

1. Description of Business and Basis of Presentation

Description of Business

PowerSecure International, Inc., headquartered in Wake Forest, North Carolina, is a leading provider of Energy and Smart Grid Solutions to electric utilities, their commercial, institutional and industrial customers, and of Energy Services to oil and natural gas producers.

Our core business is our Energy and Smart Grid Solutions segment, operated through our largest wholly-owned subsidiary PowerSecure, Inc., which we refer to as our PowerSecure subsidiary. This segment includes our three core strategic business areas: Interactive Distributed Generation, Utility Infrastructure and Energy Efficiency. These three areas are focused on providing utilities and their commercial, institutional and industrial customers with products and services to help them generate, deliver, and utilize electricity more efficiently and are intended to deliver strong returns on investment. They share common or complementary utility relationships and customer types, common sales and overhead resources, and facilities. However, each business area in this segment possesses distinct technical disciplines and specific capabilities that are designed to provide a competitive advantage in the marketplace for its specific products and services, including personnel, technology, engineering, and intellectual capital. This segment operates primarily out of our Wake Forest, North Carolina headquarters office, and its operations also include several satellite offices and manufacturing facilities, the largest of which are in Raleigh, North Carolina, Randleman, North Carolina, McDonough, Georgia, and Anderson, South Carolina. The locations of our sales organization for this segment are generally in close proximity to the utilities and commercial, industrial, and institutional customers they serve.

Until recently, our Energy Services segment operated through our two other principal operating subsidiaries, Southern Flow Companies, Inc., which we refer to as Southern Flow, and WaterSecure Holdings, Inc., which we refer to as WaterSecure. WaterSecure holds an investment of 40% of the equity interests in an unconsolidated business, Marcum Midstream 1995-2 Business Trust, which we refer to as MM 1995-2 or as our WaterSecure operations. Our WaterSecure operations provide water processing, recycling, and disposal services for oil and natural gas producers in northeastern Colorado utilizing environmentally responsible technologies and processes. Our Southern Flow business, which was sold in 2011 pursuant to a purchase agreement executed in December 2010, provides oil and natural gas measurement services to customers involved in oil and natural gas production, transportation, and processing, with a focus on the natural gas market. Due to its sale, Southern Flow's operations are now reflected as discontinued operations in the accompanying consolidated financial statements. See Note 4 for more information regarding the sale of Southern Flow.

See Note 11 for more information concerning our reportable segments.

Table of Contents**Basis of Presentation**

Organization The accompanying consolidated financial statements include the accounts of PowerSecure International, Inc. and its subsidiaries, primarily, PowerSecure, Inc. (our PowerSecure subsidiary) (and its majority-owned and wholly-owned subsidiaries, UtilityEngineering, Inc., PowerServices, Inc., EnergyLite, Inc., EfficientLights, LLC, Innovative Electronic Solutions Lighting, LLC (IES), Reid s Trailer, Inc. and PowerPackages, LLC), Southern Flow Companies, Inc. (Southern Flow), WaterSecure Holdings, Inc. (WaterSecure), and Marcum Gas Metering, Inc. (fka Metretek International, Inc. and Metretek, Incorporated) (Metretek Florida), collectively referred to as the Company or we or us or our .

These consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

In management s opinion, all adjustments (all of which are normal and recurring) have been made which are necessary for a fair presentation of the consolidated financial position of us and our subsidiaries as of March 31, 2011 and the consolidated results of our operations and cash flows for the three months ended March 31, 2011 and March 31, 2010.

Principles of Consolidation The consolidated financial statements include the accounts of PowerSecure International, Inc. and its subsidiaries after elimination of intercompany accounts and transactions. We use the equity method to account for our investment in our unconsolidated affiliate.

Noncontrolling Interest The noncontrolling ownership interests in the income or losses of our majority-owned subsidiaries is included in our consolidated statements of operations as a reduction or addition to net income to derive income attributable to PowerSecure International stockholders. Similarly, the noncontrolling ownership interest in the undistributed equity of our majority-owned subsidiaries is shown as a separate component of stockholders equity in our consolidated balance sheet.

Until April 30, 2010, our PowerSecure subsidiary held a 67% controlling ownership interest in EfficientLights which is consolidated in our financial statements. On April 30, 2010, we acquired the 33% noncontrolling ownership interest in EfficientLights at which time EfficientLights became a wholly-owned subsidiary of our PowerSecure subsidiary.

Also, on April 1, 2010, our PowerSecure subsidiary acquired a 67% controlling ownership interest in IES.

Accordingly, our noncontrolling interest for the three months ended March 31, 2011, consists solely of the results of IES. Similarly, our noncontrolling interest for the three month ended March 31, 2010 consists solely of the results of EfficientLights. As a result, period-to-period comparisons of the aggregate amount of noncontrolling interests are not necessarily comparable.

The following is a reconciliation of the amounts attributable to the noncontrolling interest for the three months ended March 31, 2011:

	Noncontrolling Interest		
	EfficientLights	IES	Total
Balance, December 31, 2010	\$	\$ 1,755	\$ 1,755
Income (loss)		(184)	(184)
Distributions			
Balance, March 31, 2011	\$	\$ 1,571	\$ 1,571

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The following is a reconciliation of the amounts attributable to the noncontrolling interest for the three months ended March 31, 2010:

	Noncontrolling Interest		
	EfficientLights	IES	Total
Balance, December 31, 2009	\$ 1,107	\$	\$ 1,107
Income (loss)	187		187
Distributions	(598)		(598)
Balance, March 31, 2010	\$ 696	\$	\$ 696

Use of Estimates The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires that our management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include percentage-of-completion estimates for revenue and cost of sales recognition, incentive compensation and commissions, allowance for doubtful accounts receivable, inventory valuation reserves, warranty reserves and our deferred tax valuation allowance.

Reclassifications During the fourth quarter of 2010, our board of directors approved a plan to sell our Southern Flow business (see Note 4). The operations of Southern Flow have been reclassified to discontinued operations for all periods presented in the accompanying consolidated financial statements. In addition, certain 2010 amounts have been reclassified to conform to current year presentation. Such reclassifications had no effect on net income or stockholders equity.

2. Summary of Significant Accounting Policies and Recent Accounting Standards

Revenue Recognition For our distributed generation turn-key project-based sales and our utility infrastructure projects, we recognize revenue and profit as work progresses using the percentage-of-completion method, which relies on various estimates. We believe the use of the percentage-of-completion method of accounting for our distributed generation and utility infrastructure projects is preferable to the completed contract method because our typical projects occurs over several accounting periods and the percentage-of-completion method is a better method to match the revenues and costs to the reporting period in which the construction services are performed. Nearly all of our distributed generation and utility infrastructure projects are fixed-price contracts.

In applying the percentage-of-completion method to our distributed generation turn-key projects, we have identified the key output project phases that are standard components of these projects. We have further identified, based on past experience, an estimate of the value of each of these output phases based on a combination of costs incurred and the value added to the overall construction project. While the order of these phases varies depending on the project, each of these output phases is necessary to complete each project and each phase is an integral part of the turnkey product solution we deliver to our customers. We use these output phases and percentages to measure our progress toward completion of our construction projects. For each reporting period, the status of each project, by phase, is determined by employees who are managers of or are otherwise directly involved with the construction project and is reviewed by our accounting personnel. Utilizing this information, we recognize project revenues (and associated project costs) and gross profit based on the percentage associated with output phases that are complete or in process on each of our projects.

In applying the percentage-of-completion method to our utility infrastructure projects, revenues and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion.

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In all cases where we utilize the percentage-of-completion, revenues and gross profit are adjusted prospectively for revisions in estimated total contract costs and contract values. Estimated losses, if any, are recorded when identified. While a project is in process, amounts billed to customers in excess of revenues recognized to date are classified as current liabilities. Likewise, amounts recognized as revenue in excess of actual billings to date are recorded as unbilled accounts receivable. In the event adjustments are made to the contract price, including, for example, adjustments for additional wire or other raw materials, we adjust the purchase price and related costs for these items when they are identified.

Because the percentage-of-completion method of accounting relies upon estimates described above, recognized revenues and profits are subject to revision as a project progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. In the event we were required to adjust any particular project's estimated revenues or costs, the effect on the current period earnings may or may not be significant. If, however, conditions arise that requires us to adjust our estimated revenues or costs for a series of similar construction projects, the effect on current period earnings would more likely be significant. In addition, certain contracts provide for cancellation provisions prior to completion of a project. The cancellation provisions generally provide for payment of costs incurred, but may result in an adjustment to profit already recognized in a prior period.

We recognize equipment and product revenue when persuasive evidence of a non-cancelable arrangement exists, delivery has occurred and/or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Equipment and product sales are generally made directly to end users of the product, who are responsible for payment for the product.

Service revenue includes regulatory consulting and rate design services, power system engineering services, energy conservation services, and monitoring and maintenance services. Revenues from these services are recognized when the service is performed and the customer has accepted the work.

Additionally, our utility infrastructure business provides services to utilities involving construction, maintenance, and upgrades to their electrical transmission and distribution systems which is not fixed price project-based work. These services are delivered by us under contracts which are generally of two types. In the first type, we are paid a fixed fee based on the number of units of work we complete, an example of which is number of new utility poles we replace. In the second type, we are paid for the time and materials utilized to complete the work, plus a profit margin. In both cases, we recognize revenue as these services are delivered.

Revenues for our recurring revenue distributed generation projects are recognized over the term of the contract or when energy savings are realized by the customer at its site. Under these arrangements, we provide utilities and their customers with access to PowerSecure-owned and operated distributed generation systems for standby power and to deliver peak shaving benefits. These contracts can involve multiple parties, with one party paying us for the value of backup power (usually, but not always, a commercial, industrial, or institutional customer), and one party paying us for the value of the electrical capacity provided by the system (either the customer or a utility).

Sales of certain goods and services sometimes involve the provision of multiple deliverables. Revenues from contracts with multiple deliverables are recognized as each element is earned based on the selling price for each deliverable. The selling price for each deliverable is generally based on our selling price for that deliverable on a stand-alone basis, third-party evidence if we do not sell that deliverable on a stand-alone basis, or an estimated selling price if neither specific selling prices nor third-party evidence exists.

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Cash and Cash Equivalents Cash and all highly liquid investments with a maturity of three months or less from the date of purchase, including money market mutual funds, short-term time deposits, and government agency and corporate obligations, are classified as cash and cash equivalents.

Accounts Receivable Our customers include a wide variety of mid-sized and large businesses, utilities and institutions. We perform ongoing credit evaluations of our customers' financial condition and generally do not require collateral. We continuously monitor collections and payments from our customers and regularly adjust credit limits of customers based upon payment history and a customer's current credit worthiness, as judged by us. We maintain a provision for estimated credit losses.

Concentration of Credit Risk We are subject to concentrations of credit risk from our cash and cash equivalents and accounts receivable. We limit our exposure to credit risk associated with cash and cash equivalents by placing it with multiple domestic financial institutions. Nevertheless, our cash in bank deposit accounts at these financial institutions frequently exceeds federally insured limits. We further limit our exposure to credit risk associated with these cash accounts by adherence to our investment policy. We have not experienced any losses in such accounts.

From time to time, we have derived a material portion of our revenues from one or more significant customers. To date, nearly all our revenues have been derived from sales to customers within the United States.

Warranty Reserve We provide a standard warranty for our distributed generation equipment, switchgear equipment, utility infrastructure equipment, and our Energy Efficiency unit's lighting products, which range generally between one and five years. In addition, we offer extended warranty terms on our distributed generation turn-key and switchgear projects. We reserve for the estimated cost of product warranties when revenue is recognized, and we evaluate our reserve periodically by comparing our warranty repair experience by product. The purchase price for extended warranties or extended warranties included in the contract terms are deferred as a component of our warranty reserve. The balance of our warranty reserve included in accrued and other liabilities at March 31, 2011 and December 31, 2010 was \$1,075 and \$1,087, respectively.

Share-Based Compensation We measure compensation cost for all stock-based awards at the fair value on date of grant and recognize the compensation expense over the service period for awards expected to vest, net of estimated forfeitures. We measure the fair value of restricted stock awards based on the number of shares granted and the quoted price of our common stock on the date of the grant, and we measure the fair value of stock options using the Black-Scholes valuation model.

Pre-tax share-based compensation expense for our stock options and restricted stock awards recognized during the three months ended March 31, 2011 and 2010 was \$480 and \$494, respectively. All share-based compensation expense is included in general and administrative expense in the accompanying consolidated statements of operations.

Income Taxes We recognize deferred income tax assets and liabilities for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We have net operating loss carryforwards available in certain jurisdictions to reduce future taxable income. Future tax benefits for net operating loss carryforwards are recognized to the extent that realization of these benefits is considered more likely than not. To the extent that available evidence raises doubt about the realization of a deferred income tax asset, a valuation allowance is established.

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We recognize a liability and income tax expense, including potential penalties and interest, for uncertain income tax positions taken or expected to be taken. The liability is adjusted for positions taken when the applicable statute of limitations expires or when the uncertainty of a particular position is resolved.

Subsequent Events Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued and are classified as either recognized subsequent events or non-recognized subsequent events. We recognize and include in our financial statements the effects of subsequent events that provide additional evidence about conditions that existed at the balance sheet date. We disclose non-recognized subsequent events that provide evidence about conditions that arise after the balance sheet date but are not yet reflected in our financial statements when such disclosure is required to prevent the financial statements from being misleading.

Recent Accounting Pronouncements

Revenue Recognition Milestone Method In April 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-17 Revenue Recognition Milestone Method (Topic 605): Milestone Method of Revenue Recognition. This standard provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under this new standard, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. This standard became effective for us on a prospective basis commencing January 1, 2011. The adoption of this standard had no effect on our financial position or results of operations.

Improving Disclosures about Fair Value Measurements In January 2010, the FASB issued ASU No. 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This standard amends the disclosure guidance with respect to fair value measurements for both interim and annual reporting periods. Specifically, this standard requires new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross, rather than net basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. This standard became effective for us on a prospective basis commencing January 1, 2011. The adoption of this standard had no effect on our financial position or results of operations or financial statement disclosures.

Multiple Deliverable Revenue Arrangements In October 2009, the FASB issued ASU No. 2009-13 - Multiple Deliverable Revenue Arrangements A Consensus of the FASB Emerging Issues Task Force: (Topic 605) Revenue Recognition. ASU No. 2009-13 provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. This standard became effective for us on a prospective basis commencing January 1, 2011. The adoption of this standard had no effect on our financial position or results of operations.

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Basic earnings (loss) per share is computed by dividing net income (loss) attributable to PowerSecure International, Inc. common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share attributable to PowerSecure International, Inc. common stockholders is computed using the weighted average number of common shares outstanding and, when dilutive, potential common shares from stock options and warrants using the treasury stock method. Diluted earnings per share excludes the impact of potential common shares related to stock options and warrants in periods in which we reported a loss from continuing operations or in which the option or warrant exercise price is greater than the average market price of our common stock during the period because the effect would be antidilutive. A total of 369,000 common shares issuable upon the exercise of in-the-money stock options were excluded from the diluted weighted average number of shares outstanding for the three months ended March 31, 2011 because their effect was antidilutive to our loss from continuing operations for that period.

The following table sets forth the calculation of basic and diluted earnings (loss) per share attributable to PowerSecure International, Inc. common stockholders:

	Three Months Ended March 31,	
	2011	2010
Income from continuing operations	\$ (900)	\$ 698
Income from discontinued operations	5,636	519
Net income	\$ 4,736	\$ 1,217
Basic weighted-average common shares outstanding in period	18,719	17,237
Add dilutive effects of stock options and warrants		455
Diluted weighted-average common shares outstanding in period	18,719	17,692
Basic earnings per common share:		
Income from continuing operations	\$ (0.05)	\$ 0.04
Income from discontinued operations	0.30	0.03
Basic earnings per common share	\$ 0.25	\$ 0.07
Diluted earnings per common share:		
Income from continuing operations	\$ (0.05)	\$ 0.04
Income from discontinued operations	0.30	0.03
Diluted earnings per common share	\$ 0.25	\$ 0.07

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On December 30, 2010, we entered into a purchase and sale agreement for the sale of Southern Flow which was part of our Energy Services segment. The sale closed on January 14, 2011, with an effective date of January 1, 2011. Pursuant to the terms of the purchase and sale agreement, Zedi, Inc., a Canadian corporation, through its wholly-owned subsidiary, purchased 100% of the stock of Southern Flow. Upon closing, we received cash proceeds of \$16,515, consisting of a base purchase price of \$15,550, and \$965 for additional Southern Flow working capital conveyed in the transaction. We recorded a gain on the sale of Southern Flow, net of transaction costs and income tax benefit, in the amount of \$5,636 during the three months ended March 31, 2011. The sale of Southern Flow was made pursuant to our review of our strategic alternatives for our non-core businesses. The operations of Southern Flow have been included in our consolidated statements of operations as discontinued operations for all periods presented. Results of discontinued operations for the three months ended March 31, 2011 and 2010 were as follows:

	Three Months Ended March 31,	
	2011	2010
Total revenues	\$	\$ 4,214
Operating expenses		3,674
Income before income taxes		540
Income tax provision		(21)
Income from operations		519
Gain on disposal	5,538	
Income tax benefit on disposal	98	
Income from discontinued operations	\$ 5,636	\$ 519

The following assets and liabilities of Southern Flow were segregated and included in Assets of discontinued operations held for sale and Liabilities of discontinued operations held for sale, as appropriate, in the consolidated balance sheet as of December 31, 2010, and represent the assets and liabilities of Southern Flow that were sold in January 2011:

	December 31, 2010
Cash and cash equivalents	\$ 250
Trade receivables, net of allowance for doubtful accounts	3,427
Inventories	2,182
Prepaid expenses and other current assets	169
Property, Plant and equipment, net	922
Goodwill	5,231
Other assets	2
Assets of discontinued operations held for sale	\$ 12,183
Accounts payable	519

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Accrued and other liabilities	871
Current income taxes payable	19
Capital lease obligations	2
Liabilities of discontinued operations held for sale	\$ 1,411

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Through WaterSecure, we currently own 40.45% of the equity interests in MM 1995-2, which we account for under the equity method. MM 95-2 owns and operates several water processing, recycling, and disposal facilities located in northeastern Colorado. The balance of our equity investment in MM 1995-2 includes approximately \$630 and \$648 of unamortized purchase premiums we paid on our acquired interests at March 31, 2011 and December 31, 2010, respectively. The premiums are being amortized over a period of 14 years, which represents the weighted average useful life of the underlying assets acquired.

The following table sets forth certain summarized financial information for MM 1995-2 at March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010:

	March 31, 2011	December 31, 2010
Total current assets	\$ 3,767	\$ 3,753
Property, plant and equipment, net	12,904	11,616
Total other assets	14	4
 Total assets	 \$ 16,685	 \$ 15,373
 Total current liabilities	 \$ 3,189	 \$ 2,462
Long-term note payable	3,686	4,100
Total shareholders' equity	9,810	8,811
 Total liabilities and shareholders' equity	 \$ 16,685	 \$ 15,373
	 Three Months Ended March 31, 2011	 2010
Total revenues	\$ 5,412	\$ 4,892
Total costs and expenses	2,913	2,346
 Net income	 \$ 2,499	 \$ 2,546

6. Debt

Line of Credit We have had a credit facility with Citibank, N.A. (Citibank), as administrative agent and lender, and other lenders since entering into a credit agreement in August 2007. At December 31, 2010, our credit agreement with Citibank along with SunTrust Bank and Branch Banking and Trust Company (BB&T) as additional lenders, provided for a \$50.0 million senior, first-priority secured revolving and term credit facility. In January 2011, the credit facility was amended to facilitate the sale of Southern Flow (see Note 4), modify certain financial covenants to accommodate our financial profile after that sale and reflect a change in lenders. The credit facility, as amended, is now a \$25.0 million senior, first-priority secured revolving credit facility with Citibank and BB&T as lenders. The credit facility is guaranteed by all of our active subsidiaries and secured by all of our assets and the assets of our active subsidiaries.

As amended, the credit facility, as a revolving credit facility, matures and terminates on November 12, 2013. However, we have the option prior to that maturity date to convert a portion of outstanding principal balance into a non-revolving term loan for a two year period expiring November 12, 2015, making quarterly payments based upon a four year fully amortized basis, with the remaining outstandings due as a balloon payment on November 12, 2015.

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We intend to continue to use the proceeds available under the credit facility to finance our PowerSecure subsidiary's recurring revenue projects as well as to finance capital expenditures, working capital, acquisitions, and general corporate purposes. Under the terms of the amended credit facility, we are required, at all times until April 1, 2012, to maintain cash balances of at least 65% of our outstanding borrowings under the revolving credit facility.

Outstanding balances under the credit facility bear interest, at our discretion, at either the London Interbank Offered Rate for the corresponding deposits of U. S. Dollars plus an applicable margin, which is on a sliding scale ranging from 200 basis points to 325 basis points based upon our leverage ratio, or at Citibank's alternate base rate plus an applicable margin, on a sliding scale ranging from 25 basis points to 150 basis points based upon our leverage ratio. Our leverage ratio is the ratio of our funded indebtedness as of a given date to our consolidated EBITDA as defined in the credit agreement for the four consecutive quarters ending on such date. Citibank's alternate base rate is equal to the higher of the Federal Funds Rate as published by the Federal Reserve of New York plus 0.50%, and Citibank's prime commercial lending rate.

The credit facility is not subject to any borrowing base computations, but does contain certain financial covenants. Our minimum asset coverage must be in excess of 1.25, where our asset coverage is defined as the summation of 80% of the book value of accounts receivable plus 60% of the book value of inventory plus 50% of the book value of net fixed assets, divided by total funded debt outstanding. In addition, we are required to maintain a minimum consolidated tangible net worth, computed on a quarterly basis, equal to approximately \$62.0 million. Finally, our debt to worth ratio, which is the ratio of our total consolidated indebtedness to our consolidated tangible net worth, cannot exceed 1.5 to 1.0 at the end of any quarter. At March 31, 2011, we were in compliance with our financial covenant requirements. In addition, commencing March 31, 2012, our maximum leverage ratio cannot exceed 3.25 and our minimum fixed charge coverage ratio must be in excess of 1.25, where the fixed charge coverage ratio is defined as the ratio of the aggregate of our trailing 12 month consolidated EBITDA plus our lease or rent expense minus our taxes based on income and payable in cash, divided by the sum of our consolidated interest charges plus our lease or rent expenses plus our scheduled principal payments and dividends, computed over the previous period. Under the credit facility, our cumulative capital expenditures beginning in 2008 cannot exceed the sum of \$5.0 million plus \$1.25 million per quarter, on a cumulative basis, plus an allowance for our PowerSecure subsidiary recurring revenue projects generated after December 31, 2007. The credit facility contains other representations and warranties and affirmative and negative covenants, including restrictions with respect to liens, indebtedness, loans and investments, material changes in our business, asset sales or leases or transfers of assets, restricted payments such as distributions and dividends, mergers or consolidations and transactions with affiliates.

Upon the sale of any of our assets or the assets of our subsidiaries other than in the ordinary course of business, or the public or private sale of any equity or debt other than equity issuances where the aggregate proceeds do not exceed \$10.0 million, we are required to use the net proceeds thereof to repay any indebtedness then outstanding under the credit facility, except for certain reinvestment provisions.

Our obligations under the credit facility are secured by guarantees and security agreements by each of our active subsidiaries, including but not limited to our PowerSecure subsidiary and WaterSecure. The guarantees guaranty all of our obligations under the credit facility, and the security agreements grant to the lenders a first priority security interest in virtually all of the assets of each of the parties to the credit agreement.

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The credit agreement also contains customary events of default, including payment defaults, breach of representations and warranties, covenant defaults, cross-defaults, certain bankruptcy or insolvency events, judgment defaults and certain ERISA-related events.

The maximum balance outstanding on the credit facility during the three months ended March 31, 2011 was \$5.0 million. The balance outstanding on the credit facility at March 31, 2011 and December 31, 2010 was \$5.0 million, which is also the same balance outstanding at May 5, 2011. Under the amended provisions of our credit facility, we currently have an additional \$20.0 million available to borrow under the credit facility. However, the availability of this capital under our credit facility includes restrictions on the use of proceeds, and is dependent upon our ability to satisfy certain financial and operating covenants, as described above.

7. Capital Lease Obligations

We have a capital lease with SunTrust Equipment Finance and Leasing, an affiliate of SunTrust Bank, from the sale and leaseback of distributed generation equipment placed in service at customer locations. We received \$5.9 million from the sale of the equipment in December 2008 which we are repaying under the terms of the lease with monthly principal and interest payments of \$85 over a period of 84 months. At the expiration of the term of the lease in December 2015, we have the option to purchase the equipment for \$1, assuming no default under the lease by us has occurred and is then continuing. The lease is guaranteed by us under an equipment lease guaranty. The lease and the lease guaranty constitute permitted indebtedness under our current credit agreement, under which an affiliate of the lessor is one of the lenders.

Proceeds of the lease financing were used to finance our PowerSecure subsidiary's recurring revenue projects. We account for the lease financing as a capital lease in our consolidated financial statements in accordance with generally accepted accounting principles.

The lease provides our PowerSecure subsidiary with limited rights, subject to the lessor's approval which will not be unreasonably withheld, to relocate and substitute equipment during its term. The lease contains representations and warranties and covenants relating to the use and maintenance of the equipment, indemnification and events of default customary for leases of this nature. The lease also grants to the lessor certain remedies upon a default, including the right to cancel the lease, to accelerate all rent payments for the remainder of the term of the lease, to recover liquidated damages, or to repossess and re-lease, sell or otherwise dispose of the equipment.

Under the lease guaranty, we have unconditionally guaranteed the obligations of our PowerSecure subsidiary under the lease for the benefit of the lessor. The balance of our capital lease obligations shown in the consolidated balance sheet at March 31, 2011 and December 31, 2010 consist entirely of our obligations under the equipment lease described above.

8. Share-Based Compensation

We recognize compensation expense for all share-based awards made to employees and directors based on estimated fair values on the date of grant.

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Stock Plans Historically, we have granted stock options and restricted stock awards to employees and directors under various stock plans. We currently maintain two stock plans. Under our 1998 Stock Incentive Plan, as amended (the 1998 Stock Plan), we granted incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance awards and other stock-based awards to our officers, directors, employees, consultants and advisors for shares of our common stock. Stock options granted under the 1998 Stock Plan contained exercise prices not less than the fair market value of our common stock on the date of grant, and had a term of 10 years from the date of grant. Nonqualified stock option grants to our directors under the 1998 Stock Plan generally vested over periods up to two years. Qualified stock option grants to our employees under the 1998 Stock Plan generally vested over periods up to five years. The 1998 Stock Plan expired on June 12, 2008, and no additional awards may be made under the 1998 Stock Plan, although awards granted prior to such date will remain outstanding and subject to the terms and conditions of those awards.

In March 2008, our board of directors adopted the PowerSecure International, Inc. 2008 Stock Incentive Plan (the 2008 Stock Plan), which was approved by our stockholders at the Annual Meeting of Stockholders held on June 9, 2008. The 2008 Stock Plan authorizes our board of directors to grant incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance awards and other stock-based awards to our officers, directors, employees, consultants and advisors for up to an aggregate of 600,000 shares of our common stock. Stock options granted under the 2008 Stock Plan must contain exercise prices not less than the fair market value of our common stock on the date of grant, and must contain a term not in excess of 10 years from the date of grant. The 2008 Stock Plan replaced our 1998 Stock Plan.

Stock Options Net income for the three months ended March 31, 2011 and 2010 includes \$90 and \$104, respectively, of pre-tax compensation costs related to outstanding stock options. All of the stock option compensation expense is included in general and administrative expenses in the accompanying consolidated statements of operations.

A summary of option activity for the three months ended March 31, 2011 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Balance, December 31, 2010	1,247	\$ 5.98		
Granted	10	6.21		
Exercised	(135)	2.34		
Expired				
Forfeited	(13)	3.56		
Balance, March 31, 2011	1,109	\$ 6.45	5.03	\$ 2.15
Exercisable, March 31, 2011	866	\$ 6.31	4.14	\$ 2.29

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A summary of option activity for the three months ended March 31, 2010 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Balance, December 31, 2009	1,627	\$ 5.18		
Granted				
Exercised	(1)	6.88		
Expired	(5)	17.38		
Forfeited				
Balance, March 31, 2010	1,621	\$ 5.14	4.70	\$ 2.74
Exercisable, March 31, 2010	1,351	\$ 4.91	4.00	\$ 2.97

The weighted average grant date fair value of the options granted during the three months ended March 31, 2011 was \$2.91. There were no stock options granted during the three months ended March 31, 2010. The fair value of the stock options granted during the three months ended March 31, 2011 was measured using the Black-Scholes valuation model with the following assumptions:

	March 31, 2011	2010
Expected stock price volatility	52.2%	n/a
Risk Free interest rate	2.00%	n/a
Annual dividends	\$	n/a
Expected life employee options	5 years	n/a
Expected life director options	n/a	n/a

The fair value of stock option grants are amortized to expense over their respective service periods using the straight-line method and assuming a forfeiture rate of 5%. As of March 31, 2011 and December 31, 2010, there was \$643 and \$731, respectively, of total unrecognized compensation costs related to stock options. These costs at March 31, 2011 are expected to be recognized over a weighted average period of approximately 1.8 years. During the three months ended March 31, 2011 and 2010, the total intrinsic value of stock options exercised was \$779 and \$2, respectively. Cash received, net of shares tendered, from stock option exercises for the three months ended March 31, 2011 and 2010 was \$230 and \$9, respectively. The total grant date fair value of stock options vested during the three months ended March 31, 2011 and 2010 was \$24 and \$163, respectively.

Restricted Stock Awards Net income for the three months ended March 31, 2011 and 2010 includes \$390 and \$390, respectively, of pre-tax compensation costs related to outstanding restricted stock awards granted to directors, certain officers and our employees. All of the restricted stock award compensation expense during the three months ended March 31, 2011 and 2010 is included in general and administrative expenses in the accompanying consolidated statements of operations.

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A summary of restricted stock award activity for the three months ended March 31, 2011 is as follows:

	Unvested Restricted Shares	Weighted Average Grant Date Fair Value
Balance, December 31, 2010	478	\$ 11.00
Granted		
Vested	(70)	8.09
Forfeited		
Balance, March 31, 2011	408	\$ 11.50

A summary of restricted stock award activity for the three months ended March 31, 2010 is as follows:

	Unvested Restricted Shares	Weighted Average Grant Date Fair Value
Balance, December 31, 2009	561	\$ 10.36
Granted		
Vested	(75)	7.50
Forfeited		
Balance, March 31, 2010	486	\$ 10.80

Restricted shares are subject to forfeiture and cannot be sold or otherwise transferred until they vest. If the holder of the restricted shares leaves us before the restricted shares vest, other than due to termination by us without cause, then any unvested restricted shares will be forfeited and returned to us. The restricted shares granted to directors vest in equal amounts over a period of one or three years, depending on the nature of the grant. The restricted shares granted to employees other than officers vest in equal annual amounts over five years. A total of 322,500 unvested restricted shares issued to officers cliff vest in 2012, while the remaining 64,500 unvested performance-based restricted shares issued to officers vest in 2012, assuming certain performance conditions are achieved. All restricted and unvested shares will automatically vest upon a change in control.

The fair value of employee and director restricted shares along with the cliff vesting restricted shares granted to officers are being amortized on a straight-line basis over the vesting period. The fair value of the performance-based restricted shares is expensed as the achievement of the performance criteria becomes probable and the related service period conditions are met. At March 31, 2011, the balance of unrecognized compensation cost related to unvested restricted shares was \$1,609, which, assuming all future performance criteria will be met, we expect will be recognized over a weighted average period of approximately 1.25 years.

9. Commitments and Contingencies

From time to time, we hire employees that are subject to restrictive covenants, such as non-competition agreements with their former employers. We comply, and require our employees to comply, with the terms of all known restrictive covenants. However, we have in the past and may in the future receive claims and demands by some former employers alleging actual or potential violations of these restrictive covenants. While we do not believe any pending

claims have merit, we cannot provide any assurance of the outcome of these claims.

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From time to time, in the ordinary course of business we encounter performance issues with component parts that affect the performance of our distributed generation systems, switchgear systems, utility infrastructure products, engines, generators, alternators, breakers, fuel systems, LED and other lighting products, electrical circuit boards, power drivers, and other complex electrical products. While we strive to utilize high quality component parts from reputable suppliers, and to back-up their quality and performance with manufacturers' warranties, even the best parts and components have performance issues from time to time, and these performance issues create significant financial and operating risks to our business, operations and financial results. Because we regularly develop new products and technical designs, we often incorporate component parts into these new products in configurations, for uses, and in environments, for which limited experience exists and that exposes us to performance risks which may not be covered by warranties. As we strive to bring solutions to customers with unique capabilities that provide performance and cost advantages, from time-to-time we use new suppliers and new products for applications where track record of performance does not exist, or is difficult to ascertain. Although we believe our suppliers' warranties cover many of these performance issues, from time to time we face disputes with our suppliers with respect to those performance issues and their warranty obligations. Additionally, the outcome of any warranty claims is inherently difficult to predict due to the uncertainty of technical solutions, cost, customer requirements, and the uncertainty inherent in litigation and disputes generally, and thus there is no assurance we will not be adversely affected by these, or other performance issues with key parts and components. Moreover, from time to time performance issues are not covered by manufacturer's warranties, certain suppliers may not be financially able to fulfill their warranty obligations, and customers may also claim damages as a result of those performance issues. Also, the mere existence of performance issues, even if finally resolved with our suppliers and customers, can have an adverse effect on our reputation for quality, which could adversely affect our business.

We estimate that from time to time we have performance issues related to component parts which have a cost basis of approximately 5-20% of our estimated annual revenues, although not necessarily limited to this amount, which are installed in equipment we own and have sold to various customers across our business lines, and additional performance issues could arise in the future. In addition, the failure or inadequate performance of these components pose potential material and adverse effects on our business, operations, reputation and financial results, including reduced revenues for projects in process or future projects, reduced revenues for recurring revenue contracts which are dependent on the performance of the affected equipment, additional expenses and capital cost to repair or replace the affected equipment, inventory write-offs for defective components held in inventory, asset write-offs for company-owned systems which have been deployed, the cancellation or deferral of contracts by our customers, or claims made by our customers for damages as a result of performance issues.

Through May 5, 2011, we have experienced performance issues with two types of component parts, in particular, which we are working to resolve: 1) an instance of a supplier of a substantial distributed generation system component that has indicated its warranty does not cover performance issues related to a component from another supplier which is in many of the distributed generation systems deployed for our customers, and 2) generators from a certain supplier which have had performance issues in a distributed generation system we own, and for which we have a performance-based recurring revenue contract that is dependent on the system's positive operating performance. In both of these instances, we are actively working to assess and correct the performance issues, and when possible, we have sought the assistance of the suppliers in resolving these issues.

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Given that we are in the process of assessing and addressing these performance issues, the uncertainty regarding the assistance we may or may not receive from our suppliers, our track record of repairing many of these types of issues as well as the inherent uncertainty in addressing technical issues specifically and disputes generally, at present we are unable to estimate the potential negative impacts from these particular items, if any, in addition to other component part performance issues discussed above. In addition, at this time we have not recorded any adjustment to our warranty reserve for these particular performance issues, other than an immaterial amount for certain minor repairs, as the estimated cost, if any, of fulfilling our warranty obligations for these performance issues within a possible range of outcomes is not determinable as of this date.

From time to time, we are involved in other disputes, claims, proceedings and legal actions arising in the ordinary course of business. We intend to vigorously defend all claims against us. Although the ultimate outcome of these proceedings cannot be accurately predicted due to the inherent uncertainty of litigation, in the opinion of management, based upon current information, no other currently pending or overtly threatened proceeding is expected to have a material adverse effect on our business, financial condition or results of operations.

10. Income Taxes

The income tax benefit recorded at March 31, 2011 is our best estimate of our expected tax benefit taking into consideration our expectation of future earnings, federal alternative minimum tax, state income tax for state jurisdictions in which we expect taxable income, potential effects of adverse outcomes on tax positions we have taken, true-up effects of prior tax provision estimates compared to actual tax returns, and our net operating loss carryforwards and valuation allowance.

11. Segment Information

Our operating segments represent components of our business for which discrete financial information is available and is reviewed regularly by the chief operating decision-maker, or decision-making group, to evaluate performance and make operating decisions. We conduct our operations through two operating segments: Energy and Smart Grid Solutions, and Energy Services. Our reportable segments are strategic business units that offer different products and services and serve different customer bases. They are managed separately because each business requires different technology and marketing strategies. Our Southern Flow business, which previously operated in our Energy Services segment, was sold in January 2011 pursuant to the execution of a purchase agreement in December 2010.

Accordingly, the Southern Flow business has been discontinued and the results of its operations are excluded from our Energy Services segment for all periods presented in the information below.

Energy and Smart Grid Solutions Through our PowerSecure subsidiary we serve utilities and commercial, institutional, and industrial customers in the areas of Interactive Distributed Generation, Utility Infrastructure and Energy Efficiency. Each of these PowerSecure subsidiary business units operates in a distinct market with distinct technical disciplines, but shares a common customer base, sales force, and administrative infrastructure with other PowerSecure subsidiary products and services and which we grow through shared resources and customer relationships. Accordingly, these units are included within our Energy and Smart Grid Solutions segment results; and

Energy Services Through our WaterSecure subsidiary we serve customers in the oil and natural gas production business with water processing and disposal services. WaterSecure, through its equity investment in MM 1995-2, provides water processing, recycling, and disposal for oil and natural gas producers. The operations of our Southern Flow subsidiary, which previously was included in this segment, were sold in January 2011 pursuant to the execution of a purchase agreement in December 2010. Accordingly, the Southern Flow business has been discontinued and the results of its operations are excluded from our Energy Services segment for all periods presented in the information below.

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The accounting policies of the reportable segments are the same as those described in Note 1 of the Notes to Consolidated Financial Statements. We evaluate the performance of our operating segments based on income (loss) before income taxes. There are no intersegment sales.

Summarized financial information concerning our reportable segments is shown in the following table. Unallocated corporate cost amounts include corporate overhead, other income and interest expense which, for purposes of evaluating the operations of our segments, are not allocated to our segment activities. Total asset amounts exclude intercompany receivable balances eliminated in consolidation.

Three Months Ended March 31, 2011

	Energy and Smart Grid Solutions	Energy Services	Unallocated Corporate Costs	Total
Revenues	\$ 23,713	\$	\$	\$ 23,713
Cost of sales	16,054			16,054
Gross profit	7,659			7,659
Operating expenses:				
General and administrative	6,722		1,197	7,919
Selling, marketing and service	1,158			1,158
Depreciation and amortization	787	18	1	806
Total operating expenses	8,667	18	1,198	9,883
Operating income (loss)	(1,008)	(18)	(1,198)	(2,224)
Other income and (expenses):				
Equity income		1,011		1,011
Management fees		168		168
Interest income and other income			20	20
Interest expense	(90)		(52)	(142)
Income (loss) before income taxes	\$ (1,098)	\$ 1,161	\$ (1,230)	\$ (1,167)
Total capital expenditures	\$ 4,372	\$ 0	\$ 0	\$ 4,372
Total investment in unconsolidated affiliate	\$ 0	\$ 4,732	\$ 0	\$ 4,732
Total goodwill	\$ 7,970	\$ 0	\$ 0	\$ 7,970

Total assets	\$	103,475	\$	4,900	\$	18,851	\$	127,226
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Three Months Ended March 31, 2010

	Energy and Smart Grid Solutions	Energy Services	Unallocated Corporate Costs	Total
Revenues	\$ 20,460	\$	\$	\$ 20,460
Cost of sales	12,351			